

FIRST SUPPLEMENT DATED 24 NOVEMBER 2022 TO THE  
BASE PROSPECTUS DATED 19 JANUARY 2022

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

*(Incorporated with limited liability in the Republic of Italy)*



**€50,000,000,000**

**Debt Issuance Programme**

This first supplement (the “**Supplement**”) to the Base Prospectus dated 19 January 2022 (the “**Base Prospectus**”) constitutes a supplement for the purposes of article 23 (1) of the Prospectus Regulation and is prepared in connection with the €50,000,000,000 Debt Issuance Programme (the “**Programme**”) established by Banca Monte dei Paschi di Siena S.p.A. (“**BMPS**” or the “**Issuer**”). Terms defined in the Base Prospectus have the same meaning when used in this Supplement. When used in this Supplement, “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus.

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

This Supplement will be published on the website of the Luxembourg Stock Exchange website [www.bourse.lu](http://www.bourse.lu).

### **Purpose of the Supplement**

The purpose of the submission of this Supplement is to update:

- (i) the “*Risk factors*” section of the Base Prospectus;
- (ii) the “*Documents incorporated by reference*” section of the Base Prospectus to incorporate by reference the consolidated audited annual financial statements of the Group for the financial year ended 31 December 2021, the unaudited consolidated first half financial statements of BMPS as at 30 June 2022, the unaudited consolidated interim financial report of BMPS as at 30 September 2022 and the press releases headed “*Business Plan 2022 – 2026 “A clear and simple commercial bank”*” and “*Completion of the share capital increase of euro 2.5 billion with the full subscription of the new shares*” published by the Issuer on its website;
- (iii) the “*Banca Monte dei Paschi di Siena S.p.A.*” section of the Base Prospectus;
- (iv) the “*Management of the Bank*” section of the Base Prospectus;
- (v) the “*Taxation*” section of the Base Prospectus; and
- (vi) the “*General Information*” section of the Base Prospectus.

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## **RISK FACTORS**

The sub-section titled “*Risk factors relating to the Issuer and the Group*” on pages from 11 to 44 under “*Risk Factors*” section of the Base Prospectus shall be deleted in its entirety and replaced with the information set out in Annex A hereto.

## DOCUMENTS INCORPORATED BY REFERENCE

The “*Documents Incorporated by Reference*” section on pages 61-64 of the Base Prospectus is amended as follows:

1. The list of documents under the first paragraph of “*Documents incorporated by reference*” section shall be supplemented as follows:
  - “(h) the consolidated audited annual financial statements of the Group for the financial year ended 31 December 2021, contained in the 2021 audited consolidated annual report (<https://www.gruppomps.it/static/upload/ann/annual-report-gmps-20211.pdf>) (see cross-reference table below);
  - (i) the consolidated half yearly financial statements of the Group for the period ended 30 June 2022, contained in the consolidated half yearly report as at 30 June 2022 (<https://www.gruppomps.it/static/upload/con/consolidated-half-yearly-report-gmps-as-at-30-june-2022.pdf>) (see cross-reference table below);
  - (j) the consolidated interim financial statements of the Group for the period ended 30 September 2022, contained in the consolidated interim report as at 30 September 2022 ([https://www.gruppomps.it/static/upload/con/consolidated-interim-report-as-at-30-09-2022\\_gmps.pdf](https://www.gruppomps.it/static/upload/con/consolidated-interim-report-as-at-30-09-2022_gmps.pdf)) (see cross-reference table below);
  - (k) the press release headed “*Business Plan 2022 – 2026 “A clear and simple commercial bank”*” (<https://www.gruppomps.it/static/upload/pr-/pr-23-06-2022-1.pdf>) (see cross-reference table below);
  - (l) the press release headed “*Completion of the share capital increase of euro 2.5 billion with the full subscription of the new shares*” ([https://www.gruppomps.it/static/upload/cle/clean\\_pr\\_closing-press-release--eng-.pdf](https://www.gruppomps.it/static/upload/cle/clean_pr_closing-press-release--eng-.pdf)) (see cross-reference table below).”
  
2. The table set out under paragraph “*Cross-reference table*” is hereby supplemented with the following:

Document	Information Incorporated	Page Reference
Group’s Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December 2021 (“ <b>2021 Consolidated Financial Statements</b> ”)	Control Bodies and Independent Auditors	p 4
	Consolidated Report on Operations	pp 5-154
	Consolidated balance sheet	pp 157-158
	Consolidated income statement	pp 159-160
	Consolidated statement of comprehensive income	p 161
	Consolidated Statement of Changes in Equity – 2021	p 162
	Consolidated Statement of Changes in Equity – 2020	p 163
	Consolidated cash flow statement: indirect method	pp 164-165
	Notes to the Consolidated Financial Statements	pp 166-559
	Certification of the consolidated financial statements pursuant to art. 81-ter of Consob regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented	pp 568-582
	Independent Auditor’s Report	pp 569-582
Half-Yearly Report on Operations	pp. 3-24	

Group’s Consolidated Half Yearly Report as at 30 June 2022 (the “ <b>2022 Consolidated Half-Yearly Report</b> ”)	Condensed Consolidated Half-Yearly Financial Statements	pp. 25-32
	Explanatory Notes	pp. 33-137
	Certification of condensed consolidated half-yearly financial statements pursuant to art. 81-ter of CONSOB Regulation No. 11971 of 14 May 1999, as subsequently amended and supplemented	p. 138
	Independent Auditors’ Report	p. 139
Group’s Consolidated Interim Report as at 30 September 2022 (the “ <b>Consolidated Interim Report as at 30 September 2022</b> ”)	Introduction	p. 3
	Results in brief	pp. 4-6
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Press release headed “ <i>Business Plan 2022 – 2026 “A clear and simple commercial bank”</i> ” (the	Entire document	All

**“Business Plan 2022-2026 –  
Press Release”)**

Press release headed Entire document

All

*“Completion of the share capital  
increase of euro 2.5 billion with  
the full subscription of the new  
shares”* (the **“Capital Increase  
– Press Release”**)

**3.** The following paragraph shall be added below the table in paragraph *“Cross-reference table”*:

“The Issuer confirms that the profit forecasts and estimates contained in the Business Plan 2022-2026 – Press Release incorporated by reference herein have been compiled and prepared on the basis which is both comparable with historical financial information of the Issuer and consistent with the Issuer's accounting policies.”

Copy of the 2021 Consolidated Financial Statements, the 2022 Consolidated Half-Yearly Report, the Consolidated Interim Report as at 30 September 2022, the Business Plan 2022-2026 – Press Release and the Capital Increase – Press Release have been filed with the CSSF and, by virtue of this Supplement, are incorporated by reference in, and forms part of, the Base Prospectus.

## BANCA MONTE DEI PASCHI DI SIENA S.P.A.

The “*Banca Monte dei Paschi di Siena S.p.A.*” section of the Base Prospectus is amended as follows:

1. The last and the second last paragraph under sub-section “*General*” on page 186 of the Base Prospectus shall be deleted in their entirety and replaced by the following:

“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 subsidiaries, including companies that, under current regulations, do not belong to the BMPS Group. BMPS has been a member of FTSE Italia Mid Cap since June 2018 with a share capital of Euro 7,453,450,788.44 as at the date of this Base Prospectus. On June 1999, BMPS was listed on the Italian stock exchange, marking a fundamental milestone in the process of strengthening the Group’s size and competitiveness. As at the date of this Base Prospectus, the Ministry of Economy and Finance is BMPS’s majority shareholder.”

2. In the “*Major Events*” sub-section:

- the following paragraph shall be added below the last sub-paragraph of paragraph titled “*Assignment of the NPL Portfolio and further transactions for the assignment of non-performing loans*” on page 193 of the Base Prospectus:

“(vi) in August 2022, BMPS, MPS Capital Services and MPS Leasing & Factoring S.p.A. entered into three agreements for the disposal of the following portfolios (so-called “*Progetto Fantino*”):

- (a) a portfolio of approximately Euro 0.36 billion of unsecured non-performing loans, originated by BMPS, MPS Capital Services and MPS Leasing & Factoring S.p.A., transferred to Intrum S.p.A. (through the securitization vehicle Alicudi SPV S.r.l.);
  - (b) a portfolio of almost Euro 0.2 billion of secured non-performing loans, originated by BMPS and MPS Capital Services, transferred to AMCO – Asset Management S.p.A.; and
  - (c) a portfolio of approximately Euro 0.34 billion of Unlikely to Pay, originated by BMPS and MPS Capital Services, transferred to illimity Bank S.p.A..”
- the following paragraph shall be added below the paragraph titled “*i) Cuvè Transaction*” on page 193 of the Base Prospectus:

“*j) BMPS approved the Business Plan 2022-2026 headed “A clear and simple commercial bank”*”

On 22 June 2022, the Board of Directors of BMPS approved the Business Plan 2022-2026. Through this plan, BMPS intends to strengthen its role as leading commercial bank in Italy with a clear and simple business model. The Business Plan 2022-2026 is centered around the following pillars: 1) achieve business model sustainability; 2) build a solid and resilient balance sheet; 3) tackle the legacy issues.

For more information with respect to the contents of the Business Plan 2022-2026, reference is made to the Business Plan 2022-2026 – Press Release and the Business Plan 2022-2026 Presentation, which are both incorporated by reference into this Base Prospectus.”

3. In the “*Recent Developments*” sub-section:

- the following sentence shall be added at the end of the paragraph titled “*c) EBA 2021 Stress Test*” on page 195 of the Base Prospectus:

“*and “Significant events in 2021” of the 2021 Consolidated Financial Statements that are incorporated by reference to this Base Prospectus.*”

- the following paragraphs shall be added below the paragraph titled “*BMPS approved the 2022-2026 Strategic Plan*” on page 196 of the Base Prospectus:

“g) Completion of the share capital increase of Euro 2.5 billion with the full subscription of the new shares

On 4 November 2022, BMPS announced that the capital increase, concerning no. 1,249,665,648 newly issued BMPS ordinary shares, is fully subscribed for the total amount of Euro 2,499,331,296. BMPS’s new share capital is therefore equal to Euro 7,453,450,788.44, divided into no. 1,259,689,706 ordinary shares with no indication of par value. On 15 November 2022, the relevant statement pursuant to Article 2444 of the Italian Civil Code was registered with the Company Register of Arezzo-Siena in accordance with applicable law.

For more information please refer to the Capital Increase – Press Release incorporated by reference into this Base Prospectus.

h) The Board of Directors of BMPS approves the merger by incorporation of Consorzio Operativo Gruppo Montepaschi S.c.p.a. into BMPS

On 11 November 2022 the Board of Directors of BMPS approved the merger by incorporation of Consorzio Operativo Gruppo Montepaschi S.c.p.A. into BMPS upon the effectiveness of its transformation into a joint stock company (hereinafter the “COG” and the “COG Merger”).

The COG Extraordinary Shareholders’ Meeting held on 10 November 2022 also approved the COG Merger. The COG Merger will be effective as of the date that will be set forth in the deed of merger. The execution of the deed of merger and the date on which the COG Merger becomes legally effective will be announced to the market by a subsequent press release.”

4. In the “SREP Decisions” sub-section, the paragraph titled “2020 SREP Decision” on page 196 and 197 of the Base Prospectus shall be deleted in its entirety and replaced by the following two paragraphs:

**“3.3.1 2021 SREP Decision**

On 3 February 2022, the Bank has announced that it has received the ECB’s final decision regarding own funds requirements to be met starting from 1 March 2022.

According to this decision, as from 1 March 2022, MPS Group must fulfil a total SREP capital requirement (“TSCR”) of 10.75% on a consolidated basis, which includes:

- a Pillar 1 minimum requirement (“P1R”) of 8% (of which 4.50% in terms of CET1); and
- an additional Pillar 2 requirement (“P2R”) of 2.75% (remaining at the same level required for 2021), of which at least 56.25% must be met in terms of CET1 and at least 75% must be composed of Tier 1.

The overall minimum requirement in terms of total capital ratio is 13.50%, obtained by adding a 2.75% CBR to the TSCR.

The overall minimum requirement in terms of CET1 ratio is 8.80%, the sum of P1R (4.50%), P2R (1.55%) and CBR (2.75%); the overall minimum requirement in terms of Tier 1 is 10.82%, inclusive of P1R of 6%, P2R of 2.06% and CBR of 2.75%.

On the basis of the capital ratios as of 31 December 2020, in the context of the 2021 SREP Decision the ECB confirmed for the Issuer the decision - already in force - to dividend restrictions.

**3.3.2 2022 Draft SREP Decision**

On 4 October 2022, BMPS has received the preliminary decision of the ECB regarding the capital requirements to be met starting from 1 January 2023, which confirm the capital requirements currently in force.

The MPS Group - at consolidated level - must comply with a TSCR of 10.75%, in line with what is envisaged in the 2022-2026 Business Plan. Such requirements include:

- a minimum requirement of own funds - P1R of 8% (of which 4.50% in terms of CET1);
- an additional P2R of 2.75%, which is at the same level that was required for 2022, to be held for at



least 56.25% in the form of Common Equity Tier 1 - CET1 - and 75% in the form of Tier 1 capital.

The ECB's evaluation is based on the process of review and assessment process (SREP) conducted by the ECB with reference date 31 December 2021, as well as the most relevant information received subsequently, confirming the current restriction on the distribution of dividends.

In light of the recent progress made, BMPS intends to make use of the right to represent certain considerations as part of the provided "right to be heard" process."

5. The "Rating" sub-section on pages 197 and 198 of the Base Prospectus shall be deleted in its entirety and replaced by the following paragraph:

**4. Ratings**

On 7 June 2021 Fitch completed its annual review, resulting in the decision, to maintain the "Rating Watch Negative" (RWN) on the Bank's stand-alone "Viability Rating" (VR), and on long-term ratings.

On 15 June 2022 DBRS completed its annual review, resulting in the decision to confirm all BMPS ratings, including the Long-Term Issuer Rating of "B (high)", Long-Term Senior Debt Rating of "B (high)" and Long-Term Deposits Rating of "BB (low)". The trend on all ratings was confirmed stable.

Fitch, Moody's and DBRS announced the following decisions:

- on 9 August 2021 DBRS reviewed the BMPS' Subordinated Notes rating to "CCC" from "B (low)" maintaining the trend "stable". The decision also considered the announcement on 29 July 2021 of UniCredit SpA that it had agreed with MEF the conditions for a potential transaction involving the transfer of a selected scope of MPS activities to UniCredit;
- on 1 December 2021, Fitch removed the "Rating Watch Negative" (RWN) on BMPS' main ratings, confirming all the Bank's ratings, including the stand-alone "Viability Rating" at "b", and the Long-Term Issuer Default Rating ("IDR") at "B" with an "evolving" outlook;
- on 17 March 2022 Moody's Investors Service concluded its review for the upgrade of BMPS "b3" standalone Baseline Credit Assessment and long-term ratings (including the "B1" long-term bank deposits rating and "Caa1" long-term senior unsecured rating).

Ratings Agencies	Long term rating	Outlook	Short term rating	Outlook	Last updated
Moody's	Caa1 <sup>15</sup>	Stable	(P)NP <sup>16</sup>	-	17 March 2022
Fitch	B	-	B <sup>17</sup>	Evolving	1 December 2021
DBRS	B (High)	Stable	R-4 <sup>18</sup>	Stable	15 June 2022

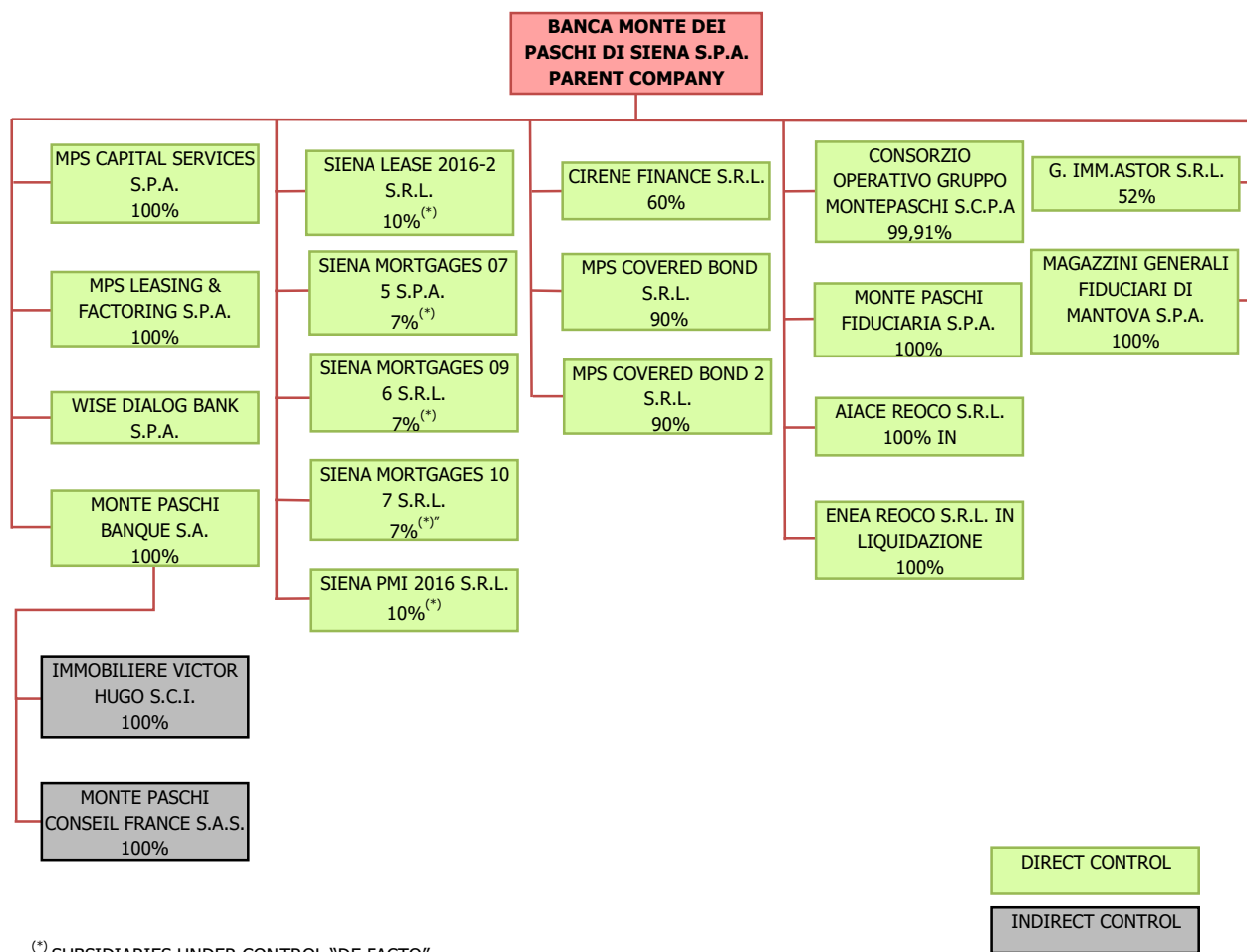
15 Long Term Debt.

16 Pursuant to the rating scale of Moody's Investor Service, "NP" rating refers to issuers rated "Not Prime", i.e. that do not fall within any of the "Prime" rating categories. The short-term rating is on the issuance programme and is therefore provisional (P).

17 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.

18 Pursuant to the rating scale of DBRS, "R-4" rating refers to a short-term security (or to a short-term securities portfolio) with a highly speculative grade whose short-term redemption capacity is uncertain.

The group chart in the sub-section "Principal companies of the BMPS Group" on page 199 of the Base Prospectus shall be replaced by the following chart:



(\*) SUBSIDIARIES UNDER CONTROL "DE FACTO"

6. The paragraph from the first to the sixth of sub-section titled “*BMPS Group Profile*” on page 200 shall be deleted in their entirety and replaced as follows:

“As at 30 June 2022, the BMPS Group is an Italian banking institution with 21,079 employees, approximately more than 3.7 million customers, assets of Euro 131.4 billion (rounded) 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 Bank’s BMPS branches by Region as of 30 June 2022:

	Number	Percentage on the total of the branches
Emilia Romagna	88	6.4%
Friuli Venezia Giulia	35	2.6%
Liguria	17	1.2%
Lombardia	189	13.8%
Piemonte	33	2.4%
Trentino Alto Adige	2	0.1%
Valle d’Aosta	2	0.1%
Veneto	180	13.2%
Abruzzo	27	2.0%

Lazio	113	8.3%
Marche	35	2.6%
Molise	4	0.3%
Toscana	298	21.8%
Umbria	33	2.4%
Basilicata	10	0.7%
Calabria	37	2.7%
Campania	78	5.7%
Puglia	83	6.1%
Sardegna	10	0.7%
Sicilia	94	6.9%
<b>Total</b>	<b>1,368</b>	<b>100.0%</b>

Customers are divided by target segments to which an *ad hoc* service model is applied in order 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 the Republic of Italy through, as at 30 June 2022, 1,368 branches, 166 specialised centres and 109 Widiba financial advisory offices.

The foreign network includes, as at 30 June 2022, an operational branch in Shanghai, eight representative office boards located in various “target areas” (Central-Eastern Europe, North Africa, India and China) and a bank under foreign law, Monte Paschi Banque S.A. in respect of which the Issuer has already resolved to start an orderly winding-down process by setting up a plan in compliance with the provisions set out in Commitment no.14 “Disposal of Participations and business”.

7. The seventh outline of the sub-paragraph “*Group overview*” under paragraph titled “*Organisational Structure*” on page 201 of the Base Prospectus shall be deleted and replaced as follows:

“Intragroup transactions primarily regard the financial support from the Bank as parent company to other companies outsourcing services relative to the auxiliary activities provided by the Bank as parent company (administrative services and property administration) and by the Group operating consortium (*Consorzio Operativo del Gruppo*) (IT services).”

8. The last paragraph of sub-section titled “*Funding*” on page 204 of the Base Prospectus is deleted in its entirety and replaced as follows:

“A significant funding source is also represented by ECB’s TLTROs III guaranteed by assets pledged by the Bank, within the limits and according to the rules established in the Eurosystem. As at the date of this Base Prospectus, TLTROs III outstanding amount to Euro 29,500 million maturing on 21 December 22 for an amount equal to Euro 4,000 million, on 28 June 2023 for an amount equal to Euro 17,000 million on 27 September 2023 for an amount equal to Euro 3.000 million, on 27 March 2024 for an amount equal to Euro 2.500 million and on 26 June 2024 for an amount equal to Euro 3.000 million.”

9. The “*ECB/Bank of Italy and Consob inspections during the period 2015-2022*” sub-section shall be amended as follows:

A. The paragraphs on pages 204 and 205 and titled:

- “9.1 Ordinary inspection activity on credit risk and the portfolio of receivables (*OSI 3435*)”,
- “9.2 Thematic review on risk governance and appetite carried out by the ECB”,

- “9.3 Ordinary inspection activity on the governance of the Banks and the risk management system (OSI 3233)” and
- “9.4 Inspection activity on the risks relating to credit, counterparty and control system (OSI 1238)”

shall be deleted in their entirety.

- B.** The paragraph titled “9.5 Verification activity on banking transparency” on pages 205 and 206 of the Base Prospectus shall be deleted in its entirety and replaced by the following paragraph:

**“9.1 Verification activity on banking transparency**

On 7 October 2019, the Bank of Italy started a new inspection with the aim of verifying compliance with the transparency regulations and the fairness of the Bank’s relationship with its customers. The audit ended on 21 January 2020. Meanwhile, based on the findings of the verification, the Bank launched an action plan, including refunds to customers, of which the Bank of Italy was informed.

On 12 June 2020, the Bank of Italy presented its findings with an evaluation “predominantly non-compliant” and notified a formal challenge of the sanctioning procedure for violations subject to administrative sanctions under article 145 of the Consolidated Banking Act. At the same time, with a note signed by the governor of the Bank of Italy, it was requested to supplement the remedial plan already started.

On 11 August 2020, the Bank transmitted to the Bank of Italy its observations with regard to the audit report and its response to the decision to initiate the sanctioning procedure. At the same time a new remedial action plan was activated and completed by 31 December 2020. As a result of the remedial actions, the Bank refunded customers for a total amount of Euro 40 million (rounded), of which Euro 4.6 million (rounded) referring to sums made available by means of a notice published in the Official Gazette of the Republic of Italy and in two national newspapers. A follow-up plan of residual activities is currently being carried out.

On 6 May 2021, the Bank was imposed a pecuniary administrative sanction of Euro 2.9 million, pursuant to article 144 of the Italian Consolidated Banking Act.

On 7 August 2021, the Bank of Italy sent a further notice inviting the Bank to provide additions and clarifications regarding (i) the mechanisms adopted to ensure the timely delivery of the European standardised information sheet (ESIS); (ii) the transfer of payment services; (iii) the remuneration of the credit lines; and (iv) the application of charges in the event of withdrawal from the current account. In September 2021, the Bank provided the expected clarifications.

The new inspection activity that started on 7 October 2019 and ended on 21 January 2020 regarding the transparency matter mentioned above was also conducted with respect to Banca Widiba S.p.A.. Two of the Bank of Italy’s findings concerned Banca Widiba S.p.A. which, as the Bank did, launched and completed its own remedial action plan by 31 December 2020.

The sanctioning procedure that involved the Bank did not involve Banca Widiba S.p.A.”

- C.** The paragraph titled “9.7 Inspection activity on anti-money laundering” on pages 207 and 208 of the Base Prospectus shall be renumbered as “9.2” and the following shall be added at the end of below the last sub-paragraph thereof:

“In October 2021, the supervisory division of the Venice branch of the Bank of Italy carried out inspections at three BMPS branches, mainly aimed at investigating the operations of a number of cooperative companies subject to bankruptcy proceedings, which are active in the goods transportation sector.

In August 2022, Bank of Italy communicated the findings of the anti-money laundering desk

audit, which revealed some areas of weaknesses that resulted in the branches' lack of ability to intercept the overall phenomenon of cash transactions of cooperatives. The aforementioned weaknesses concerned the process of adequate verification and active cooperation, which need the strengthening of safeguards in order to identify, characterize and, consequently, address the objective and subjective elements of anomaly in the operations of cooperatives, referring both to corporate characteristics and *modus operandi*.

The Bank is required to adopt appropriate corrective measures to be transmitted to the Bank of Italy by 31 December 2022. Any failure to adopt corrective measures may result in the activation of the sanction procedures provided for in the current supervisory provisions.”

- D. The paragraph titled “9.8 Bank of Italy inspection on advisory activities to customers in relation to investment diamonds” on page 208 of the Base Prospectus shall be renumbered as “9.3”.
- E. The paragraphs titled “9.9 ECB inspection activity in relation to the review of the internal models (TRIM-2939)”, “9.10 Inspection activity in relation to the IT Risk (OSI 3832)”, “9.11 Internal model investigation – IMI 40”, “9.12 Inspection activity on the revision of internal model on credit risk (TRIM 3917)”, “9.13 Inspection activity on internal governance (Deep Dive Internal Governance)”, “9.14 Inspection activity on legal risk (OSI 4125)”, “9.15 Inspection activity on interest rate risk inspection (OSI 3834)”, “9.16 Inspection activity on liquidity allocation and internal funds’ transfer pricing (OSI 4356)”, “9.17 Inspection activities relating to the revision of the internal models on credit risk (Internal Model Investigation IMI 4357 IMI 5258)” on pages from 208 to 211 shall be deleted in their entirety and replaced by the following paragraphs:

#### **“9.4 Targeted Review of Internal Models (“TRIM”) Investigation Activity**

The TRIM is a multi-annual project, launched by the ECB in 2016 and concluded in 2019, aimed at assessing compliance with regulatory requirements of the internal models currently used by banks, as well as their reliability and comparability.

In the period from November 2017 to April 2018, the ECB conducted an on-site investigation of the credit risk models (“**TRIM 2939**”), covering the Probability of Default (“**PD**”) and Loss given Default (“**LGD**”) parameters of the retail portfolio. On 21 November 2019, the ECB sent a final decision containing 21 observations, followed by a remediation plan sent to the ECB on 19 December 2019.

In a letter dated 15 January 2018, the ECB sent feedback to the Bank on the TRIM General Topics self-assessment phase in which seven deviations from the regulatory requirements were identified. On 22 March 2018, the Bank sent a reply setting forth the remedial actions that were subsequently implemented in 2019.

From 21 January 2019 to 29 March 2019, the ECB conducted a Group-wide on-site investigation (“**TRIM 3917**”) covering the internal credit risk models of the Bank related to PD, LGD, and Credit Conversion Factor on corporate and other exposures. On 10 May 2021 the ECB sent the Bank its final decision allowing the continued adoption of the internal models implemented to determine capital requirements on the portfolio under investigation. The ECB’s final decision also sets out ten observations with their recommendations and obligations to be implemented within certain deadlines. On 31 May 2021, the Bank sent the relevant corrective action plan.

As part of the “Model Change 2021” process, the Group submitted to the ECB a full review of the AIRB models, covering PD, LGD and EAD risk parameters, in which it completed the alignment required by the European Banking Authority by 1 January 2022 with respect to the guidelines on PD assessment, LGD estimation, and treatment of defaulted assets. In the application package submitted for an assessment review on 9 November 2021, all actions to

remedy the complaints received on the internal models re-envied by TRIM/IMI have been carried out and have remained pending.

#### **9.5 Inspection activity in relation to the IT Risk (OSI 3832)**

From 26 March 2018 to 26 June 2018, the ECB conducted a Group-wide on-site computer risk investigation (the “**IT risk**”). On 15 November 2018, a report was issued identifying 15 complaints with varying degrees of impact mainly relating to IT security areas, the execution by control functions, business continuity, the definition of IT strategies and the organization of development projects. It was found that the Group’s IT structure was adequate to support the requirements within the horizon of the Restructuring Plan 2017-2022.

In August 2019, a follow-up letter was sent with recommendations associated with the deficiencies highlighted in the report. In April 2020, the Bank informed the ECB of the timely implementation of the recommended remedial actions. In addition, plans have been made to improve IT security, with particular focus on the management of personal information technology and the management of data classified as confidential. In November 2019, a data protection project was also presented to the Bank’s board of directors. The project, which is to be implemented over several years, is divided into four phases: (i) formalization of data privacy rules and accountability, (ii) implementation of software tools to support data protection, (iii) generation of summary reports, and (iv) the introduction of data protection standards on relevant areas of information. The first phase, aimed at updating the internal regulations, has been completed, while the subsequent ones are still ongoing.

#### **9.6 Inspection activity on internal governance (Deep Dive Internal Governance)**

During the 2018 and 2019 fiscal years, the ECB conducted a deep-dive investigation of internal governance with a specific focus on the operations of the Bank’s board of directors to verify compliance with current legislation and best practices (e.g., EBA guidelines on internal governance). The investigations covered various elements of discussing and organizing the relevant work, including the level of deepening and analysis of the topics discussed, the interaction between the board of directors and the management, the accuracy and effectiveness of the board of directors’ preparation process (i.e., the formation of the agenda and the timing for the distribution of documentation). In its follow-up letter, sent by the ECB on 31 August 2020, the Joint Supervisory Team (“**JST**”) highlighted the achievement of some areas of improvement compared to what was noted in a thematic review in 2015. Nevertheless, five complaints were reported, mainly relating to the operating processes of the board of directors and the effectiveness of the latter’s involvement and supervisory action in the management of the Bank, which confirm what was already stated in the SREP decision in 2019.

The Bank’s Board of Directors has analyzed and discussed the contents of this letter, taking a number of measures and behaviors in line with the recommendations made.

#### **9.7 Inspection activity on legal risk (OSI 4125)**

In the period from 28 January 2019 to 26 April 2019, the ECB conducted a Group-wide on-site investigation involving legal risk. In November 2019, the ECB sent a report, which included 11 observations on, inter alia, the handling of proceedings, litigation management aspects, and the monitoring of legal risk, the procedures for setting the provisions and the activities carried out by the internal control function.

On 7 May 2020, the ECB sent a follow-up letter setting forth its recommendations. The Bank completed the implementation of the recommendations by 30 June 2021, in line with the timetable provided by the ECB.

#### **9.8 Inspection activity on interest rate risk inspection (OSI 3834)**

In the period from 24 June 2019 to 27 September 2019, the ECB conducted a Group-wide on-site investigation of Interest Rate Risk in the Banking Book (“**IRRBB**”). On 12 February 2020,

the ECB sent the final version of the report, which included six observations relating to the management processes and rate risk quantification models.

On 21 October 2021, the ECB sent a follow-up letter setting forth its recommendations. On 29 November 2021, the Bank sent the ECB the action plan to address the recommendations made with clear evidence of the activities already in place. A number of initiatives aimed at strengthening the system of internal controls, internal quantification metrics, and the IRRBB risk measurement system remain to be completed by the scheduled deadline on 31 December 2022.

### **9.9 Inspection activity on liquidity allocation and internal funds' transfer pricing (OSI 4356)**

From 23 October 2019 to 29 January 2020, an on-site investigation was conducted on the liquidity allocation and internal transfer rate. On 16 September 2020, the ECB sent its report on the results of the investigation, which included 10 findings, mainly relating to the measurement of liquidity risk, data quality controls and the FTP framework, the latter being the set of methodologies that preside over the calculation of the TIT (*i.e.*, the corporate internal rate at which funds are exchanged between business units and the unit that centrally manages interest rate and liquidity risk (the Centralized Treasury)).

On 16 November 2021, the ECB sent a follow-up letter setting forth its recommendations. On 21 December 2021, the Bank sent the ECB the action plan to address the recommendations made with clear evidence of the activities already in place.

As of 30 September 2022, the remediation program in place to address the ECB's recommendations is completed with the exception of the actions related to the performance monitoring system of the Bank's business units, which envisage the isolation of treasury and ALM operations as standalone activities in order to measure their economic performance. In this regard, the Bank will inform the supervisory authority indicating the new expected deadline for the full implementation of the aforementioned interventions.

### **9.10 Inspection activities relating to the revision of the internal models on credit risk (Internal Model Investigation IMI 4357 IMI 5258)**

During August and October 2019, the ECB conducted two investigations, one off-site (“**IMI 5258**”) and one on-site (“**IMI 4357**”), for the approval of an application for the authorization of material changes for credit risk models used for the determination of capital requirements. The investigations were completed in November 2019. On 10 May 2021 the ECB sent the Bank its final decision on the verifications carried out, authorizing the implementation of the requested changes, and indicating twenty-six observations with related recommendations and obligations to be implemented within certain deadlines. On 31 May 2021, the Bank responded by sending a remedial action plan, in which many actions were implemented and submitted for approval to the ECB on 9 November 2021. In particular, a comment remains open related to the request to prepare a backtesting analysis on the LGD parameter with a whole-life logic. These additional analyses consider, for defaulted positions closed in a given period, the comparison between the value of the LGD parameter assigned on the date of transition to default and the value of the loss observed from that date. This investigation will be completed by May 2023.”

- F. The paragraph titled “*Bank of Italy on-site inspection ECAF/IRB systems*” on page 211 of the Base Prospectus shall be renumbered as “9.11”.
- G. The paragraphs titled “*9.19 Inspection activity on internal governance and risk management (OSI 4834)*”, “*9.20 Inspection activity on credit lending process (OSI 4888)*”, “*9.21 Inspection activity relating to the new definition of default “DoD” (Internal Model Investigation IMI 4857)*”, “*9.22 Targeted review of accommodation and food service sector*”, “*9.23 Operational*

*Act on Liquidity Risk Control and ILAAP*”, “9.24 Supervisory assessment of the self assessment and implementation plans for climate related and environmental risks” on pages 211 and 212 of the Base Prospectus shall be deleted in their entirety and replaced by the following paragraphs:

#### **“9.12 Inspection activity on internal governance and risk management (OSI 4834)**

In February 2020, the ECB conducted an on-site investigation as part of the Bank’s internal governance and risk management processes.

On 27 October 2021, the ECB sent a follow-up letter setting forth its recommendations related to the compliance and internal audit processes. The remediation action plan was implemented by the first quarter of 2022, in line with the ECB’s deadlines.

#### **9.13 Inspection activity relating to the new definition of default “DoD” (Internal Model Investigation IMI 4857)**

From November 2020 to January 2021, the ECB conducted an off-site investigation of the credit risk models (“**IMI**”), which aimed to analyze application model change as part of the New Definition of Default (“**NDOD**”). On 22 July 2021 the ECB sent the Bank its decision on the investigation carried out, authorizing the implementation of the changes in the NDOD aspects, and indicating 18 findings with related recommendations and obligations to be implemented within certain deadlines. On 20 August 2021, the Bank responded by sending a plan of remedial actions in respect of the reported securities. All “Advanced Internal Rating Based” (“**AIRB**”) findings were resolved with the submission of the Model Change 2021 instance to the regulator in the fourth quarter of 2021. All findings have been resolved, except for findings 10 and 18 related to the issue of “Data Quality”, which expired on 31 December 2022, and finding 8 “Extension New Pef to MspLF and Widiba”, which expired on 30 June 2022 and was rescheduled in line with the objectives and timing of the Business Plan 2022-2026. With respect to this finding, the Business Plan 2022-2026 provides for the integration of product companies into the Bank, whose IT systems already meet NDOD requirements. The Bank communicated this change to the remediation plan to the ECB in the first week of October 2022.

#### **9.14 Operational Act on Liquidity Risk Control and ILAAP**

On August 30, 2021, the JST, as part of its investigation of the adequacy of liquidity management processes for the purposes of determining the scope of the 2021 SREP Decision, communicated to the Bank two recommendations, one of which refers to the updating of the document installation, while the other is a request for information on the state of progress of remedial actions following an anomaly already reported by the internal validation function.

Both recommendations were addressed within the specified deadlines.

#### **9.15 Investigation of the Management of the Credit Portfolio during the Pandemic**

By letter dated 4 December 2020, the ECB provided all banks with a guidance on the identification and measurement of credit risk in the context of the COVID-19 pandemic. In the course of 2021, ECB investigations to verify the Bank’s operational capacity in credit management during the pandemic continued. With respect to this, a “Horizontal Targeted Review” was also conducted on the “Food and Accommodation Service” sector. The Bank subsequently informed the supervision of initiatives specifically dedicated to the supervision of credit risk during the pandemic

#### **9.16 Internal Model Investigation (IMI-2022-ITMPS-0197502)**

In February 2022, the ECB conducted an on-site investigation to approve the application for authorization (submitted by the Bank to the ECB on 9 November 2021) for material changes to the credit risk models. The material changes relate to the adaptation of the AIRB



models (PD and LGD) to the new regulatory reference legislation (EBA/GL/2017/16), to the resolution of observations from previous investigations (IMI 2939, TRIM 3917, IMI 4357, IMI 5258 and IMI 4857) and to the roll-out of the EAD parameter. The investigation activities ended on May 13, 2022. On 10 October 2022 the Bank received the final inspection report. The draft decision is therefore expected in the last quarter of 2022 with the descriptions of the obligations that the Bank will have to remedy after sharing with the ECB a remediation plan for each of them.

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

Following publication of the expectations of banking supervision for a robust, effective, transparent and comprehensive approach to climate and environmental risk, the ECB, in its communication of 21 January 2021, requested the Bank to carry out a self-assessment of compliance with the formulated guidelines and to prepare an implementation plan for climate and environmental risk management. The results of the self-assessment were transmitted to the ECB on 26 February 2021 and the implementation plan was subsequently transmitted to the ECB on 26 May 2021. On 30 September 2021 the ECB communicated its assessment, pointing out some weaknesses regarding the self-assessment process and the implementation plan, which will be subject to specific follow-up.

Always in the field of climate and environmental risks, on 13 January 2022, the ECB sent the outcome of the gap analysis conducted on the Bank in the field of disclosure, with a number of recommendations, with respect to which a review of the implementation plan was conducted and a specific design was developed to address the expectations of the risk management framework and disclosure. The project in question, called “ESG Risk Action”, was formally launched on 29 June 2022.

On 18 March 2022, following the ECB request, a new self-assessment of expectations on climate and environmental risks was conducted at the opening of the upcoming thematic review, in particular to provide a state of progress with the already reported planning and its possible revisions.

The announced thematic review on climate and environmental risks was conducted by the ECB in the first quarter of 2022 and continued in the second quarter of 2022. In a first feedback report draft, a progress was noted on the various planned interventions, in substantial consistency with the path outlined on the subject, already shared with the ECB, with some points of focus. Pending the final version with the formalization of the observations and deadlines, the draft feedback report highlights deficiencies with respect to which a series of remedial actions are required to be carried out with different deadlines between March 2023 and December 2024. Moreover, in large part these remedial actions are covered by the deliverables our Business Plan 2022-2026.

The remedial action, summarized below, concerns:

- (i) Materiality assessment: forward-looking quantitative assessment with a deadline of March 2023;
- (ii) Business environment and strategy: strengthening of climate-related and environmental (“C&E”) risk indicators and necessary related portfolio management strategies with a deadline between March and December 2023;
- (iii) Governance and risk appetite: inclusion of C&E risks in compensation practices, involvement of all three lines of control, analysis of IT systems development needs, and development of reporting of C&E risk impacts on the business model with a deadline between March and December 2023;
- (iv) Risk management framework: full inclusion in the ICAAP process, expansion of the scope of environmental risks covered and development of mitigation measures by us and our counterparties with a deadline between December 2023 and December 2024;

- (v) Credit risk: strengthening of C&E risk assessment at credit policy level and on individual counterparties, assessment of transmission of C&E factors to quantitative metrics, and a credit pricing framework;
- (vi) Operational risk: impacts of C&E risks on operations in quantitative measure and related planned business continuity and recovery measures, and C&E related reputational/dispute risk metrics with deadline at December 2023; and
- (vii) Stress testing framework: implementation of a comprehensive C&E stress testing framework with deadline at December 2024.

The Bank has, in addition, participated and completed the 2022 stress test exercise on climate risks. The Bank participated among the banks that provided the so-called starting points, that is the relevant credit and market exposures as a starting point for the simulation and for which the actual simulations (so called “scenario projections”) were developed by the ECB. The Bank reported an overall score, over the entire year, of an “orange” level, in line with the average result of the entire sample of banks.

As represented in the ECB communications initiating the Thematic Review as well as the Climate Stress Test, both exercises are not expected to reflect directly quantitative requirements strictly speaking, however, the outcomes, qualitatively, could have indirect relevance on Pillar 2 through the SREP assessments. In the 2022 Draft SREP Decision, the ECB highlighted weaknesses in the materiality assessment of this risk, strategy, governance and risk appetite, overall risk management framework, and specific operational risk framework, adding the need to accelerate the implementation of the evolution plan already submitted by the Bank to address these strong weaknesses in a timely manner.

#### **9.18 Credit and Counterparty Credit Risk Investigation Activity (OSI 0198380)**

On 19 April 2022, the ECB conducted a credit and counterparty risk investigation with the aim of (i) identifying and quantifying any deterioration effects on surveyed portfolios, (ii) verifying the IFRS 9 provisioning model for the portfolios under consideration, (iii) review the credit classification and provisioning process. The inspection activity has been completed and the Bank is waiting to receive the inspection report from the ECB.

#### **9.19 Letter of intervention – ECB’s expectations regarding our prospective financials**

On 14 January 2022, the ECB gave notice to the Bank of its expectations that the plan would ensure income performance (at least) equal to that of significant Italian institutions and that it would be adequately detailed on the measures envisaged, including through the setting of quarterly targets, the achievement of which will be specifically monitored by the ECB.

With respect to on site inspections, failure to comply with the implementation of remedial actions within the required timeframe exposes the Bank to the risk of a negative assessment by the ECB, which may incorporate this assessment as part of the broader annual SREP assessment process, including applying specific requirements to achieve the target as necessary. With respect to internal model inspections, failure to comply with findings requirements exposes the Bank to the risk of penalties, limitations or RWA add-on requests.

#### **9.20 Consob inspection on certain profiles of the state of compliance with the new legislation resulting from the transposition of MiFID II and other requests for data and news**

On 3 May 2022, a Consob inspection of BMPS began with the aim of ascertaining the state of compliance with the new regulations consequent to the transposition of MiFID II with regard to the following profiles: (i) the procedural arrangements defined in the field of product governance; (ii) the procedures for assessing the adequacy of transactions carried out on behalf of clients.”

10. The “*Legal Proceedings*” sub-section shall be amended as follows:

- A. The sub-paragraphs from the fifth to the last of paragraph titled “10.1 Judicial and arbitration proceedings” on pages from 212 to 215 of the Base Prospectus shall be deleted in their entirety and replaced by the following sub-paragraphs:

“On 30 June 2022, the following legal disputes and out-of-court claims were pending:

- legal disputes with a *petitum*, where quantified, of Euro 4.6 billion (rounded). In particular:
  - Euro 2.3 billion (rounded) in claims regarding disputes for which there is a “probable” risk of losing the case, for which provisions of Euro 0.9 billion (rounded) have been allocated;
  - Euro 0.7 billion (rounded) in claims attributable to disputes for which there is a “possible” risk of losing the case;
  - Euro 1.6 billion (rounded) in claims attributable to the remaining disputes, for which there is a “remote” risk of losing the case;
- out-of-court claims totalling, where quantified, Euro 1.8 billion (rounded), almost exclusively related to claims classified at “probable” risk of losing the case.

On 30 June 2022, the overall *petitum* in relation to disputes and out-of-court claims related to financial information distributed in the 2008-2015 period amounted to Euro 2.8 billion (rounded). Specifically Euro 1.03 billion (rounded) of the civil proceedings related to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases, of which Euro 0.27 billion requested by civil claimants, where quantified, related to the criminal proceedings no. 29634/14 and no. 955/16 which the Issuer is part of (for further information, please see the section titled “Legal Proceedings”, respectively under paragraph 10.2.5 “Disputes deriving from ordinary business” and letter a) “Litigation and Out-of-Court Requests Related to Financial Information Disseminated in the 2008-2015 period” of paragraph 10.2.2 “Civil Proceedings” of the section *Banca Monte dei Paschi di Siena S.p.A.* of this Base Prospectus and paragraph “Main types of legal, employment and tax risks” of the 2021 Consolidated Financial Statements, paragraph “Main types of legal, employment and tax risks” of the 2021 Consolidated Half-Yearly Report, paragraph “Main types of legal, employment and tax risks” of the Consolidated Interim Report as at 30 September 2022 and “Main types of legal, employment and tax risks” of the 2022 Consolidated Half-Yearly Report), and Euro 1.8 billion (rounded) in relation to extra-judicial claims received by the Issuer in relation to such capital increases.

The overall *petitum* for tax proceedings of the Group is equal to Euro 79.5 million (rounded) while the overall *petitum* relating to the passive labour proceedings is equal to Euro 91.3 million (including the labour proceedings brought by certain employees of Fruendo S.r.l.) almost entirely relating to the Bank.

As of 30 June 2022, the *petitum* for disputes arising from Burden Sharing, is equal to Euro 37.5 (rounded) million for which provisions for risks of Euro 16.5 million (rounded) have been set aside and included in the Bank’s judicial proceedings relating to investment service activities. In such proceedings the relevant plaintiffs are claiming the violation of the general principles set forth by the Legislative Decree No. 58 of 24 February 1998, as amended (the “**Consolidated Finance Act**”) and the general principles of correctness, transparency and duty of care with respect to the sale of such securities.

In light of the estimates made on the risk of adverse outcome in the aforementioned proceedings, as at 30 June 2022, provisions for “legal and tax disputes” included under the item “provision for risks and charges”, amount to Euro 911.3 million (rounded), comprising claw-backs of Euro 16.0 million (rounded), legal disputes of Euro 883.1 million (rounded) and tax disputes for Euro 12.1 million (rounded). Furthermore, as at the same date, in addition

to the above, the “provision for risks and charges” includes labour disputes (both passive and active) for Euro 43.5 million (rounded).

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 Bank’s policies.

The components of the overall “provision for risks and charges” include, in addition to the allocations provided for “legal and tax disputes”, 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, several uncertain factors characterising the different judicial proceedings, and 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 of proceedings that have not been instituted, in case of possible cross-claims or in the presence of uncertainties in law or in fact such as to make any estimate unreliable.

Accordingly, although the Bank believes that the overall “provision for risks and charges” posted in the Financial Statement should be considered adequate in respect of the liabilities potentially consequent to negative 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 impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.”

- B.** The paragraph titled “*10.2.1 Criminal investigations and proceedings*” on pages from 215 to 220 of the Base Prospectus shall be deleted in its entirety and replaced by the following paragraphs:

*“10.2.1 Criminal investigations and proceedings*

*(A) “FRESH 2008”, “Alexandria”, “Santorini”, “Chianti Classico” transactions – criminal proceedings before the Courts of Milan (Proceedings no. 29634/14)*

With respect to the criminal proceeding related to the structured term repurchase agreements for the “Alexandria” and “Santorini” transactions that the Bank entered into with Nomura International PLC (“**Nomura**”) and Deutsche Bank AG and Deutsche Bank AG London Branch, respectively, the criminal acts allegedly committed by the persons under investigation are related to the financial statements as of December 31, 2009, 2010, 2011 and 2012 and the financial statements as of March 31, 2012, June 30, 2012 and as of September 30, 2012.

During March 2016, this proceeding was combined with the other criminal proceedings pending before the Court of Milan relating to the “Santorini”, “FRESH 2008” and “Chianti Classico” transactions. With its order of 13 May 2016, the Milan Court of the Preliminary Hearing (“**GUP**”) admitted the filing and the admissibility of claims made by civil parties against entities already party to the proceedings pursuant to 231 Model.

On 2 July 2016, with the consent of the public prosecutor’s office, the Bank submitted a plea agreement in the criminal proceedings before the GUP in response to the prosecutor’s charges relating to 231 Model compliance.

Following the acceptance of the plea agreement, the criminal charges against the Bank were dismissed and the Bank was fined a total of €10.6 million without the possibility of further criminal sanctions related to the matter. During the trial, with its order of 6 April 2017, the Court of Milan ruled on the requests for the exclusion of civil parties made by the defendants and civilly liable parties, excluding some of them. Thereby, the Bank was excluded from being deemed a civilly liable party with respect to an assumption of collective responsibility towards

the defendants Mr. Mussari, Mr. Vigni, Mr. Pirondini, and Mr. Baldassarri. At the hearings on 23 and 30 May 2019, the civilly liable parties who sued the Bank as a civilly liable party made their claims. The MPS Foundation, which did not sue the Bank as a civilly liable party, did not make any direct claims against the Bank, but instead made requests to the representatives of the Bank as well as to the representatives of Nomura. These claims, following the transaction with the Bank in October 2021, were waived. Like the MPS Foundation, the Bank of Italy, which did sue the Bank as a civilly liable party, requested that the defendants be ordered to pay a sum in an equitable way. CONSOB, which sued the Bank as a civilly liable party, made a claim for an equitable determination for almost all damage items, except for that relating to the supervisory costs of approximately €0.749 million. Provisional damages are requested in an amount not lower than €0.298 million. The final hearing was held on 8 November 2019. At that time, the Court handed down the operative part of the ruling in the first instance and sentenced all natural person defendants as well as, under 231 Model, the entities Deutsche Bank and Nomura. The opinion was published on 12 May 2020.

As the civil liable party, the Bank was sentenced to pay damages in favor of the civil parties, to be quantified and settled in a separate civil trial. Against the judgment in the first instance, the Bank, as a civilly liable party, jointly and severally sentenced with the defendants, filed an appeal before the Court of Appeal in Milan. During the first hearing before that court, held on 2 December 2021, several civil parties withdrew from the proceeding as a result of their settlement transactions with the Bank. On 6 May 2022, the Court of Appeal of Milan acquitted the defendants, finding that the facts did not support the conviction.

*(B) Proceedings before the Court of Milan no. 955/2016*

On 12 May 2017, Mr. Profumo, Mr. Viola and Mr. Salvadori were requested to be brought to trial before the Court of Milan to face allegations of (i) false corporate communications (pursuant to article 2622 of the Civil Code) in relation to the accounting of the “Santorini” and “Alexandria” transactions included in our financial statements, reports, and other corporate communications from 31 2012 to 31 December 2014 and relating to the half-yearly report as of 30 June 2015 and (ii) market manipulation (pursuant to article 185 of the Consolidated Finance Act) relating to the public notices concerning the approval of the relevant financial statements.

At the hearing on 24 November 2017, the GUP issued an order by which it:

- declared the request for referral to trial against Mr. Salvadori invalid;
- ordered the separation of the relevant position from the main proceeding (pending against Mr. Viola and Mr. Profumo, as well as the Bank) with regard to the alleged offense pursuant to article 185 of the TUF; and
- withheld judgment with regard to questions relating to regional jurisdiction until such time as the public prosecutor makes a determination regarding the matter.

At the hearing on 9 February 2018, we have filed the following documents:

- our response with respect to regional jurisdiction;
- the documentary productions of the defense of Mr. Viola and Mr. Profumo;
- the pleadings of Mr. Bivona and Mr. Falaschi; and
- a request of prior seizure order by Mr. Bivona and Mr. Falaschi towards Mr. Viola and Mr. Profumo.

Following our formal involvement in the proceeding, the public prosecutor requested a decision be issued stating that the Bank could not be prosecuted due to a lack of factual support or because the facts did not support a conviction.

At the outcome of the preliminary hearing, the GUP noted that the conditions for a decision were not valid and ordered the deferral to trial of Mr. Viola, Mr. Profumo, and Mr. Salvadori as well as the Bank (as defendant pursuant to 231 Model). With respect to Mr. Salvadori, a decision was issued that there is no need to proceed in relation to the indictment pursuant to article 185 of the Consolidated Finance Act.

At the hearing on 17 July 2018, 2,243 civil parties joined the proceeding. Some of these have formally requested that the Bank be called as a civilly liable party, while most of the defenders have asked for the extension of the effects of the constitution of their own assistance to the Bank, as a civilly liable party already in place. Other civil parties, on the other hand, have brought formal claims against the Bank, pursuant to 231 Model.

A number of hearings were held. At the hearing on 16 June 2020, representatives of the public prosecutor's office requested the acquittal of the defendants. On 15 October 2020, the Court of Milan handed down the operative part of the ruling, condemning all defendants and the Bank pursuant to 231 Model. The opinion was filed on 7 April 2021.

The Court, in its opinion, analyzed the conduct alleged against the defendants in relation to the criminal cases pursuant to article 2622 of the Civil Code (false corporate communications) and article 185 of the Consolidated Finance Act (market manipulation) and found that the administrative offences alleged against the Bank were justified pursuant to articles 5, 6, 8 and 25-ter, letter b) of the 231 Model. The ruling was limited to the offence of false corporate communications in relation to the 2012 budget and the 2015 half-yearly report, as well as pursuant to articles 5, 8 and 25-sexies of the 231 Model on market manipulation relating to press releases concerning the approval of financial statements as of 31 December 2012, 31 December 2013, 31 December 2014 and the half-yearly report as of June 30, 2015, resulting in the application of a financial penalty of €0.8 million.

With regard to the position of the Bank as a civilly liable party, the judgment also explains the reasons for the general order for the payment of damages and the claim for payment by the civil parties, pursuant to article 2049 of the Civil Code, in separate civil proceedings. The Bank, as a civilly liable party, sentenced jointly and severally with the defendants, and was held administratively liable pursuant to 231 Model, brought an action against the first instance judgment before the Court of Appeal in Milan. The appeal is expected to commence in the fourth quarter of 2022 or the beginning of 2023.

(C) Audits of the 2012, 2013, 2014 and 2015 interim financial statements in respect of the Non-performing loans– Proceeding 33714/2016

In relation to criminal proceeding 33714/16 pending before the Court of Milan, the Bank was originally involved as an administratively liable party pursuant to 231 Model with respect to allegations of false corporate communications (pursuant to article 2622 of the Civil Code) relating to financial statements of December 31 for fiscal years 2012, 2013, 2014 and the financial statements of June 30 for fiscal year 2015.

Specifically, the relevant financial statements allegedly contained an overvaluation of NPLs. On 4 May 2018, the Bank's position was dismissed by the prosecutor's office due to the groundlessness of the offence (measure also confirmed by the General Prosecutor's Office on 15 March 2019).

On 25 July 2019, the preliminary investigation judge ("GIP") of the Court of Milan ordered the termination of the proceedings against the Bank, as a liable entity pursuant to 231 Model. Simultaneously, the GIP ordered the continuation of investigations against the natural persons (i.e. chairman of the board of directors, managing director and chairman of the board of supervisory body *pro tempore*), thus rejecting the request made by the public prosecutor that was supported by an expert witness not to conduct further investigations. The investigations continued, during which two experts who were appointed by the GIP and the aforementioned

expert witness were questioned on 6 May 2021. The questions demonstrated that it was necessary to determine whether the corrections made by the Bank during the period from 2012 to 2017 were detected in a timely manner in accordance with the principle of accruals and with the accounting standards applicable at the time of the event.

The expert witnesses' findings (which contradicted those of the experts initially approached by the Public Prosecutor's Office) were later incorporated into the notice of completion of the investigation. The Bank took note of the expert witness's report and followed the developments in the proceeding to assess possible effects on civil disputes concerning the same set of general facts described in the expert report. Although the Bank has been dismissed as an administratively liable party, the proceeding continues to be relevant to the Bank, as it will become a civil party to any criminal proceeding that will be brought against it. At the hearing on June 8, 2021, the preliminary hearings were closed, and the GIP forwarded the documents to the public prosecutor's office and gave an indicative period of 45 days to the public prosecutor to carry out any further investigations and make its determinations. On 25 February 2022, the GIP, upon request of the public prosecutor, ordered an extension of the deadline for investigations until 31 May 2022. As of the date of the Base Prospectus, the decision to close preliminary investigations has not been issued. On 16 September 2022, a notice of conclusion of the preliminary investigation of three former members of the Bank (two presidents of the Board of Directors and a managing director) and a former manager (responsible for drafting corporate accounting documents) pursuant to article 415-bis of the Code of Criminal Procedure was issued. The Bank, despite the previous filing, still received the same notice as an administratively liable party pursuant to 231 Model.

The individuals were charged with the offences of false corporate communications (pursuant to article 2622 of the Civil Code) and market manipulation (pursuant to article 185 of the Consolidate Finance Act) with respect to the financial statements from 2013 to 2015 and the half-yearly reports from 2015 to 2016 as well as false prospectus (pursuant to article 173-bis of the Consolidated Finance Act) with respect to the prospectuses from 2014 to 2015. According to the plaintiff's claim, in the aforementioned corporate communications, the defendants allegedly entered adjustments related to impaired loans in violation of the applicable accounting standards, thus resulting in a false representation of the Bank's economic, equity and financial position. Also, this misrepresentation would have also been reflected in the announcements and prospectuses contemporaneously issued by the Bank. The Bank, as administratively liable party, was charged with the administrative offenses pursuant to articles 5, 6, 7, 8 and 25-ter, letter b) and 25-sexies of 231 Model, arising from the aforementioned claims of false corporate communications and market manipulation. The Public Prosecutor's Office may ask for committal to trial or for dismissal against the defendants (likewise, it may ask for committal to trial or for dismissal against the Bank).

The proceeding is also relevant with respect to the additional role of civilly liable party that the Bank could play in the event that indictment is requested. The Bank could not make any predictions on the possible outcome of the proceedings, but reserves the right to assert in the competent venues arguments (confirmed by the verifications carried out on the valuation process of the impaired loan portfolio under investigation and also supported by preliminary analyses by its consultants) seeking to demonstrate the correctness of its actions, including the absence of any indications demonstrating an intent to provide the market with an incorrect representation of its economic, equity and financial situation. Among other things, this can also be seen from the presence in all relevant prospectuses of clear warnings and risk warnings for investors precisely with reference to the uncertainties inherent in the valuation of the loan portfolio and the possible impacts of the verification processes underway by the Supervisory Authorities. Notably, while the expert's report was not yet available, in the context of a civil legal proceeding brought by a group of investors (headed by the Alken fund) who complained, among other things, about the incorrect accounting for impaired loans in the period from 2012

to 2016, the Court of Milan rejected all the claims made against the Bank, ordering the plaintiffs to reimburse all the costs.

Since June 2021, after the filing of the expert's report, the Bank, in the context of civil proceedings also dealing with issues overlapping with the criminal proceedings under review, has adopted a prudential policy of risk management by resorting to a specific policy of provisions."

- C. The paragraph titled "10.2.2 Corporate liability actions brought by the Bank for the "Alexandria" and "Santorini" transactions" on page 220 of the Base Prospectus shall be deleted in its entirety.
- D. The paragraph titled "10.2.3 Civil Proceedings" on pages from 223 to 226 of the Base Prospectus shall be deleted in its entirety and replaced by the following paragraph:

**"10.2.2 Civil Proceedings**

(A) Litigation and Out-of-Court Requests Related to Financial Information Disseminated in the 2008-2015 period

The Bank is exposed to civil proceedings, the effects of judgments arising from criminal proceedings (29634/14 and 955/16) and out-of-court requests with regard to financial information disseminated in the period from 2008 to 2015. On 30 June 2022, the overall petitem in relation to disputes and out-of-court claims related to financial information distributed in the 2008-2015 period, amounted to Euro 2.8 billion (rounded). Specifically Euro 1.03 billion (rounded) of the civil proceedings related to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases, of which Euro 0.27 billion requested by civil claimants, where quantified, related to the criminal proceedings no. 29634/14 and no. 955/16.

As a general rule and in accordance with the provisions of IAS 37, the Bank, as regards to legal disputes, civil-party interventions in criminal proceedings 29634/14, and out-of-court applications for disputes relating to the 2008-2011 period, has assessed the losing risk as "probable" since the first disputes of this kind and has therefore allocated funds in the budget for risks and charges. The assessments made with regard to the losing risk in criminal proceeding 29634/14 take into account the decision taken by the Bank in March 2013 to initiate actions of liability against the former President and General Director and the foreign banks involved.

They also take into account the positions taken on this subject by the supervisory authorities (aside from the public prosecutor of Milan), their decisions to join the proceeding as civil parties, and the sanctions imposed by them. The recent acquittal ruling at second instance issued by the Court of Milan, whose reasoning remains pending to be released, will have implications regarding the assessment of the losing risk, as well as the provision funds allocated in connection with such criminal proceedings and civil proceedings with substantially overlapping subjects.

For disputes relating to the 2012-2015 period, as a result of the judgment of October 15, 2020, on criminal proceeding 955/2016, the positions are also valued at "probable" losing risk and, therefore, the Bank has made provisions for risks and charges. In addition, for civil disputes over the 2012-2015 period, we took into account the risks associated with NPLs, which were qualified with the likelihood of a negative outcome.

With regard to criminal proceedings 29634/14 and 955/2016, the judgments of the first instance of 8 November 2019 and 15 October 2020 did not involve disbursements to the civil parties, since the court rejected their request for a sum to be granted as a provisional measure immediately enforceable pursuant to article 539 of the Criminal Code, postponing the



compensation of damages in their favor which can take place in a separate civil proceeding to be established by the civil parties themselves.

In criminal proceeding 29634/14, settlement agreements were reached with 829 civil parties for total claims of approximately €25.4 million. For the civil and criminal proceedings involving information publicly disclosed between 2008 and 2015, the provisions were made taking into account the amount invested by the counterparty in the relevant time period (net of any sales made during the same period). The damages were then estimated by taking into account the lowest price that the investor would have had to pay if complete and correct information had been made available. With the support of qualified independent experts, econometric analysis techniques have been used to eliminate, inter alia, the performance component of the shares in the banking sector over the reference period. In more detail, the total damage resulting from each event potentially capable of generating informational alterations was first quantified and then the abstract amount attributable to the individual was calculated, taking into account the shares held. We have also taken into account a different criterion, based on the view that false or incomplete information may have a causal effect on the investor's decisions of such seriousness that, in the presence of complete and correct information, the investor would not have made the investment in question at all. Under this view, the damage is equal to the capital invested less the sums recovered from the sale of the shares by the investor.

With reference to the out-of-court requests relating to the period from 2008 to 2011 and the period from 2014 to 2015 to take into account the likelihood of their conversion into legal proceedings, the funds were determined by applying an experiential factor, in line with our policy for cases similar to the requests made by counterparties. The Bank has utilized IAS 37 to omit the funds allocated to the financial statements because such information could seriously undermine its position in litigation and in negotiating settlement agreements.

On 30 June 2022, settlement agreements were reached on 31 civil disputes for a total claim of approximately €366 million. The total amount claimed in civil proceedings is €1,510 billion in total. In the out-of-court context, settlements for a total claim of €4 billion were finalized on June 30, 2022. In the first half of the year, 21 settlement agreements were reached and finalized involving information publicly disclosed for a total claim of approximately €8.1 million. Below a description of the main disputes.

*(i) Legal dispute Banca Monte dei Paschi di Siena S.p.A. / the holders of FRESH 2008*

Certain holders of FRESH 2008 Securities maturing in 2009, in a complaint notified on 15 November 2017, sued the Bank, Mitsubishi UFJ Investors Services & Banking Luxembourg SA, JP Morgan Securities PLC, and JP Morgan Chase Bank NA before the Court of Luxembourg, to: (i) establish that the Burden Sharing Decree is not applicable to holders of FRESH 2008 securities and, consequently, to determine that these securities cannot be forcibly converted into shares, (ii) establish that the securities are validly established in accordance with the terms and conditions of their issue, and (iii) state that the Bank is not entitled, in the absence of the conversion of 2008 FRESH Securities, to receive from JP Morgan a payment of €49.9 million.

The Court of Luxembourg, with an order dated 11 January 2022, rejected our requests to suspend the proceedings until the international courts have given a ruling on our objections to the Court's jurisdiction.

However, it accepted that the Court lacked jurisdiction with respect to the trust contract signed by the Bank with JP Morgan Securities PLC and JP Morgan Chase in the context of the 2008 rights offering. In relation to that contract, the Court of Luxembourg withheld judgment pending the decision of the Italian court. At the same time, it determined that it had jurisdiction with respect to the swap contract signed by the Bank with the same counterparties in the context of the 2008 rights offering.

After the proceeding began, the holders of 2008 FRESH Securities brought a complaint on 19 April 2018 in the GIP asking the court to determine that the Italian court is the only one with jurisdiction to decide on the contracts entered into between the Bank, JP Morgan Securities PLC, and JP Morgan Chase in relation to the 2008 rights offering. In response, the Bank asked the court for:

- a determination of the invalidity of the contracts providing for payments to JP Morgan Securities PLC and JP Morgan Chase Bank pursuant Decree 237 of December 23, 2016; and
- a determination of invalidity or termination of the trust agreement or termination of the trust agreement by reason of the capital deficiency of 30 June 2017.

The first hearing was held on 18 December 2018 and the GIP, in view of the prejudicial nature of the question of jurisdiction raised by the parties and the presence of a pending dispute concerning the same claim and the same pending case before the Court of Luxembourg, granted the parties time to reply only to the procedural objections and postponed until a hearing scheduled for 16 April 2019 the assessment of the merits. At the subsequent hearing on July 2, 2019, the case was held in judgment and, with an order dated 2 December 2019, the GIP ordered the proceedings to be suspended pending the decision of the Court of Luxembourg.

Against that order, the Bank made an appeal with respect to the question of jurisdiction before the Supreme Court of Italy. The Supreme Court of Italy dismissed our appeal on 31 March 2021. In view of the decision of the Court of Luxembourg of 12 January 2022, the Bank is considering bringing the action before the Court of Milan. In the event of an unfavorable outcome of the dispute, Burden Sharing cannot be applied to the 2008 FRESH Securities and, therefore, the holders of those securities will retain the right to receive the coupon thereon, provided that the Bank generates distributable profits and pays dividends. Since the Bank has not paid dividends since the Burden Sharing date, any unfavorable outcome of the litigation will have only prospective effects.

*(ii) Dispute Banca Monte dei Paschi di Siena S.p.A./ Alken Fund Sicav and Alken Luxembourg S.A.*

Through a complaint delivered on 22 November 2017, Alken Fund SICAV and Alken Luxembourg S.A. brought, the Bank and Nomura International, Mr. Mussari, Mr. Vigni, Mr. Profumo, Mr. Viola, and Mr. Salvadori before the Court of Milan. The complaint set forth:

- an allegation of liability of the Bank pursuant to article 94 of the TUF and Mr. Mussari, Mr. Vigni, Mr. Profumo, and Viola pursuant to article 2935 of the Civil Code;
- an allegation of liability of Mr. Mussari and Mr. Vigni in relation to the investments made by the funds in 2012 on the basis of false information;
- an allegation of liability of Mr. Viola, Mr. Profumo, and Mr. Salvadori in relation to the investments made by the funds after 2012; and
- an allegation of liability of Nomura pursuant to article 2043 of the Civil Code.

The court jointly and severally ordered the Bank and Nomura to compensate the plaintiffs for the loss of €423.9 million for Alken Funds SICAV and €10 million in lost management fees and reputational damages of the management company Alken Luxembourg SA. The court also held liable, jointly and severally with the Bank and Nomura, Mr. Mussari and Mr. Vigni for the damages resulting from the investments made in 2012 and Mr. Viola, Mr. Profumo, and Mr. Salvadori for the damages after 2012. The plaintiffs also asked that the defendants be ordered to pay compensation for non-property damage after the offence of false corporate communications had been established. The Bank appeared before the court asking, in the alternative, for recourse against Nomura for the rejection of opposing claims.

By separate acts of intervention, four individuals claimed total damages of approximately €0.7 million. At the hearing of 11 December 2018, the court reserved judgment with respect to the preliminary rulings raised by the parties and with respect to the objections made by the defendants. The court declared (i) the invalidity of

Alken's complaint for not specifying the dates of the relevant stock purchases and (ii) the invalidity of the prosecutor's complaint, giving the parties a deadline until 11 January 2019 to supplement the applications and remedy the deficiencies of the complaint. At the same time, the court considered Alken's claims concerning incorrect accounting of the claims to be sufficiently specific and the objection against the intervention measures was rejected. Following the additions of the parties, the defendants reiterated the objections of invalidity of the complaint and the interventions. After the initial reservation of judgment, the court, which decided that these preliminary questions should be decided together with the merits, granted the terms of instruction pursuant to article 183, paragraph 6, of the Code of Civil Procedure and postponed until the hearing on 2 July 2019 arguments on the requests. At that hearing, the Bank requested and was granted an extension until 8 July 2019, to contest the applications submitted by an intervener and the parties argued their pleadings and their petitions. With an order dated 24 July 2019, the court rejected the expert witness of Alken, determining that the case was ripe for the decision on the basis of the subjective characteristics of the plaintiff (professional investor) and Alken's transactions in the Bank shares (with purchases which continued after October 2014). At the hearing on 7 July 2020, the court rejected Alken's request to refer the case to the court for investigation and admitted the new documents produced by Alken.

On 7 July 2021, the court rejected all the requests made by the funds and ordered the funds to pay our legal fees related to the dispute. A request from an intervener was partially granted, in respect of which the Bank was ordered to pay approximately €53,000.00 jointly and severally with Nomura and partly with Vigni and Mussari.

Both the Bank and Nomura and the funds appealed against the ruling before the Court of Appeal of Milan, in which the intervener also made an appeal against the Bank. On 13 July 2022, the first hearing was held in the three pending appellate proceedings. The Court scheduled a hearing with respect to the joined cases on 5 July 2023.

(iii) Dispute York and York Luxembourg funds / BMPS, Alessandro Profumo, Fabrizio Viola, Paolo Salvadori and Nomura International plc

Through a complaint delivered on 11 March 2019, at the registered office of the Bank, the York and York Luxembourg Funds sued Banca MPS S.p.A., Mr. Profumo, Mr. Viola, Mr. Salvadori, and Nomura International PLC before the Court of Milan, section specialized in business. The complaint asked for the defendants to be sentenced jointly and severally to compensation for damages quantified in total of €186.7 million and – after an incidental finding of the crime of false corporate communications – to compensation for non-property damage to be settled in the process pursuant to article 1226 of the Civil Code, plus interest, revaluation, pursuant to article 1284, paragraph 4, of the Civil Code and compound interest pursuant to article 1283 of the Civil Code. The claims of the plaintiffs arise from the alleged losses incurred in the investment transactions of a total of €520.3 million through the purchase of shares (investment of €41.4 million by York

Luxembourg) and through derivatives (investment of €478.9 million from York Fund). Losses are quantified by the plaintiffs as totaling €186.7 million.

The relevant investments challenged would have been made in March 2014, when Mr. Viola and Mr. Profumo respectively served as Chief Executive Officer and Chairman of the Bank. The plaintiffs allege that our top management behaved illegally, which would have resulted in misstatements in our financial statements and would have significantly altered the perceived value of the securities we issued.

The first hearing, originally scheduled for 29 January 2020, was postponed to 4 February 2020. The Bank has duly appeared before the court and on 3 February 2020, the parties filed pleadings of inquiry and, at the next hearing, discussed their respective requests, on the admission of which the court reserved the right to act. At the hearing of 15 July 2022, the Court of Milan: (i) declared the evidence requested by York, Nomura, Mr. Profumo, and Mr. Viola inadmissible and (ii) referred to the college – upon the outcome of the decision on causation – the assessment of the need to set up the court-appointed expert as requested by York. The case was postponed to 23 November 2023.

(iv) Banca Monte dei Paschi di Siena S.p.A./Caputo + 24 other names

Through a complaint dated 4 December 2020, Mr. Giuseppe Caputo and 25 other persons (which became 24 following the death of one of the plaintiffs) sued the Bank before the Court of Milan to challenge the investments made by the Bank in connection with the previous rights offering (i.e. through purchases on the telematics-secondary market between 2014 and 2015). The plaintiffs complain that they were damaged by misrepresentations spread on the market by the Bank (here referring, *inter alia*, to the criminal proceeding R.G.N.R. 29634/14, concluded at first instance by ruling 13490/2019, and the criminal proceeding R.G.N.R. 955/16, concluded at first instance by ruling 10748/2020). The plaintiffs also complain of misvalued impaired loans from the 2013 financial statements (i.e., criminal proceeding 33714/16 under investigation at the Court of Milan). They also allege that we have engaged in unfair business practices, made investments in diamonds, maintained a completely unreasonable business plan, and maintained a non-compliant business organization.

The plaintiffs therefore requested full compensation for the damages suffered, which they estimated to be the full consideration paid for the purchase of the Bank shares (i.e., approximately €25.8 million) as well as compensation for non-pecuniary damage to be settled pursuant to article 1226 of the Civil Code. Following the first hearing, the parties lodged their pleadings and, at the next hearing, discussed the pleadings submitted by the lead plaintiff. Subsequently, the court determined that it had to refer the case to the lower court in order to define the dispute or to pursue further details on the matter. It therefore scheduled a hearing for 4 November 2022 with the purpose of clarifying the pleadings in response. In that hearing, the Bank, in addition to specifying the conclusions, asked for the assignment of the terms pursuant to art. 190 c.p.c. for the filing of concluding briefs and replies with an application for remittance, in order to deposit documents.

(B) Out-of-Court Restitution of Sums or Damages Claims by Banca Monte dei Paschi di Siena S.p.A. investors and shareholders regarding Financial Information Released in the 2008-2015 Period

With respect to the rights offering and financial reporting of certain transactions contained in the financial statements, reports, and price sensitive information from 2008 to 2011, out-of-court requests for a claim of €574 million were made against Bank on June 30, 2022, excluding those converted into judicial proceedings.

For some of these out-of-court requests, dated 3 August 2022, we received notice of a claim for a total amount of €741 million, which includes claims raised in the out-of-court requests to the Bank during 2017 for a total amount of €522 million.

This request was assessed for the purposes of the abbreviated half-yearly consolidated financial statements. Although notified after 30 June 2022, it provides evidence of situations existing at the date of the Interim Financial Statements. The request relates to transactions concluded with the plaintiff in the first months of 2012 and for which, as set out below, the losing risk will be reassessed in view of the analysis of the rationale, when available, of the acquittal judgment given to all defendants by the Court of Appeal of Milan.

These requests are in addition to out-of-courts requests related to the 2014 and 2015 rights offerings claim, as of 30 June 2022, of approximately €1.191 billion, excluding those converted into judicial proceedings. The total amount claimed as of June 30, 2022 was approximately €1.8 billion.”

- E. The paragraph titled “10.2.4 *Disputed relating to securities subject to the Burden Sharing*” on pages 226 and 227 shall be deleted in its entirety and replaced by the following paragraph:

**“10.2.3 Disputes relating to securities subject to the Burden Sharing**

As of 30 June 2022, the overall *petitum* for such disputes amounted to Euro 37,5 million for which provisions for risks and charges of Euro 16,5 million have been set aside.

It should be highlighted that, for part of the litigation, the plaintiffs are no longer holders of the securities as they sold the securities prior to the entry into force of Decree 237. It should also be noted that the opposing parties’ objections are focused on the alleged lack of any notice and/or on the breach of the applicable legislation as in any other “similar” case concerning financial matters commenced against the Bank. Indeed, the plaintiffs claimed misselling occurred, i.e. distributing 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.”

- F. The paragraph titled “10.2.5 *Disputes deriving from ordinary business*” on page 227 of the Base Prospectus shall be renumbered as “10.2.4”.
- G. The following paragraph shall be added below the paragraph titled “10.2.4 *Disputes deriving from ordinary business*” on page 228 of the Base Prospectus:

**“10.2.5 Civil disputes arising in connection with the ordinary business of the Issuer**

Below are listed the most relevant proceedings in terms of the *petitum* and the state of the case.

*(A) Civil dispute brought by Fatrotek S.r.l. before the Courts of Salerno*

This case, where the Bank was sued together with other credit institutions and companies with the summons of 27 June 2007, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The relative claim amount is Euro 157 million. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Bank’s defence was based on the fact that the company’s extremely severe financial situation fully justified the Bank’s initiatives.

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon the lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy again took up the case. The proceedings were adjourned first to the hearing on 4 December 2019 and then to the hearing on 13 February 2020, where a court-appointed expert investigation was ordered and an expert witness was appointed. At the hearing of 25 November 2020 an extension was granted to the expert witness for the filing of the expert opinion and the case was postponed to 5 May 2021.

At this hearing, the Court set a deadline for the expert witness to respond to the objections made by the plaintiff and at the same time scheduled the hearing for the closing arguments for 4 November 2021. At this hearing the case was held for decision with the granting of the legal terms for the exchange of the final statements and the reply briefs.

*(B) Civil disputes instituted by Riscossione Sicilia S.p.A. and the Assessorato of Economy*

of Sicily before the Courts of Palermo

Through the complaint received on 15 July 2016, Riscossione Sicilia S.p.A. (today the Agenzia delle Entrate-Riscossione (“ADER”), which has been the universal successor in all the Riscossione Sicilia S.p.A. legal relationships since 1 October 2021, pursuant to article 76 of the Legislative Decree 73/2021 converted into Law 106/2021) notified the Bank that it had brought an action before the Court of Palermo seeking an order to pay the total sum of €106.8 million.

The claim of Riscossione Sicilia S.p.A. referred to in the complaint is framed within the complex relations between the Bank and the plaintiff company, which derive from the sale of Riscossione Sicilia S.p.A. (pursuant to Legislative Decree 203/2005 converted into Law 248/2005) of the participation already held by the Bank in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.). An *ex officio* technical advice was used during the trial phase, in which the results were favorable to the Bank. Indeed, the CTU not only concluded that nothing was due by the Bank to Riscossione Sicilia S.p.A., but also identified a credit to the Bank of approximately €2.9 million as the balance of the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Bank (dated September 2006), a sum which so far had been withheld by Riscossione Sicilia S.p.A. as a guarantee deposit. By ruling 2350/22, lodged on 30 May 2022, the Court of Palermo, in substantial agreement with the conclusions of the *ex officio* technical advice, rejected the applications submitted by Riscossione Sicilia S.p.A. and ordered the latter to pay the Bank the sum of approximately €2.9 million in addition to legal interest and the court proceedings’ fees.

On 17 July 2018, the Department of Economy of the Region of Sicily notified the Bank of an order of injunction pursuant to article 2 of the Regional Decree 639/1910 and restitution pursuant to article 823, paragraph 2, of the Civil Code of the sum of € 68.6 million, giving the Bank a period of 30 days to make the payment with the warning that, in the absence thereof, it would proceed with the compulsory registration.

The Region of Sicily brought a claim against Riscossione Sicilia S.p.A., with the consequent deferral of the first hearing of appearance, held on 26 September 2019, at which the court, having taken note of the statements made by the parties, granted the time limits for the filing of pleadings pursuant to article 183 of the Civil Code and referred the case to the hearing on 26 November 2020. On that occasion, the Bank requested the setting of the hearing with the purpose of clarifying the conclusions, requesting the Court to establish that the dispute had ceased to exist because Riscossione Sicilia S.p.A., during the proceedings, had proved that the claim by the Region of Sicily had been fully written off. By ruling 3649/2021, published on 4 October 2021, the Court of Palermo dismissed our opposition to the revised order and ordered the Bank to pay the dispute’s fees. Against that decision, the Bank appealed to the Court of Appeal of Palermo to suspend the provisional enforceability of the order and the judgment of the first instance. The Court of Appeal of Palermo by order dated 21 December 2021, dismissed the application for a suspensive measure by deferring the appeal to the first-appearance hearing on 11 February 2022, for processing. By order lodged at the same time, the Court of Appeal ordered the adversarial procedure to be incorporated in respect of ADER, as successor to Riscossione Sicilia S.p.A., by setting the new appearance for the collegiate hearing on 1 July 2022, in the context of which the case was referred to the hearing on 22 November 2024, with the purpose of clarifying their pleadings. If the Bank, having confirmed the enforceability of the order, makes payment of the amount of approximately €68.6 million which is the subject of the dispute in response to the request of the Region of Sicily, it is entitled to request from the *Agenzia delle Entrate-Riscossione*, as the universal successor of Riscossione Sicilia S.p.A., a payment of the same amount.

In response to the confirmation of the enforceability of the order by the court, the Region of Sicily issued a tax bill for €68,573,105.83, for a total amount of €71,333,215.61 (including €2,077,682.91 for tax collection charges) for which the Agenzia delle Entrate-Riscossione notified the Bank of a payment notice on 21 September 2022. Against this notice, the Bank will

claim the sum of €68,573,105.83, to Agenzia delle Entrate-Riscossione, against which the Bank is entitled to claim as universal successor of Riscossione Sicilia.

The Bank has also brought before the regional administrative Court of Sicily, seat of Palermo, an application for administrative judgment for the declaration of invalidity or annulment of the order of injunction pursuant to article 2 of the Regional Decree 639/1910 published by the department on 17 July 2018.

The application relates to an appeal against injunction which, “alternatively, pursuant to article 823, paragraph 2 of the Civil Code, orders to the Bank, within the same period of 30 days from the receipt of this letter, to pay back to the Region of Sicily the amount of €68,573,105.83, in addition to interest on the basis of the special legislation for late payment in commercial transactions, pursuant to article 1284, paragraph 4 of the Civil Code”.

Following service of the application on 16 October 2018, the application was lodged by the Bank on 12 November 2018. The Department appeared as a party through the state advocate on 15 November 2018. The order setting the hearing requested by the Bank is expected to be filed on 28 October 2019.

(C) Civil Case brought by Marcangeli Giunio S.r.l.

Through a complaint delivered on 28 November 2019, Marcangeli Giunio S.r.l. requested, primarily to the Court of Siena, to ascertain our contractual liability for not providing financing of €24.2 million for a development project and, consequently, that the Bank be ordered to pay compensation for damages amounting to €43.3 million. In the alternative, in view of the facts abovementioned, the plaintiff requested that the pre-contractual liability of the Bank be established for having interrupted the negotiations with it and failed to provide the financing agreed, and the Bank be sentenced to compensate the plaintiff for damage in respect of the same amount as the principal claim.

By judgment lodged on 6 June 2022, the Court of Siena dismissed the claims for damages under contractual and non-contractual liability submitted by the plaintiff company. The court only accepted the restitution application submitted by the counterparty in respect of alleged illegal interest charged in respect of the advances in the land, quantified at €58,038.27 plus legal interest, by offsetting the costs. The deadline for filing any appeal is 7 January 2023. Our willingness to acquiesce and comply with the decision has already been expressed to legal counsel for the plaintiff.

(D) Civil Case brought by Nuova Idea S.r.l.

Through a complaint delivered on 21 December 2021, Nuova Idea S.r.l. sued the Bank before the Court of Caltanissetta for the purpose of establishing liability for damages, both property and non-property, suffered by the plaintiff as a result of our protest against a bill of exchange of €2,947 held by our subsidiary, for which we are allegedly exclusively responsible.

In particular, the plaintiff argues that our illegitimate protest against the bill of exchange led to a series of events described in the complaint which resulted in a clear reduction of the plaintiff's participation in a temporary grouping of undertakings awarded service contracts with ASL Napoli 1 Centro. Therefore, the plaintiff calls, primarily, for the court to order the Bank to pay a total claim of €60.1 million for lost earnings, in addition to compensation for damage to the corporate image and the commercial reputation to be paid off on an equitable basis.

The first-appearance hearing, set forth in the complaint dated 29 April 2022, was postponed to 4 May 2022. The Bank appeared before the court and argued that its protest was legitimate and there was no causal link between our actions and the alleged damage. At the hearing on 4 May 2022, the court reserved judgement on the requests and objections made by the parties and subsequently granted the parties time limits for the lodging of pleadings of inquiry by referring the case to a hearing on 29 March 2023.”

- H.** The seventh outline of sub-paragraph “(B) *Civil disputes instituted by Riscossione Sicilia S.p.A. and the Assessorato of Economy of Sicily before the Courts of Palermo*” under paragraph titled “*Civil disputes arising in connection with the ordinary business of the Issuer*” on page 229 of the Base Prospectus shall be deleted in its entirety and replaced by the following:

“With Ruling no. 3649/2021, published on 4 October 2021 and notified on 5 October 2021, the Court of Palermo rejected the Bank’s objection to the aforementioned judgement and ordered this to pay legal expenses. The Bank filed an appeal against this ruling before the Court of Appeal of Palermo, requesting the suspension of the provisional enforceability of the injunction order and the first instance ruling. The Court of Appeal of Palermo, with order dated 21 December 2021, rejected the suspension request, referring the discussion of the appeal to the hearing of first appearance on 11 February 2022. By order filed on the same date, the Court of Appeal ordered the integration of the cross-examination against the ADER, as successor of Riscossione Sicilia S.p.A., ordering it to appear at the hearing scheduled for 1 July 2022. Given the confirmation of the enforceability of the order of injunction, if the Bank proceeds with the payment of the roughly EUR 68.6 mln under dispute in response to the request of the Sicily Region, it is entitled to demand the payment of the same amount from the ADER, as the universal successor of Riscossione Sicilia S.p.A..”

- I.** The following sentence shall be added at the end of the sub-paragraph titled “(D) *Action brought by Procedura Amministrazione Straordinaria Impresa S.p.A.*” on page 230 of the Base Prospectus:

“This dispute is not reported in the 2021 Consolidated Financial Statements as, according to the Issuer’s evaluations, the risk of losing the case has been classified as remote”.

- J.** The sub-paragraph titled “(E) *Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code*” on pages 230 and 231 of the Base Prospectus shall be deleted in its entirety and replaced by the following:

“(E) *Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code*

During 2021, five complaints were lodged to the Board of Statutory Auditors pursuant to article 2408 of the Civil Code, the content of which, the initiatives taken by the supervisory body and the results thereof, are detailed in the statutory reports to shareholders’ meetings convened for the approval of the 2020 Consolidated Financial Statements and 2021 Consolidated Financial Statements, pursuant to article 2429, paragraph 2, of the Civil Code and article 153, paragraph 1 of the Consolidated Finance Act.

The Board of Statutory Auditors (as a result of its verifications and investigations) confirmed that the grounds of dismissal set out in the complaints of 31 March 2021 and 3 April 2021 were unfounded, since it did not detect the right of minority shareholders to deliberate informed as being affected.

To the best of the Board of Statutory Auditors’ knowledge, no further complaints pursuant to article 2408 of the Civil Code were received from 3 April 2021 until 24 November 2022.”

- K.** The sub-paragraph titled “(F) *Anti-money laundering*” on page 231 of the Base Prospectus shall be deleted in its entirety and replaced by the following:

“(F) *Anti-money laundering*

As at 30 June 2022, 27 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 3.4 million (rounded), of which Euro 1.7 (rounded) has already been paid. The total amount collected for the positive outcome of the subsequent degrees of such opposed monetary sanctions is equal to Euro 0.2 million (rounded).

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 authority and/or other competent authority. The upholding of the Bank's position may entail the avoidance by the judicial authority 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 30 June 2022, 45 administrative proceedings are pending in addition to the abovementioned proceedings in respect of which the opposition proceedings are in progress and are instituted by the competent authorities for the alleged violation of the anti-money laundering regime. The overall amount of the *petitum* (the maximum amount of the applicable penalties) related to the abovementioned administrative proceedings is equal to Euro 0.95 million (rounded)."

L. The paragraph titled "10.2.7 Labour disputes" on pages from 231 to 233 shall be amended as follows:

- the second and the third sub-paragraphs shall be deleted in their entirety and replaced by the following sub-paragraphs:

"As at 30 June 2022, the overall *petitum* relating to the passive labour proceedings is equal to Euro 91.3 million (Euro 81.8 million as at 31 December 2021) almost entirely relating to the Bank.

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 contained within the "provision for risks and charges" which amounts to Euro 43.5 million (rounded) as at 30 June 2022 (Euro 33.9 million as at 31 December 2021) which almost entirely relates to the Bank."

- the ninth, the tenth, the eleventh and the twelfth sub-paragraphs on pages from 232 to 233 shall be deleted in their entirety and replaced by the following sub-paragraphs:

"Finally, it should be noted that during 2017, 52 employees of Fruendo S.r.l. (reduced to 32 employees during the course of the proceedings), which are not among those involved in the proceedings relating to the transfer of the branch, sued the Bank before the Courts of Siena in order to request the continuation of their employment relationship with the Bank, after having declared the unlawful interposition of manpower (*illecita interposizione di manodopera*) (which has no criminal implications) as part of the services outsourced by the Bank to Fruendo S.r.l.. On 26 January 2019, the Courts of Siena ruled in favour of the Bank, rejecting the appeals filed by the other parties. Only 16 employees (reduced to 14 employees after individual agreements) appealed before the Court of Appeal of Florence which, on the other hand, established the illegality of the contract by ordering the release to service which was given effect from 1 March 2022.

It is worth noting that in the event the illegitimacy of the transfer of the employment relationship pursuant to article 2112 of the Italian Civil Code is ascertained, the Supreme Court, with reference to the remuneration obligation of the transferor, has recently ruled in a different way in relation to the approach that has been consolidated over time before

the Supreme Court itself. In fact, with recent rulings, it has been held that the transferor employer bears the remuneration obligation in addition to that fulfilled by the transferee employer, since the principle of the liability discharge of the executed payment made by the latter does not apply to the present case.

Due to this amended jurisprudential opinion (so-called “double remuneration”), as at 31 October 2022 214 employees, involved in the transfer of the branch and recipients of the judgments in their favour, have sued the Bank in order to claim the due remuneration. The legal proceedings have been brought before the Courts of Siena, Mantova and Roma with hearings scheduled between November 2022 and December 2023.

Noting the change of law on the “double remuneration” topic and verified the increasing number of judgements that differ from the previous consolidated approach, it has been decided, on a prudential basis, to allocate to the provision for risks and charges the company’s cost relating to remunerations requested in court (equal to Euro 23 million (rounded) as at 31 December 2021 and Euro 33 million (rounded) as at 30 June 2022), in addition to a lump sum for out-of-court claims received to date (equal to Euro 5 million (rounded) as at 31 December 2021 and Euro 4 million (rounded) as at 30 June 2022).”

**M.** The paragraph titled “*10.2.8 Sanctioning procedures – (I) Consob and Bank of Italy*” shall be amended as follows:

- The third, the fourth and the fifth sub-paragraphs on page 233 of the Base Prospectus shall be deleted in their entirety and replaced by the followings:

“With regard to the sanctioning procedures falling within the competence of the Bank of Italy, during 2020 the Bank of Italy started a sanctioning proceeding against the Bank with respect to the alleged breach of banking transparency provisions.

On 11 August 2020, the Bank transmitted to the Bank of Italy its observations with regard to the audit report and its response to the decision to initiate the sanctioning procedure. At the same time a new remedial action plan was activated and completed by 31 December 2020, for which a follow-up plan was created. As a result of such remedial actions, the Bank refunded customers for a total amount of approximately Euro 40 million, of which approximately Euro 4.6 million refer to sums made available by means of a notice published in the Official Gazette of the Republic of Italy and in two national newspapers.

On 3 May 2021, the Bank was imposed a pecuniary administrative sanction of Euro 2.9 million pursuant to art. 144 of the Italian Consolidated Banking Act.”

- The eleventh, the twelfth and the thirteenth sub-paragraphs on page 234 of the Base Prospectus shall be deleted in their entirety and replaced by the following sub-paragraph:

“These activities and the related jurisprudential orientation could influence the duration of proceedings and decrease the possibility of recovery of the sums paid. With regard to the individuals who have benefited from the suspension of the recourse action and have brought the relevant appeals, it appears that various proceedings against the sanction by the sanctioned persons are still in progress at the various levels of judgment, according to what has been disclosed to the Issuer by the various individuals involved due to the fact that the Bank is not a party to the aforementioned proceedings. It should also be noted that, over the years, a number of sanctioned individuals have died and some of the measures have also been challenged before the European Court of Human Rights after the rulings issued by the Supreme Court.”

**N.** The sub-paragraph titled “*Proceedings PS 10678 of the AGCM violations of the Consumer Code in the sale of investments diamonds*” under paragraph titled “*10.2.8 Sanctioning*”

*procedures – (II) Competition and Market Authority (“AGCM”)*” on pages 235 and 236 of the Base Prospectus shall be deleted in its entirety.

- O. The paragraph titled “10.2.10 Administrative offences pursuant to Legislative Decree 231/2001 challenged in relation to the sale of investment diamonds based on alleged self-laundering crime (article 648-ter of the Italian Criminal Code)” on pages 238 and 239 shall be deleted in its entirety and replaced by the following paragraph:

**“10.2.10 Administrative offences pursuant to Legislative Decree 231/2001 challenged in relation to the sale of investment diamonds based on alleged self-laundering crime (article 648-ter of the Italian Criminal Code)**

On 19 February 2019, the Bank was notified by the office of the GIP of the Court of Milan of a prior seizure order concerning this matter. The decree was issued to a large number of natural persons, two diamond companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A. (“DPI”)), and five banking institutions, including the Bank, and led to the prior seizure order related to the profit of a continuing aggravated scam offence of €35.5 million. A prior seizure order was also made pursuant to article 53 of 231 Model of €0.2 million for the offence of self-money laundering.

On 6 April 2021, the public prosecutor’s office to the Court of Milan issued a request for referral to court against 110 persons, including five managers – four of whom are no longer in service – and eight branch managers, in connection with aggravated and continued fraud offences and, concerning only five managers, in connection with the use of money (self-money laundering). The Bank was charged with an administrative offence pursuant to articles 5 and 25-octies of the 231 Model in relation to the offence of self-money laundering pursuant to article 648-ter 1 of the Criminal Code.

At the hearing held on 20 December 2021, preliminary questions were discussed and at the subsequent hearing held on 21 January 2022, the GUP accepted the question of regional incompetence raised by the parties, removing the proceeding from the jurisdiction of the Ambrosian court and providing for the transmission of documents:

- to the public prosecutor of Rome, with respect to the allegations of fraud against the representatives of the DPI and the Bank (as well as the employment and money laundering cases concerning the accused representatives of DPI); and
- to the public prosecutor of Siena, regarding the allegations of money laundering against the management of the Bank and the corresponding administrative offence, contested by the Bank in its request for referral to trial.

On 8 June 2022, in the context of this new procedure in Siena, the public prosecutor issued the notice of conclusion of the preliminary hearings and the simultaneous notice of guarantee towards 4 former managers and a sole manager, still in service, already involved in the main proceedings in Milan, for the offence of self-money laundering pursuant to articles 81, 110, and 648-ter 1 paragraph 1, 2 and 5 of the Criminal Code. The notice confirmed that the Bank has been charged in connection with the administrative offence pursuant to articles 5, paragraph 1, lett. b) and 25-octies of the 231 Model.

On 23 February 2022, the Court of Siena, and on 10 March 2022, the Court of Rome – GIP Office, ordered the validation of the prior seizure order of €0.2 million, issued against the Bank for the administrative offence pursuant to article 25-octies of the 231 Model in relation to article 648-ter 1 of the Criminal Code (money laundering), and €35.5 million for the fraud crime.

On 16 June 2022, the public prosecutor of Rome, following a specific application filed by the Bank, ordered the release of the abovementioned sum of €35.5 million. On 12 September 2022, the Public Prosecutor’s Office of Siena, with reference to the criminal proceeding concerning the offences of self-money laundering, filed a request for dismissal against the individuals (4

former managers and the only manager in service), investigated for self-money laundering as well as ordered the dismissal of the Bank as administratively liable party.

The revocation of the prior seizure order of €0.2 million in connection with the self-money laundering offence pursuant to 231 Model was also ordered. The order of dismissal against the Bank was forwarded to the Attorney General of the Court of Appeal of Florence, pursuant to Article 58 of 231 Model, while the GIP will rule on the request for dismissal made against the individuals.

With regard to the Bank's sale of diamonds, further criminal proceedings have been instituted before the public prosecutor's office at the Milan court for offences of aggravated fraud, money laundering, and obstacles to the exercise of the functions of public supervisory authorities. On 28 September 2021, the public prosecutor made a request that seven former managers (including five in the main line) and the Chief Executive Officer and General Director *pro tempore* of the Bank, stand trial.

The preliminary hearing was scheduled for 30 September 2022, but was rescheduled to 25 January 2023 for the possible filing of civil parties. In this new proceeding, the Bank is not involved as an administratively liable party pursuant to 231 Model. In response to the initiatives taken, the Bank has made provisions which take into account, *inter alia*, the projection of expected claims and the wholesale current value of the diamonds to be repurchased.

On 30 June 2022, 12,412 claims were received for a total equivalent of approximately €316 million. Settled claims totaled approximately €315 million (of which €1 million during the first half of 2022, which were the subject of specific provisions for the value of the transactions carried out, net of the market value of the diamonds from the provisions for risks and charges taken in the previous years). These represent 91.5% of the total volume of the diamond offers that have been reported to the Bank. The funds for residual risks and charges recognized under the payment initiative amounted to €4.8 million on 30 June 2022.

As of 30 June 2022, the diamonds to be repurchased were registered for a total value of €75.2 million.”

- P. The paragraph titled “10.2.11 Tax Disputes” on pages from 239 to 241 shall be deleted in its entirety and replaced by the following:

**“10.2.11 Tax disputes**

The Bank and the main group companies are involved in a number of tax disputes. As at 30 June 2022 approximately 1,740 cases are pending, for a total amount at a consolidated level of Euro 79.5 million (rounded) for taxes, sanctions and interests set out in the relevant claim (of which Euro 75.9 million relate to the Bank). The value of disputes also include that associated with tax verifications closed for which no dispute is currently pending since the tax authority has not yet formalised any claim or contention.

In relation to pending tax disputes, which are associated with “likely” unfavourable outcomes, as at 30 June 2022 the Bank allocated to the overall provision for risks and charges an amount equal to Euro 12.10 million (rounded).

Please find below an overview of the most significant pending proceedings in terms of the *petitum* (over Euro 5 million for taxes and penalties), and the main investigations in progress.]

(A) Revaluation of substitute tax

Following a tax audit carried out during 2011, the Italian Tax Authority alleged that the merged MPS Immobiliare S.p.A. made an incorrect determination of the basis for calculating the substitute tax on the redemption balance of the monetary revaluation for the 2006 tax period. The resulting contingent liability (i.e., taxes and penalties) amounted to approximately Euro 31 million. In response, we have disputed the claim. The dispute is currently pending before the Italian Supreme Court despite the fact that the reasons put forward by us have prevailed in both

the trial and appellate court. As a consequence of the circular letter no. 6/E issued on March 1, 2022 by the Italian Tax Authority, in which the same acknowledged the existence of several court opinions unfavorable to their position with respect to the tax claim under analysis, certain discussions are currently underway with the Italian Tax Authority, in order to obtain the waiver of the tax claim and a resolution of the dispute.

The risk of a negative outcome was classified as remote by the company and its advisors.

*(B) Deductibility and pertinence of some costs of the former consolidated company Prima SGR S.p.A.*

The Bank is party to litigation brought by Anima SGR S.p.A. (which, at the time of the relevant events, was a shareholding of the Bank) in relation to tax claims brought by the Italian Revenue Agency, Regional Department of Lombardy against Prima SGR S.p.A. (already adhering to the tax consolidation, subsequently merged into Anima SGR S.p.A.). The tax claims related to non-compliance with the accrual principle of certain costs, considered also not pertaining to the business, deducted in the fiscal years 2006, 2007 and 2008. The Italian Revenue Agency has assessed Euro 20.6 million in total for taxes and penalties as follows: (i) for fiscal year 2006, taxes of approximately Euro 4.3 million and penalties of approximately Euro 5.1 million; (ii) for fiscal year 2007, taxes of approximately Euro 2.8 million and penalties of approximately Euro 3.6 million; (iii) for fiscal year 2008, taxes of approximately Euro 2.1 million and penalties of approximately Euro 2.7 million.

With respect to this matter, two separate proceedings are currently pending before the Italian Supreme Court: (i) one proceeding related to the fiscal year 2006 (brought by the Italian Revenue Agency against the appellate court judgment in favor of the company) and (ii) one related to the fiscal years 2007 and 2008 (brought by the company against the appellate court judgment in favor of the Italian Revenue Agency). As a consequence of partial cancellation stemming from an internal review of the tax claims by Italian Revenue Agency and the payment of taxes in relation to a tax claim that was accepted by the company, the overall amount at issue has been reduced from Euro 20.6 million to Euro 18.8 million.

In the opinion of the Bank and its advisors, a negative outcome is probable as to a portion of the claim amounting to approximately Euro 1.8 million and possible as to a portion of the amounting to approximately Euro 17 million.

*(C) Tax disputes involving the former consolidated company AXA MPS Assicurazioni Vita in respect of the securities held thereby in Monte Sicav*

The Bank is party to litigation initiated by AXA MPS Assicurazioni Vita S.p.A. in relation to tax claims brought by the Italian Revenue Agency, Regional Department of Lazio. The claims related to the tax treatment of the write-downs carried out in respect of the shares held in Luxembourg's SICAV Monte SICAV. The Regional Department of Lazio assessed higher taxes and penalties amounting to Euro 26.2 million (plus interest) against the company, for fiscal year 2004.

The IRES dispute was settled on a favorable basis by AXA MPS Assicurazioni Vita S.p.A. pursuant to the Legislative Decree 119/2018 (“**Fiscal Peace**”) for Euro 11.6 million. The IRAP dispute was settled by the Italian Supreme Court, which dismissed the company's appeal on December 12, 2019.

The same applies to the fiscal year 2003, in respect of which the Italian Revenue Agency contested the full deductibility, for IRPEG (corporate income tax) and IRAP purposes, of the value adjustments entered by AXA MPS Assicurazioni Vita S.p.A. and relating to Monte SICAV securities. This dispute was settled by the Italian Supreme Court, which dismissed the company's appeal on July 26, 2019. The total liability arising from the litigation amounts to approximately Euro 7.5 million (plus interest). With regard to the tax disputes, the Bank is liable due to the guarantee clauses contained in the contracts for the sale of AXA MPS Assicurazioni Vita S.p.A.. In this respect, during 2020, AXA Mediterranean Holding S.A. made a claim for

approximately Euro 8.2 million and reserved the right to request additional sums as a result of any subsequent events that would increase the damage related to the tax disputes. The Bank responded to the request by challenging most of the amounts that make up the total amount claimed.

In the Bank and its adviser's view, a negative outcome is probable as to a portion of the claim amounting to approximately Euro 6.6 million and remote as to a portion of the claim amounting to approximately Euro 1.6 million.

*(D) IRAP assessment for tax year 2015*

Following a tax audit concluded in 2018, the Italian Revenue Agency served the Bank with a notice of assessment for IRAP purposes for the fiscal year 2015. In the notice, the Italian Revenue Agency challenged the non-taxation of certain revenue accounted in the financial statements. The Bank appealed the notice of assessment, the total claim of which was approximately Euro 8 million (Euro 3.9 million in taxes, Euro 3.5 million in penalties and Euro 0.6 million in interest) before the competent tax court. On 18 January 2022, the initial tax claim was subsequently revised by the Italian Revenue Agency stemming from an internal review thereby cancelling all claims for additional tax, penalties and interests and reduced the tax claim to Euro 3.9 million. On 23 June 2022, the court issued a ruling partially unfavorable to the Bank, accepting only part of the appeal (for an amount of Euro 0.4 million) and rejecting the other petitions. The time limits for filing the appeal are pending.

In the Bank and its adviser's view, the likelihood of a negative outcome is possible.”

- Q. Below the last sub-paragraph of paragraph titled “*10.3.1 Court of Siena, criminal proceeding Nr. 2112/17*” on pages 242 and 243 the following sub-paragraph shall be added:

“At the hearing on 5 October 2021, preliminary questions were raised and the Court, after rejecting all questions, declared the hearing open. For the sake of completeness, it should be noted that, on 22 February 2022, was executed the agreement between BMPS and the receiver of the the bankruptcy, which settled the dispute as an amicable settlement. The Trustee of the Bankruptcy will withdraw the claim against the defendants of BMPS (and not also against Mr. Massimo Mezzaroma), with the consequent exclusion of BMPS from the criminal proceeding as the party responsible under civil law.”

## MANAGEMENT OF THE BANK

The section “*Management of the Bank*” on pages from 243 to 252 of the Base Prospectus is deleted in its entirety and replaced by the following:

### “MANAGEMENT OF THE BANK

The Bank is managed by a board of directors tasked with strategic supervision. The Board of Directors in office consists of 15 members. 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.

Each Director and Statutory Auditor shall meet the requirements provided for by the applicable laws and BMPS’ by-laws.

### Board of Directors

The Ordinary Shareholders’ Meeting of the Bank held on 18 May 2020 appointed the following members to the Board of Directors for financial years 2020, 2021 and 2022 (save for what mentioned in notes (1) and (2) below):

	Name	Position	Place and date of birth	Main activities outside the Bank, deemed significant
1.	Patrizia Grieco (*)	Chairperson	Milano, 1 February 1952	Director of Ferrari N.V. Director of Amplifon S.p.A. Member of the Italian Corporate Governance Committee Chairperson of Assonime (Associazione per le società italiane per azioni)
2.	Luigi Lovaglio (1)	Chief Executive Officer and General Manager	Potenza, 4 August 1955	
3.	Francesca Bettio (**)	Deputy Chairperson	Piove di Sacco (PD), 1 October 1950	
4.	Rita Laura D’Ecclesia (**)	Deputy Chairperson	Foggia, 30 September 1960	Chairperson of the Board of Directors of Lumen Ventures SIS S.p.A.
5.	Luca Bader (**)	Director	Milano, 18 May 1974	Director of Decode39 S.r.l. Chairperson of the Board of Atlantic Consulting S.r.l.
6.	Alessandra Giuseppina Barzaghi (**)	Director	Giussano (MP), 29 April 1955	

	<b>Name</b>	<b>Position</b>	<b>Place and date of birth</b>	<b>Main activities outside the Bank, deemed significant</b>
7.	Marco Bassilichi (*)	Director	Firenze, 3 October 1965	Deputy Chairperson of the Board of Base Digitale Group S.r.l. Director of ITH S.p.A. Deputy Chairperson of Mercury B Capital Limited
8.	Francesco Bochicchio (**)	Director	Roma, 19 August 1956	Chairperson of the Supervisory Committee of Cassa di Risparmio della provincia di Chieti - Carichieti S.p.A., company under compulsory administrative liquidation ( <i>"Liquidazione coatta amministrativa"</i> )
9.	Rosella Castellano (**)	Director	Catania, 27 June 1965	
10.	Stefano Di Stefano (2)	Director	Casoli (Chieti), 5 May 1960	Member of the Supervisory Board of STMicroelectronics Holding N.V. – STH
11.	Paola De Martini (**)	Director	Genova, 14 June 1962	Director of Renergetica S.p.A. Director of Octo Telematics Italia S.r.l.
12.	Raffaele Di Raimo (**)	Director	Roma, 3 June 1965	
13.	Marco Giorgino (**)	Director	Bari, 11 December 1969	Director, Member of Audit and Risk, Corporate Governance and Sustainability Committee and Chairperson of Related Parties Committee of Terna S.p.A. Director of RealStep SICAF Standing Auditor of Luce Capital S.p.A.
14.	Nicola Maione (**)	Director	Lamezia Terme (CZ), 9 December 1971	Expert member of the Monitory Committee ( <i>"Comitato di Sorveglianza"</i> ) of Bernardi Group S.p.A. Expert member of the Monitory Committee ( <i>"Comitato di Sorveglianza"</i> ) of Go Kids S.r.l.



Name	Position	Place and date of birth	Main activities outside the Bank, deemed significant
			Expert member of the Monitory Committee (“ <i>Comitato di Sorveglianza</i> ”) of Nuova Sofia S.r.l.
			Expert member of the Monitory Committee (“ <i>Comitato di Sorveglianza</i> ”) of Tinos S.r.l.
			Chairperson of the Supervisory Board (“ <i>Organismo di Vigilanza</i> ”) of SAT Società Autostrada Tirrenica S.p.A.
			Chairperson of the Supervisory Board (“ <i>Organismo di Vigilanza</i> ”) of RAV Raccordo Autostradale Valle d’Aosta S.p.A.
			Chairperson of the Supervisory Board (“ <i>Organismo di Vigilanza</i> ”) of STIMB Società Italiana per Azioni per il Traforo del Monte Bianco
			Chairperson of the Supervisory Board (“ <i>Organismo di Vigilanza</i> ”) of Società Tangenziale Napoli S.p.A.
15.	Roberto Rao (**)	Director	Roma, 3 March 1968

(\*) *Independent director pursuant to the Consolidated Finance Act.*

(\*\*) *Independent director pursuant to the by-laws (Consolidated Finance Act and the Corporate Governance Code for Listed Companies).*

(1) *Executive Director, appointed by the Board of Directors on 7 February 2022 as Chief Executive Officer and General Manager, after co-option pursuant to Article 2386 of the Italian Civil Code to replace the resigning director Olga Cuccurullo. The Director was confirmed in the position by the Shareholders' Meeting on 12 April 2022.*

(2) *Director appointed by the Shareholders' Meeting on 12 April 2022, to replace Guido Bastianini, former Chief Executive Officer and General Manager of BMPS.*

#### **Managers with strategic responsibilities**

Name	Position	Place and date of birth	Main activities outside the Bank, deemed significant
1.	Luigi Lovaglio	Chief Executive Officer and General Manager	Potenza, 4 August 1955

	<b>Name</b>	<b>Position</b>	<b>Place and date of birth</b>	<b>Main activities outside the Bank, deemed significant</b>
2.	Maurizio Bai	Chief Commercial Officer of Businesses and Private Customers	Grosseto, 23 July 1967	Director of MPS Leasing & Factoring S.p.A.
3.	Leonardo Bellucci	Chief Risk Officer	Firenze, 21 February 1974	
4.	Massimiliano Bosio	Chief Audit Executive	Torino, 26 July 1971	
5.	Vittorio Calvanico	Chief Operating Officer	Napoli, 8 February 1964	Director of Ausilia S.r.l. Chairperson of Consorzio Operativo Gruppo Montepaschi S.c.p.a.
6.	Ettore Carneade	Compliance Officer	Mola di Bari (BA), 16 June 1961	
7.	Nicola Massimo Clarelli	Financial Reporting Officer	Caserta, 22 October 1971	
8.	Roberto Coita	Chief Human Capital Officer	Milano, 28 January 1972	Director of Widiba S.p.A.
9.	Fiorella Ferri	Chief Safety Officer	Sovicille (SI), 5 June 1962	Chairperson of the Board of Directors of Cassa di Previdenza Aziendale per il personale di Monte dei Paschi di Siena
10.	Fabrizio Leandri	Chief Lending Officer	Roma, 21 April 1966	Deputy Chairperson of Monte Paschi Banque S.A. Director of MPS Capital Services Banca per le Imprese S.p.A.
11.	Andrea Maffezzoni	Chief Financial Officer	Sesto San Giovanni (Milan), 27 March 1972	
12.	Pasquale Marchese	Chief Commercial Officer Retail	Pescara, 2 June 1961	Deputy Chairperson of Widiba S.p.A. Director of AXA MPS Assicurazioni Danni S.p.A. Director of AXA MPS Assicurazioni Vita S.p.A.

Name	Position	Place and date of birth	Main activities outside the Bank, deemed significant
			Director of Bancomat S.p.A.
13. Riccardo Quagliana	Group General Counsel	Milano, 4 February 1971	Deputy Chairperson of MPS Capital Services Banca per le Imprese S.p.A.
14. Emanuele Scarnati	Chief Commercial Officer Large Corporate & Investment Banking	Jesi (Ancona), 11 August 1965	General Manager of MPS Capital Services Banca per le Imprese S.p.A.

### Board of Statutory Auditors

The Ordinary Shareholders' Meeting of the Bank held on 18 May 2020 appointed the following members to the Board of Statutory Auditors for financial years 2020, 2021 and 2022, save for what mentioned in note (\*) below:

1. Enrico Ciai	Chairperson	Roma, 16 January 1957	Chairperson of the Board of Statutory Auditors of AXA MPS Assicurazioni Vita S.p.A. Chairperson of the Board of Statutory Auditors of AXA MPS Assicurazioni Danni S.p.A. Chairperson of the Board of Statutory Auditors of MPS Capital Services Banca per le Imprese S.p.A. Director of Reactive S.r.l. (Almaviva Group)
2. Luigi Cevasco (*)	Auditor	Genova, 20 May 1961	Director of Arrigoni S.p.A. Standing Auditor of AXA MPS Assicurazioni Danni S.p.A. Representative in charge of a branch office of Turn Works Inc. ( <i>"Rappresentante preposto di sede secondaria"</i> ) di Turn Works Inc.
3. Luigi Soprano	Auditor	Napoli, 22 February 1959	Standing Auditor of AXA MPS Assicurazioni Vita S.p.A. Sole Director of H & B Immobiliare S.r.l. Director of Interservice S.p.A. Standing Auditor of Del Bo Società Consortile S.c.a.r.l.

				<p>Chairperson of the Board of Statutory Auditors of Del Bo Impianti S.r.l.</p> <p>Chairperson of the Board of Statutory Auditors of Del Bo Roma S.r.l.</p> <p>Chairperson of the Board of Statutory Auditors of Del Bo S.p.A.</p> <p>Chairperson of the Board of Statutory Auditors of Del Bo Servizi S.p.A.</p> <p>Sole Auditor of Aedifica S.r.l.</p> <p>Standing Auditor of VRENT S.p.A.</p> <p>Director of Mekar S.p.A.</p> <p>Standing Auditor of Mairo S.r.l.</p>
4.	Francesco Fallacara (*)	Alternate Auditor	Bari, 14 June 1964	<p>Chairperson of the Board of Statutory Auditors of Maire Tecnimont S.p.A.</p> <p>Chairperson of the Board of Statutory Auditors of TIM S.p.A.</p> <p>Chairperson of the Board of Statutory Auditors of TIM Retail S.r.l.</p> <p>Standing Auditor and external auditor of Ro.Co. Edil Romana Costruzioni Edilizie S.r.l.</p> <p>Standing Auditor of Eni Progetti S.p.A.</p> <p>Director of ArgoGlobal Assicurazioni S.p.A.</p> <p>Sole Auditor of GB Trucks Socio Unico S.r.l.</p> <p>Standing Auditor of Nextchem S.r.l.</p> <p>Sole Auditor of SIBI Segheria Industriale Boschiva Immobiliare S.r.l.</p> <p>Sole Auditor of I Casali del Pino S.r.l.</p> <p>Standing Auditor of Cartiere di Guarcino S.p.A.</p> <p>Chairperson of the Board of Statutory Auditors of ATAC S.p.A. (Azienda per la mobilità di Roma Capitale)</p> <p>Standing Auditor of Casa di Cura La Madonnina S.p.A.</p> <p>Standing Auditor of GSD Sistemi e servizi S.c.a.r.l.</p> <p>Director of Patty S.s.</p> <p>Statutory Auditor of ENI Natural Energies S.p.A.</p>

5.	Piera Vitali	Alternate Auditor	Mede (PV), 8 June 1949	Chairperson of the Board of Statutory Auditors of Piaggio & C. S.p.A.  Chairperson of the Board of Statutory Auditors of Value Retail Management Italy S.r.l.  Chairperson of the Board of Statutory Auditors of VR Milan S.r.l.
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(\* Member of the Board of Statutory Auditors appointed by the Shareholders' Meeting of the Bank held on 6 April 2021.

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 Ordinary Shareholders' meeting approving the financial statements.

Each member of the Board of Directors, the Board of Statutory Auditors and those managers with strategic responsibilities are domiciled for the purposes of their offices at the registered office of Banca Monte dei Paschi di Siena S.p.A., in Siena, Piazza Salimbeni 3, Italy.

For further information please refer to the Bank's website at [www.gruppomps.it](http://www.gruppomps.it) – Corporate Governance.

### Statutory Auditing

Pursuant to article 28 of the Bank's by-laws, on 11 April 2019 the Ordinary Shareholders' meeting appointed the audit firm PricewaterhouseCoopers S.p.A. as independent auditors for the statutory audit of the accounts 2020-2028. 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 bodies 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 Act and the regulatory provisions on related party transactions adopted by CONSOB with Resolution no. 17221 of 12 March 2010 as subsequently amended and supplemented ("*Regulation on Related Party transactions*") and by the Bank of Italy with Circular 285/2013 (Chapter 11, Part three on "*Risk activities and conflicts of interest with respect to affiliated parties*") as subsequently amended and supplemented, article 88 of CRD IV (*loans to members of the management body and their related parties*), article 36 of Legislative Decree 201/2011, converted by Law no. 214/2011 (*so-called prohibition of interlocking*), in addition to the provisions of BMPS' by-laws on the matters (articles 15, 17, 19 and 25).

In this regulatory framework and in line with the principles defined in section 12 of the EBA guidelines on internal governance (EBA/GL/2021/05) and the EBA-ESMA guidelines on the assessment of the suitability of the members of the management body and staff that play key roles (EBA/GL/2021/06), the Bank's Board of Directors has over time approved specific internal directives and policies, including the Group Directive on personnel conflicts of interest, in order to evaluate, manage and mitigate or prevent actual or potential conflicts of interest between the interests of the Issuer and the private interests of staff (including members of the administrative, management and supervisory bodies).

The company legislation defines principles, responsibilities, procedures and decision-making and information skills, and safeguards for the related risks, in particular with regard to subjects close to the

Bank's decision-making centres. The Issuer's website ([www.gruppomps.it](http://www.gruppomps.it)) makes available provisions and procedures which define the principles and responsibilities for the management of the prescriptive obligations regarding related parties and affiliated parties and obligations of bank representatives.

To the best of BMPS's knowledge and belief, as of the date this Base Prospectus there are no conflicts involving the members of its administrative, management and supervisory bodies 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 aforementioned legislation and BMPS' by-laws.

To the best of BMPS' knowledge, the following have potential conflicts of interest:

- the Board of Directors member Marco Bassilichi, in view of his particular interest as a shareholder or holder of corporate offices in companies with commercial, financial and professional relationships deemed significant by the Issuer's Board of Directors; and
- the Chairperson of the Board of Statutory Auditors, Enrico Ciai, for his position as independent director in Reactive S.r.l., which belongs to the Almaviva Group, a group that provides certain IT services to the Issuer.

For these positions, the respective bodies to which the abovementioned figures belong have taken steps to adopt specific governance safeguards in order to prevent any actual conflict of interest also in relation to the independence of judgment of the same figures.

For the sake of completeness, Board of Directors Member Stefano Di Stefano, who was appointed by the Shareholders' Meeting on April 12, 2022, holds the position of Director of Office IV of Directorate VII - Enhancement of Public Assets at the MEF, which has been Issuer's controlling shareholder since August 2017.

Article 19 of BMPS' by-laws, in addition to compliance with the provisions of article 136 of the Italian Consolidated Banking Act, obliges the members of the Board of Directors to inform the Board itself and the Board of Statutory Auditors of any deal in which they are personally interested or which regards entities or companies of which they are directors, auditors or employees (unless in the case of Group companies) and to abstain from resolutions in which they have an interest in conflict, on their own behalf or on behalf of third parties. The main transactions concluded with related parties are described in the 2021 Consolidated Financial Statements and the 2022 Consolidated Half-Yearly Report published and available on the Bank's website [www.gruppomps.it](http://www.gruppomps.it).

#### **Main Shareholders as as of 24 November 2022**

The entities that, as of 24 November 2022, directly and/or indirectly hold ordinary shares for more than 3 per cent. of the Issuer's share capital and do not fall under any of the exemptions provided for by article 119-*bis* of the CONSOB Regulation No. 11971 of 14 May 1999, are as follows:

<b>Shareholders</b>	<b>% share capital on overall share capital</b>
Italian Ministry of Economy and Finance (MEF)	<b>64.230%</b>
AXA S.A.	<b>7.947%</b>

Although the MEF is controlling shareholder, the Issuer is not under direction and coordination activities pursuant to Italian law, since the MEF has not made any communications regarding the exercise of direction and control over the Issuer. Furthermore, the MEF has stated that it does not carry out direction and coordination activities pursuant to Italian law with respect to the companies in which it has taken an ownership interest.

## TAXATION

In the “*Taxation*” section the twelfth and thirteenth sub-paragraphs under paragraph “*Capital gain tax*” on pages 274 and 275 shall be deleted in their entirety and replaced by the following sub-paragraph:

“Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that: (i) the Notes are held outside of Italy or (ii) the effective beneficiary (certain types of institutional investors are deemed to be beneficial owners by operation of law): (a) is resident in a country included in the White List; or (b) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) is a Central Bank or an entity which manages, inter alia, the official reserves of a foreign State; or (d) is an institutional investor which is established in a country included in the White List, even if it does not possess the status of taxpayer in its own country of establishment, and a proper documentation is filed. In such cases, in order to benefit from the exemption from the *imposta sostitutiva*, non-Italian resident Noteholders holding the Notes with an Italian authorised financial Intermediary and elect to be subject to the *risparmio gestito* regime or to the *risparmio amministrato* regime, may be required to produce in due time to the Italian authorised financial Intermediary an appropriate self-declaration stating that they meet the subjective requirements indicated above.

If the conditions above are not met, capital gains realised by said non-Italian resident Noteholders from the sale or redemption of Notes not traded on regulated markets and held in Italy are subject to the *imposta sostitutiva* at the current rate of 26 per cent., unless a reduced rate is provided for by an applicable double tax treaty, if any.”

## GENERAL INFORMATION

The paragraph titled “*Significant Change or Material Adverse Change*” under section “*General Information*” on page 286 of the Base Prospectus is deleted in its entirety and replaced as follows:

### **“Significant Change or Material Adverse Change**

Save as disclosed in the “*Risk Factors*” section under paragraph “*Risks related to the impact of current uncertainties in the macroeconomic, financial and political environment on the performance of the Issuer and the Group*”, since 30 September 2022 there has been no significant change in the financial performance or position of the Issuer and/or the Group and since 31 December 2021 there has been no material adverse change in the prospects of the Issuer and/or the Group.”



## GENERAL

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or any other document incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

In accordance with article 21 of the Prospectus Regulation, copies of this Supplement and all documents incorporated by reference in the Base Prospectus can be obtained free of charge from the Issuer's website (<https://www.gruppomps.it/en/>) and from the office of the Issuer and, in case of Notes admitted to the Official List and to trading on the Luxembourg Stock Exchange's regulated market, from the principal office in Luxembourg of *Banque Internationale à Luxembourg, société anonyme*, being at 69 Route d'Esch, L-2953 Luxembourg. Copies of this Supplement and all documents incorporated by reference in the Base Prospectus will also be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

## ANNEX A

### “RISK FACTORS RELATED TO THE FINANCIAL SITUATION OF THE ISSUER AND THE GROUP

#### *Risks Related to the failure to implement the Business Plan 2022-2026*

On 22 June 2022, the Board of Directors of BMPS, following the review of the strategic plan of 17 December 2021 which was drafted with the aim of facilitating a capital increase equal to Euro 2.5 billion, unanimously approved the Business Plan 2022 - 2026 headed “A clear and simple commercial bank” (the “**Business Plan 2022-2026**”). The Business Plan 2022-2026 is centered around the following pillars: 1) achieve business model sustainability; 2) build a solid and resilient balance sheet; and 3) tackle the legacy issues. For more information with respect to the Business Plan 2022-2026, please see letter o) “*BMPS approved the Business Plan 2022-2026 headed “A clear and simple commercial bank”*” of the subparagraph 3.2 “*Recent developments*” of the section “*Banca Monte dei Paschi di Siena S.p.A.*” of this Base Prospectus.

In line with the initiatives of the Bank to strengthen capital within the framework of the Business Plan 2022-2026, the Capital Increase was resolved upon by the extraordinary shareholders' meeting of the Bank held on 15 September 2022, and in executing such resolution, the Board of Directors of the Bank determined the relevant final terms and conditions. On 14 October 2022, the option offer pursuant to Article 2441 of the Italian Civil Code was filed, in connection with the share capital increase against payment of up to a maximum overall amount of Euro 2,500,000.000.00, in divisible form, through the issuance of a maximum of no. 1,249,665,648 ordinary shares of BMPS, having the same characteristics as the outstanding ordinary shares, such shares to be offered as an option to those entitled thereto pursuant to Article 2441, paragraph 1 of the Italian Civil Code (the “**Capital Increase**”).

On 4 November 2022, the Bank announced that the capital increase, concerning no. 1,249,665,648 newly issued BMPS ordinary shares, was fully subscribed for the total amount of Euro 2,499,331,296. BMPS's new share capital is therefore equal to Euro 7,453,450,788.44, divided into no. 1,259,689,706 ordinary shares with no indication of par value.

The Capital Increase, fully subscribed on 4 November 2022, is the central action of the Business Plan 2022-2026 and has addressed the prospective capital shortfalls as revealed by the assessment of (i) the going concern assumption in the context of the Group's 2022 Consolidated Half-Yearly Report as of 30 June 2022, (ii) the outstanding breach as of 30 September 2022, of the additional threshold. “**Pillar II Capital Guidance**” or “**P2G**” to be fully satisfied with Common Equity Tier 1 provided by the 2021 SREP Decision (as defined below), and (iii) the outstanding breach as of 30 September 2022 of the Minimum Requirement for own funds and Eligible Liabilities (“**MREL**”) indicators represented in the MREL Decision 2021 (as defined below).

Failure to implement the assumptions of the Business Plan 2022-2026 (in addition to those inherent in the Capital Increase), in the absence of timely corrective actions not yet timely identified as of the date of the Base Prospectus, would jeopardize the prospect of a going concern of the Issuer and the Group.

On 13 October 2022 BMPS announced that it has received the preliminary decision of the European Central Bank (“**ECB**”) regarding the capital requirements to be met starting from 1 January 2023, which confirm the capital requirements currently in force (the “**2022 Draft SREP Decision**”).

In the context of the 2022 Draft SREP Decision, the ECB highlighted attention points that could limit BMPS' ability to fully achieve the goals of the Business Plan 2022-2026 in the medium term with reference to: (i) the persistence of tensions on the BTP-Bund spread and market volatility with potential negative repercussions for the cost of funding; (ii) the expected dynamics of commissions which, although considered reasonable, depend on the success of planned commercial initiatives and are exposed to competitive pressure; (iii) the reduction of personnel costs based on a staff redundancy manoeuvre that is exposed to the risk of lower accessions than planned; the increase in interest rates and a less favourable gross domestic product (“**GDP**”) scenario that may adversely affect the repayment

capacity of debtors; (iv) the trend of complaints and lawsuits that are not in the full control of BMPS, as well as the ability to prevent the emergence of further litigations. In the aforementioned document, the ECB also pointed out that additional cost savings of Euro 40 million from 2024, due to branch closures, the Group's corporate reorganization, and IT investments in digitalization, could be offset by inflationary levels related to the new macroeconomic scenario that may be higher than expected and may not be limited to utilities, also reducing the savings from the same investments in digitalization.

In the 2022 Draft SREP Decision, the ECB highlighted the high execution risk of the Capital Increase and the distance that would remain, at the end of 2024, between the Group's Tier 1 Ratio and that of its peers; in fact, on the basis of the Business Plan 2022-2026 the Group Tier 1 ratio would increase to 14.2%<sup>1</sup> at the end of 2024, still standing about 70 basis points below the average level of significant European banks and about 150 basis points below the current average of significant Italian banks. The persistence of this gap, in the long run, could be a possible obstacle to future merger transactions with an industrial partner.

On 17 December 2021, the Issuer's Board of Directors approved a draft version of the business plan 2022-2026. In its Letter of Intervention dated 14 January 2022, the ECB notified the Bank of its considerations with respect to the plan approved on 17 December 2021 and, in particular, its expectations with respect to whether the plan would ensure that the Group's key earnings indicators (including but not limited to return on equity (ROE), return on assets (ROA), and cost/income ratio) would reach or exceed by the end of 2024 the average values for significant Italian banks on a consolidated basis, as published on the ECB's website.

On 3 February 2022, the Bank announced that it had received the final decision of the ECB regarding the capital requirements to be met as of 10 March 2022 (the "**2021 SREP Decision**"), following which BMPS submitted to the ECB an initial capital plan, developed according to assumptions consistent with the business plan approved on 17 December 2021 (the "**Capital Plan**").

The ECB's conclusions in the 2021 SREP Decision indicated risks related to the following four areas, with ECB's assessments of relevance: (1) business model (high risk), (2) internal governance and risk management (medium-high risk), (3) capital adequacy (high risk), and (4) liquidity adequacy (medium-high risk). These assessments are also confirmed in the 2022 Draft SREP Decision, in the context of which it should be noted that, as mentioned above, the ECB identified some potential critical points in relation to the execution of the Business Plan 2022-2026.

On 18 February 2022, the Issuer received from the Bank of Italy, as the National Resolution Authority, the Single Resolution Board's SRB/EES/2021/177 decision dated 11 February 2022 on the determination of the minimum requirement of own funds and eligible liabilities (the "**MREL Decision 2021**"), which highlighted that the Bank was in breach of some of the parameters set forth in the MREL Decision 2021 and, in particular, of:

1. the MREL subordination requirement in terms of the Leverage Ratio Exposure Measure ("**LRE**") which is 5.28% (compared to the 6.22% LRE required by the MREL Decision 2021);
2. the combined capital buffer requirement ("**CBR**"), considered in addition to the MREL requirement expressed in terms of Total Risk Exposure Amount ("**TREA**") (which is -0.82%); the amount of equity and liabilities eligible for MREL purposes on the TREA is 20.88% lower than the minimum requirement of 21.70%;
3. the CBR, considered in addition to the MREL subordination requirement expressed in terms of TREA (equal to -0.65%); the amount of own funds and subordinated instruments for MREL purposes on the TREA is 15.60% lower than the minimum requirement of 16.25%.

The breach of the above requirements was due to the postponement of the execution of the Capital Increase to 2022, jointly with the absence of issuance of MREL-eligible instruments during the course of 2021. As a result of the aforementioned overrun:

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<sup>1</sup> It should be noted that, based on the final costs of the capital increase, there will be a negative impact on this indicator until 2024 quantifiable at about 15 basis points

- the Issuer was unable to obtain the prior authorisation to operate as a "market maker" on its senior bonds, which is required by regulation as of 1 January 2022, pursuant to Article 77 (2) of the (EU) Regulation 575/2013 of the European Parliament and European Council of 26 June 2013 concerning prudential requirements for credit institutions and investment firms, as amended (the "**CRR**") and, therefore, as of that date, the Group suspended such operations;
- the Issuer was forbidden by the Single Resolution Board's decision notified on 2 May 2022 from: (i) the ability to distribute dividends until the MREL requirements are restored; (ii) the payment of coupons on AT1 instruments; (iii) the engagement of obligations to pay variable remuneration or discretionary retirement benefits or payment of variable remuneration against commitments made when the combined capital buffer requirement was not met (violation of the CBR-MREL), beyond the limit of the c. "M-MDA" (*i.e.*, the maximum amount distributable in relation to the MREL).

In order to restore the MREL requirements, the Bank completed the Capital Increase, provided that it is still necessary to proceed with the issuance of MREL-eligible instruments, in line with the provisions of the Business Plan 2022-2026.

Following the approval of the Business Plan 2022-2026, a revision of the Capital Plan was sent to the ECB confirming, however, the amount of the underlying Capital Increase. On 2 September 2022, the ECB positively acknowledged the requests made by the Bank on 9 August 2022 concerning, among other things, the authorization to execute the Capital Increase; as part of this authorization, the ECB also authorized BMPS to classify the shares resulting from the Capital Increase as CET1, provided that only the shares for which the subscription price has been fully paid are issued and that the Bank does not contribute, directly or indirectly, to the subscription of such shares. In the letter approving the Capital Increase and subsequent resolutions, the ECB highlighted possible risks to the capital position arising mainly from some potentially optimistic macroeconomic assumptions of the Business Plan 2022-2026, such as expected GDP trends, expected inflation trends, and expected trends in the BTP-Bund spread, the possible effects of the pending ECB Decision related to the Internal Model Investigation on the EBA Repair Program, or acceptance levels higher than the originally envisaged voluntary redundancy program equal to approximately No. 3300.

In the context of and as part of the restructuring plan 2017-2021 (the "**Restructuring Plan 2017-2021**"), the Republic of Italy made certain commitments to the European Commission in order to be able to proceed, in accordance with Euro-Union and Italian regulations, with the precautionary recapitalisation of the Bank in 2017; these commitments (or "**Commitments**") were modified in September 2019 when, with respect to the non-compliance with Commitment #24 ("strengthening of the capital position"), Commitment #9 ("cost reduction measures") and Commitment #24 itself ("strengthening of the capital position") were amended. These amendments led to, *inter alia*, the establishment of new, more stringent targets relating to the number of target branches which decreased from 1,432 to 1,372 and the number of resources, decreased from 20,065 to 19,98532.

As of 31 December 2021, the deadline for formal monitoring of compliance with the commitments, part of the Commitments, had points of attention/criticism, including those relating to:

- (i) cost reduction measures: the Group did not meet the end-of-plan targets for some performance indicators (Net Margin, Cost Income Ratio, ROE) and for the number of employees;
- (ii) disposal of shareholdings and businesses: (1) as of the date of the Base Prospectus, the liquidation procedure of the French subsidiary MP Banque SA was still ongoing, made necessary after unsuccessful attempts for divestment; (2) with respect to the divestment activity of the leasing portfolio, the Bank did not reach the target of Euro 2.6 billion envisaged;

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<sup>2</sup> State aid SA55121 (2019/N) - Italy - Banca Monte dei Paschi di Siena - amendments to the list of the commitments of the Republic of Italy to the European Commission; p. 9. Exposed values related to the hypothetical sale of both foreign banks.

- (iii) the divestment of real estate assets: the Group did not reach the target of Euro 500 million envisaged, having carried out divestments and entered into compromises amounting to approximately 80% of what was required in the Commitment;
- (iv) the sale of non-core equity investments: the Bank has not completed the sale of the equity investments in Banca d'Italia, MPS Tenimenti Poggio Bonelli and Chigi Saracini S.p.A. and Immobiliare Novoli S.p.A;
- (v) the commitment related to FRESH 2008 (as defined below), as some investors challenged before the Luxembourg Court the effectiveness of Legislative Decree No. 237 of 23 December 2016 ("Decree 237") with respect to that instrument;
- (vi) the reduction of the interest rate on deposits, since as of 31 December 2021 there was still a deviation between the rates applied by BMPS on deposits and the rates applied by the rest of the banking system (measured through the use of a sample of banks identified by the Italian Banking Association) of 0.11% (11 basis points), thus highlighting a higher cost of BMPS's deposits;
- (vii) the sale of the Italian State's stake in the Bank.

In connection with the failure to comply with the aforementioned Commitments, interlocutions were initiated between the MEF and the Directorate-General for Competition ("**DG COMP**") as a result of which, on 3 October 2022, the European Commission published a revision of the Commitments dated 2 August 2022 - ordering that the Issuer shall comply with, among other things:

- quantitative commitments and, in particular, targets for cost/income, total operating costs, number of employees, total assets, loans to deposits (loan to deposit ratio), NPL ratio, number of branches, size of the leasing portfolio, putting the business of the subsidiary MP Banque SA into liquidation, divestment of a portfolio of non-strategic equity investments, and constraints on the distribution of dividends; to the Bank's knowledge, the sale of the stake held by the MEF in the Bank must take place in a Business Plan 2022-2026 horizon;
- commitments in terms of competitive behaviour and, specifically, objectives in terms of prohibition of acquisition of companies, pricing of commercial masses, marketing and promotion activities, and level of remuneration of employees.

The Bank considers that the aforementioned commitments are reflected in the actions underlying the Business Plan 2022-2026, and the timing and measures for the execution of the Commitments required by the European Commission are consistent with the timing and measures of execution of Business Plan 2022-2026 actions.

As of the date of the Base Prospectus, the Group is exposed to the risk that in the event of non-compliance with the Commitments, the European Commission would impose the adoption of compensatory measures that would tighten the breached commitments or other commitments already disclosed. In the event of a serious breach of the Commitments, the European Commission may, in addition, initiate infringement proceedings against the Bank, which could have a significant impact on the Bank's capital position.

The Business Plan 2022-2026 does not consider business combination assumptions; the forecast data reported therein have been defined on the basis of assumptions regarding: (i) the effects of specific actions or concerning future events over which the Issuer can only partially exert influence and which may not occur, as well as (ii) certain aspects of the external scenario, subject to the risks and uncertainties that characterize the current and future macroeconomic and regulatory environment over which the Issuer cannot exert influence and whose occurrence would cause significant negative effects on the Group's economic and financial results with respect to the objectives indicated in the Plan. Therefore, it is highlighted that a part of the assumptions in the Business Plan 2022-2026 is beyond the control of the Issuer's directors. The Bank is exposed to the risk of failing to achieve part of the objectives set forth in the Business Plan 2022-2026.

In the event that the Group is unable - over the time horizon over which the Business Plan 2022-2026 is developed, to achieve the objectives set or to achieve them in accordance with the expected timeframes and measures, to meet its commitments - or in the event that over the Business Plan 2022-2026 period it incurs net losses to an extent that would significantly erode the capital held for regulatory purposes, then the Issuer could suffer the negative effects, even significant, of the repercussions of any measures adopted by the European Commission against the Republic of Italy; in each case, with possible impacts on the Issuer's and/or the Group's economic, capital and financial situation as well as on the going concern assumption.

As of the date of the Base Prospectus, the Business Plan 2022-2026's macroeconomic assumptions regarding the dynamics of GDP, inflation and the BTP-Bund spread are better than market assumptions. Any significant deviations between the actual and assumed macroeconomic dynamics underlying the Business Plan 2022-2026 would produce significant negative impacts on the Bank's economic, capital and financial position.

Following the approval by the Board of Directors on 9 March 2017 of the Restructuring Plan 2017-2021, on 17 December 2020, the Board of Directors approved the strategic plan 2021-2025, prepared having in mind, among other things, the commitments assumed by the Italian government on the basis of the Restructuring Plan 2017-2021 and the consequent Prime Minister's Decree of 16 October 2020, in the context of which it was reported appropriate to "initiate a process of divestment of the shareholding held by the Ministry in the share capital of MPS". It should be noted that the objectives of the Restructuring Plan 2017-2021 and the objectives of the aforementioned strategic plan 2021-2025 have not been fully achieved.

Furthermore, it should be noted that the auditor's reports relating to the 2021 Consolidated Half-Yearly Report, 2021 Consolidated Financial Statements, and 2020 Consolidated Financial Statements draw attention to the existence of material uncertainty that may cast significant doubt on the Group's ability to continue to operate as a going concern. Similarly, as part of the 2019 Consolidated Financial Statements, EY S.p.A., as the auditing firm engaged by the Bank, drew attention to the progress of the actions envisaged in the Restructuring Plan 2017-2021 and the updated 2020-2024 projections made by management in relation to the Group's projected economic and equity values, included in the management report and in the "Going Concern" section of the notes to the 2019 Consolidated Financial Statements.

It should also be noted that, effective from 6 May 2021, in conjunction with the approval of the Consolidated Interim Report as at 31 March 2021, the Issuer is subject to, pursuant to Article 114(5) of the Consolidated Finance Act:

- publish to the market, by the end of each month, a press release containing updated information on the actions implemented and planned to maintain the company as a going concern, having regard in particular to the actions to overcome the capital shortfall, highlighting any significant deviations in the timing of the implementation of these actions compared to what was envisaged in the most recently published financial information; and

- supplementing the annual, half-yearly and interim financial reports with information regarding the status of implementation of the Business Plan 2022-2026 in force from time to time, highlighting any deviations in the actual figures from those forecasts.

Failure to implement the Business Plan 2022-2026 in accordance with the terms and measures set forth therein would entail the need to promptly take alternative actions in order not to jeopardize the continuation of the Issuer's and the Group's business activities.

In addition, the delay in the timely achievement of the objectives of the Business Plan 2022-2026, in relation to business aspects, would make it necessary to modify or reshape the objectives.

The occurrence of such events would have a material adverse effect on the Bank's and the Group's business and economic, capital and/or financial position as well as on the Issuer's and the Group's ability to continue as a going concern.

### *Risks related to the Group's earnings performance*

During the three-year period 2019-2021 and the first half of 2022, the Group's income performance was affected by significant variability in results, mainly due to the negative impact originated by non-operating and non-recurring items, such as higher provisions for risks and charges and higher restructuring charges, as well as the worsening evolution of the macroeconomic scenario, which was reflected in lower revenues and higher cost of customer credit. The Group's income performance in the first half of 2022, although positive, is significantly lower than in the first half of 2021. The 2022 financial year has been impacted by restructuring costs estimated at more than Euro 0.8 billion, linked to a voluntary exit plan through the Solidarity Fund that will affect - in line with the provisions of the union agreement signed between BMPS and the trade unions on 4 August 2022 - approximately 3,500 resources and, therefore, it is estimated to close with a negative net result. With reference to the net result for 2022, considered gross of restructuring charges, it is expected to be positive in absolute terms and higher than the net result for 2021, which, also considered gross of restructuring charges, amounted to Euro 316 million. This dynamic is attributable, mainly, to the greater positive contribution of taxes and the growth in net interest income, only partially offset by a decrease in "Dividends, similar income and gains (losses) from equity investments" and in "Net result from trading, fair value measurements of assets/liabilities, and gains on disposals/repurchases" and to a higher cost of customer credit that, in 2022, incorporates the effects from the disposals of nonperforming loans.

For the period ended on 30 June 2022, the Group reported a profit of Euro 27 million (Euro 202 million for the same period of the previous year)<sup>3</sup>. For the profit of the Group as of 30 September 2022, please make reference to the Consolidated Interim Report as at 30 September 2022 incorporated by reference in the Base Prospectus.

The 2021 fiscal year closed with a net income of Euro 309.5 million (Euro 316 million excluding the restructuring costs), which has mainly benefited of a lower net provisions for risks and charges (Euro 99 million compared to Euro 984 million in 2020) and lower cost of customer credit (Euro 250 million compared to Euro 773 million in 2020).

For more information, please refer to the 2021 Consolidated Financial Statements incorporated by reference into this Base Prospectus.

For the sake of completeness, it should be noted that as of 31 December 2021, which is the date relating to the latest monitoring by the European Commission of the commitments included in the Restructuring Plan 2017-2021, the Group has not met the planned earnings performance targets. It should also be noted that as part of the analysis carried out on the individual SREP pillars, the 2021 SREP Decision highlighted among the Bank's weaknesses/concern profiles that related, among other things, to the business model, with particular reference to the structural short and medium/long-term earnings weakness, which remains exposed to unfavourable macroeconomic events and litigation risks. The observations and assessments of the 2021 SREP Decision regarding the Group's business model are given in more detail below. The Bank, in recent years, has consistently recorded net losses and expects to generate, based on relatively challenging assumptions, non-negligible returns only from 2023 onwards, given the budgeted cuts in staff expenses. According to the 2021 SREP Decision, the sustainability assessment confirms the fragility of the Bank's profitability in the short term given the prolonged negative results experienced in the past, the major causes of which are the idiosyncratic weaknesses that still hamper the Bank's ability to generate stable profits.

The business model analysis conducted by the ECB on 31 December 2020, the findings of which were incorporated into the 2021 SREP Decision, highlighted the following risks and attention points:

- the sustainability assessment confirms the fragility of BMPS' profitability in the short term, in light of the prolonged negative results recorded in the past. Specifically, in 2020, the Group again recorded a

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<sup>3</sup> The following data on the Group's income performance are derived from the reclassification of data included in the 2022 Consolidated Half-Yearly Report and 2021 Consolidated Financial Statement.

substantial net loss of Euro 1.7 billion (Euro 1 billion in 2019), the fourth negative annual result since 2016; this situation can only be attributed to a lesser extent to the worsening macroeconomic environment following the coronavirus pandemic outbreak ("**COVID-19**"). Rather, the major factors behind this loss were structural weaknesses that still hinder the bank's ability to generate stable profits over time (e.g., provisions against legal risks and deferred tax assets written off due to lower expectations of future profits). On the positive side, the gross NPL ratio has been lowered to 3.4% at the end of 2020 due to the significant de-risking achieved in December 2020 through the spin-off of a compendium of assets and liabilities to Asset Management Company S.p.A. ("**AMCO**") (so-called Hydra project).

BMPS's profitability remains exposed to unfavourable macroeconomic events, exacerbated by uncertainties related to the COVID-19 pandemic, risks of narrowing net interest income, failure to achieve both the planned reduction in the cost of funding (due to the need to increase the amount of unsecured issuance to meet increasing MREL requirements) and of the target on fees (as it is based on challenging growth in assets under management volumes), to persistent operational oversizing despite staff reductions, and to litigation risks; volatility in both revenues and the cost of risk exposure, particularly as a result of changes in GDP, remains high, partly due to the BMPS business model and limited diversification.

The ECB also highlights the need for qualitative improvements in budget preparation and multi-year planning processes.

In the 2022 Draft SREP Decision, ECB continues to assess the business model as a high-risk element, but updated its considerations in light of the Business Plan 2022-2026. In particular, the ECB highlighted, within a balanced set of assumptions and with potential upside elements (related, for example, to a higher rate hike than had been assumed in the Business Plan 2022-2026), a number of risks, such as:

- a) the persistence of tensions on the BTP-Bund spread and market volatility, with potential negative effects on the cost of funding;
- b) the expected dynamics of commissions which, although considered reasonable, depends on the success of planned commercial initiatives and is exposed to competitive pressure;
- c) the reduction in personnel costs, based on a staff redundancy manoeuvre exposed to the risk of lower interest in accepting redundancy than planned;
- d) rising interest rates and a less favourable GDP scenario that may adversely affect borrowers' ability to repay;
- e) the development of claims and lawsuits, which is not in the full control of BMPS, as well as the ability to prevent new emergencies related to litigation; and
- f) cost savings of Euro 40 million as of 2024 due to branch closures, the Group's corporate reorganization, and IT investments in digitalization could be offset by inflationary levels related to the new macroeconomic scenario, which may be higher than expected and may not be limited to utilities, also reducing the savings from the same investments in digitalization.

Based on the above, ECB's conclusion is that BMPS's ability to generate robust and stable profitability will be achieved only if, after the execution of the Capital Increase, management is able to achieve all the objectives of the Business Plan 2022-2026 in due time, demonstrating, over a sufficiently extended period of time, that structural weaknesses have been definitively overcome.

The year ended on 31 December 2020, recorded a loss for the year of Euro 1,687 million (Euro 1,532 million net of nonrecurring items). For more information please refer to the 2020 Consolidated Financial Statements incorporated by reference into this Base Prospectus.

In fiscal year 2019, there was a loss for the year of Euro 1,033 million and the same consolidated result net of nonrecurring items.

The losses recorded in fiscal years 2020 and 2019, cumulated with the previous ones, also resulted in exceeding the threshold set forth in Article 2446 of the Italian Civil Code, which, in the event of a



reduction in the Issuer's share capital by more than one-third, provides for the need to convene the Issuer's shareholders' meeting. At the shareholders' meetings of 2020 and 2021 - in accordance with COVID-19 regulations - it was resolved to postpone decisions on the reduction of share capital to the shareholders' meeting called to resolve on the capital strengthening operation. Therefore, the shareholders, at 15 September 2022's shareholders' meeting, following the resolutions of the 6 April 2021 and 12 April 2022 shareholders' meetings, resolved to approve the coverage of the total loss of Euro 4,240,892,704.41 by reducing the share capital by a corresponding amount, which thus stands at Euro 4,954,119,492.44. The reduction of the share capital consequently had no effect on the book equity, which was confirmed in an amount equal to that as of 30 June 2022, i.e., Euro 5 billion on an individual basis and Euro 5.8 billion on a consolidated basis. Following the completion of the aforementioned Capital Increase, the amount of share capital of the Bank will be increased accordingly.

Lastly, it should be noted that the Business Plan 2022-2026 envisages a net profit of Euro 1,003 million in fiscal year 2024 and Euro 833 million in fiscal year 2026; the expected operating results over the Business Plan 2022-2026 horizon include a benefit, resulting from the recognition of new DTAs, amounting to Euro 1,273 million.

Finally, it should be noted that the Group has not achieved, at the end of the year 2021, some targets of the Restructuring Plan 2017-2021 summarized through some performance indicators (Net Margin, Cost Income Ratio, ROE) and also referring to the number of employees. With regard to operating expenses, the Group would have achieved the target set initially if this target had not been subsequently reduced by Euro 100 million as a result of the failure to achieve the 2019 performance targets.

If, also as a result of any further deterioration in the macroeconomic scenario, attributable, for example, to the escalation of the conflict between Russia and Ukraine or the adoption of restrictive monetary policy measures by the ECB, the Issuer is unable to achieve the targets set in the Business Plan 2022-2026, the Group may not be in a position to achieve the desired sustainable profitability as the ability to structurally generate a level of income, relative to equity, in line with banking system-wide expectations in the medium term. In this respect, as notified to the Issuer in the Letter of Intervention dated 14 January 2022, the ECB recommended to the Issuer that the Business Plan 2022-2026 ensure that the Group's key earnings indicators (including but not limited to ROE, ROA, and cost/income ratio) reach or exceed by the end of 2024 the average values for significant Italian banks on a consolidated basis, as published on the ECB's website<sup>4</sup>. In light of the above, as of the date of the Base Prospectus there is a risk that if the Group is unable to achieve the aforementioned sustainable profitability, there will be negative impacts on the Group's equity and capital requirements and, more generally, even significant negative effects on the Group's economic, capital and/or financial position, to the point where the Group's ability to continue as a going concern will cease to exist.

#### *Risks related to capital adequacy*

In the 12-month evolution of capital adequacy, the Group is subject to some regulatory headwinds. In particular, these headwinds include: (i) the revision of internal models which, according to the Issuer's estimates, will lead during the fourth quarter of 2022 to an overall increase of approximately Euro 5.5 billion in RWA, largely attributable to the adaptation of AIRB models to the EBA Guidelines (EBA-GL-2017-16) carried out during 2021 and subject to review by the ECB in 2022, and (ii) the planned capital reduction related to the IFRS9 phase-in, with a negative impact on capital of approximately Euro 330 million.

There is the risk that, at the conclusion of the inspection activity by the ECB, the supervisory authority may deem it necessary to impose additional requirements, in terms of RWA, compared to those already provided by the Group's internal models, if these are not found to be satisfactory. In this case, it is

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<sup>4</sup> As stated in the Intervention Letter of 14 January 2022 sent by the ECB, "the ECB recommends that the Business Plan 2022-2026 ensures that the key profitability parameters (including but not limited to return on equity, return on assets, and cost-to-income ratio) of the BMPS Group reach or exceed, by the end of 2024, the average values of significant Italian institutions at the consolidated level published on the ECB's website."

possible that the Group may find itself operating below the Guidance level even following the full subscription of the Capital Increase.

Finally, even following the full subscription of the Capital Increase, there is the risk that, in the event that the assumptions of the Business Plan 2022-2026 or the actions underlying the Business Plan 2022-2026 are not or only partially implemented, including in terms of timing, the Group may fail to achieve the Business Plan 2022-2026's objectives, particularly in terms of profitability, with possible negative consequences on the ability to comply with the capital ratios and, therefore, with consequent significant adverse effects on the Group's economic, capital and/or financial position.

The assessment of capital adequacy from a regulatory perspective is based on the constant monitoring of current and prospective equity and risk-weighted assets ("**Risk Weighted Assets**" or "**RWA**"). The optimization of the capital adequacy profile is pursued through the "Risk Appetite Statement" process, during which business and risk strategies are defined and subjected to adequacy review.

The Issuer is subject to the capital adequacy requirements of the EU Directive 2013/36 of the European Parliament and European Council in relation to credit institutions' activities, credit institutions' prudential supervision and investment undertakings, as amended by Directive (EU) 2019/878 (the "**CRD IV**") and CRR. Specifically, with the 2021 SREP Decision, the ECB required the Bank to maintain, as of 1 March 2022, on a consolidated basis, a TSCR level of 10.75%, which includes the minimum P1R requirement of 8% under Article 92 of the CRR and an additional P2R requirement of 2.75%, on an ongoing basis, to be held at least 56.25% in the form of CET1 and 75% in the form of Tier 1.

In addition to the P1R and P2R requirements, the Group must also hold sufficient capital to meet a combined buffer requirement ("**CBR**") of 2.75%<sup>5</sup>. Thus, the Group must meet, at the consolidated level, a CET1 Ratio of 8.80%, a Tier1 Ratio of 10.81%, and a Total Capital Ratio of 13.50% (Overall Capital Requirement - OCR). Considering P2G as well, the Group has to comply, at the consolidated level, with a CET1 Ratio of 11.30%, a Tier1 Ratio of 13.31%, and a Total Capital Ratio of 16.00%.

These levels (requirements and guidance) are confirmed in the 2022 Draft SREP Decision. In the 2021 SREP Decision, the ECB has also highlighted among the Bank's weaknesses/points of attention, *inter alia*, those relating to (i) the risk related to capital adequacy, in order to ensure compliance with capital requirements, in a prospective framework of fragile capital position in stress situations; and (ii) the Internal Capital Adequacy Assessment Process ("**ICAAP**") process, highlighting the need for further improvements with reference to capital planning, scenario design and stress tests, which result in fragmented approaches, and the data and IT infrastructure to support such analyses.

In addition, in the 2022 Draft SREP Decision, ECB highlights that, following the full subscription of the Capital Increase, the Tier 1 level will marginally be above P2G throughout 2023, but could fall below that level as a result of tensions on the BTP - Bund spread or in relation to limitations arising from the so-called "model change" of the AIRB internal models. If the Bank were to operate below P2G levels this could have negative repercussions on the cost of the issues planned in the Business Plan 2022-2026.

As part of the 2021 SREP Decision, ECB highlighted that even following the full subscription of the Capital Increase, the margins above the Guidance level still remain thin, even in light of the Business Plan 2022-2026's ambitious industrial goals, such that there is a real risk that, by 2023 at the latest, the Bank will be operating below the P2G level. These observations of the supervisory authority are reinforced by the gradual withdrawal of the state supports guaranteed during the COVID-19 period on loans to individuals and companies and the Group's high exposure to legal litigation, both of which could lead to a worsening of the Group's income statement and thus its prospective capital position. In addition, the increased vulnerability to a possible adverse scenario, as evidenced by the 2021 Stress Test, further confirms the Issuer's capital fragility.

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<sup>5</sup> CBR consists of Capital Conservation Buffer (2.50%) + O-SII Buffer (0.25% vs. 0.19% in 2021) + Countercyclical Capital Buffer (0.002% as of 30 June 2022 vs. 0.003% as of 31 December 2021)

In the 2022 Draft SREP Decision, the ECB confirms these considerations, not reiterating the observation regarding the loss of guaranteed state supports, but emphasising, in addition to the previous observations, the gap that would remain at the end of 2024, between the Group's Tier 1 Ratio and that of its peers, since on the basis of the Business Plan 2022-2026 the Group's Tier 1 ratio would increase to 14.2 percent<sup>6</sup> at the end of 2024, still standing about 70 basis points below the average level of significant European banks and about 150 basis points below the current average level of significant Italian banks. The persistence of this gap, in the long run, could be a possible obstacle to future merger transactions with an industrial partner. Moreover, even following the full execution of the Capital Increase, BMPS would remain extremely vulnerable to any possible negative evolution of the scenario, even compared to its competitors.

Without prejudice to the foregoing, it should be noted that within the Business Plan 2022-2026 there are no plans for the Italian State to activate a new extraordinary credit moratorium or guarantee interventions in favour of businesses or consumers similar to what was implemented during the COVID-19 period, and that following the full implementation of the Capital Increase and the actions and assumptions of the Business Plan 2022-2026 as formulated, the Group would be operating above the P2G level over the entire Business Plan 2022-2026 horizon. However, given the uncertainties surrounding the Business Plan 2022-2026 assumptions, as of the date of the Base Prospectus there is the risk that even following the full subscription of the Capital Increase, the Issuer could incur breaches of regulatory capital adequacy requirements over the Business Plan 2022-2026 horizon.

In addition, in the 2022 Draft SREP Decision, the ECB requested the Bank (a) to conduct a self-assessment of the adopted stress test framework by 28 February 2023, and send the relevant report to the ECB; (b) to evaluate the comments to be made by the ECB on the report referred to in (a) by 15 April 2023; (c) to prepare a remedial action plan by 31 May 2023; and (d) to implement such plan by 31 December 2023.

As of 30 June 2022, the Group has a CET 1 Ratio<sup>7</sup> and a Tier 1 ratio<sup>8</sup> of 11.67%, a Total Capital Ratio<sup>9</sup> of 15.43% above regulatory requirements, while there is a shortfall with respect to the P2G, already notified to the ECB on 30 March 2022, which the Bank expects to remedy by executing the Capital Increase. In this regard, it should be noted that the capital measure adopted by the ECB in March 2020 is in force, which allows significant banks to operate until 31 December 2022 below the P2G-defined capital level in order to mitigate the impacts of COVID-19 on the European banking system.

In accordance with the provisions of CRR, the ratios as of 30 June 2022 were calculated considering the transitional regime, which represents the application of the calculation rules according to the regulatory framework in force on the reference date, while the "fully loaded" version incorporates the rules envisaged under the regime into the calculation. The transitional regime benefits from the application of certain prudential filters, including:

- the sterilization of the IFRS 9 impact related to the first-time application of the accounting standard;
- the sterilization of the capital impact related to the increase in loan adjustments recognized in the period 2020 - 2024 compared to 10 January 2020 for stage 1 and 2 portfolios;
- the application of the prudential filter related to the Other Comprehensive Income (OCI) Reserve on securities issued by states or central governments in the period from 10 January 2020 to 31 December 2022.

Finally, it should be noted that, as of the same date, the Group has a leverage ratio<sup>10</sup> of 3.9% above the minimum requirement of 3%.

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<sup>6</sup> It should be noted that, based on the final costs of the capital increase, there will be a negative impact on this indicator until 2024 quantifiable at about 15 basis points

<sup>7</sup> Coefficient calculated considering the transitional provisions of the regulatory framework in force on the reference date.

<sup>8</sup> Coefficient calculated considering the transitional provisions of the regulatory framework in force on the reference date.

<sup>9</sup> Coefficient calculated considering the transitional provisions of the regulatory framework in force on the reference date.

<sup>10</sup> Coefficient calculated considering the transitional provisions of the regulatory framework in force on the reference date.

It should also be noted that the SREP is carried out by the ECB at least annually. As noted above, the 2022 Draft SREP Decision (effective from 1 January 2023) confirms the quantitative requirements and prescribes some qualitative requirements on processes supporting capital adequacy. However, there is a risk that, starting with the SREP 2023 process (effective from 1 January 2024), the supervisory authority will prescribe more stringent measures for the Issuer than those contained in the 2022 Draft SREP Decision. In addition, the Group is exposed to the risk (i) as a result of the inspection activity on the internal AIRB models, the ECB identifies changes to the Issuer's proposed models that would result in an increase in RWA beyond what is expected, and (ii) that, as a result of the credit risk inspection activity (which has already been completed, and for which the usual exit meeting has already been held, and for which the final report is expected by the end of 2022), the classification criteria and, consequently, provisions on the portfolios inspected are revised, with consequent negative impacts on the Group's capital.

In 2021, the Group participated in the EU-wide stress test conducted by the EBA in cooperation with the ECB, the European Systemic Risk Board (ESRB) and the European Commission; the aforementioned stress test exercise is generally carried out every two years. On 8 December 2021, in line with the decision to conduct a biennial exercise, the EBA announced its decision to conduct the next EU-wide stress test in 2023, in which the Group will participate. Participation in the stress tests carries the risk of possible upward revision of the P2G, and thus of the levels of capital to be held by the Group in case of a negative result in the "baseline" scenario and/or the "adverse" scenario.

Any assessment of the level of capital adequacy is influenced by several variables, including the need to cope with the impacts resulting from the new and more demanding requirements at the regulatory level announced by the European regulator, the need to support functional plans for a more rapid reduction in the volume of impaired loans - even in addition to the disposal of the Bank's NPLs - and/or the assessment of market scenarios that are expected to be particularly challenging and will require the availability of adequate capital resources to support the Group's level of activity and investments.

#### *Risks related to non-compliance with MREL requirements*

Pursuant to Article 45 of Directive 2014/59/EU, as subsequently amended, institutions must meet at all times a MREL defined by the resolution authority for each institution, in order to ensure that a bank, in the event of the application of the bail-in procedure, has sufficient liabilities to absorb losses and to ensure compliance with the Primary Tier 1 Capital requirement for the authorization to conduct banking business, as well as to generate sufficient confidence in it in the market.

Based on the parameters specified by the MREL Decision 2021, the Bank is in violation of the following parameters: (a) MREL Subordination Requirement in terms of LRE which is 5.28% (compared to 6.22% LRE under the MREL Decision 2021); (b) CBR, considered in addition to the MREL requirement expressed in terms of TREA (which is -0.82%); the amount of equity and MREL-eligible liabilities on the TREA is 20.88% lower than the minimum requirement of 21.70%; and (c) CBR, considered in addition to the MREL subordination requirement expressed in terms of TREA (equal to -0.65%); the amount of equity and of subordinated instruments for MREL purposes on the TREA is 15.60% lower than the minimum requirement of 16.25%.

The above violation of MREL requirements was attributable to the postponement of the execution of the Capital Increase to 2022, jointly with the absence of issuance of MREL-eligible instruments during 2021.

In order to restore the MREL requirements, the Bank completed the Capital Increase, provided that it is still necessary to proceed with the issuance of MREL-eligible instruments, in line with the provisions of the Business Plan 2022-2026. Moreover, in the 2022 Draft SREP Decision, ECB judges the Bank's program of senior issuances in 2023, aimed at meeting the MREL targets, as challenging, even considering that the Bank will access the non-preferred senior debt market for the first time.

In light of the above, the Group is exposed to the risk of incurring breaches of the MREL requirements again, in the event of failure to meet the institutional issuance targets set out in the Business Plan 2022-2026, which could be challenged by any systemic tensions in the debt markets and/or idiosyncratic circumstances of the Group. In addition, it cannot be ruled out that in the future the Group will again present a breach with respect to the MREL and/or CBR targets, due to, among other things, possible changes in bank resolution regulations and/or the criteria for determining MREL requirements by the resolution authorities such as raising the requirements or reducing the instruments eligible for MREL purposes. Such circumstance could lead, in addition to the prohibition on dividend distributions and the prohibition to perform certain activities already imposed by the resolution authorities, to the adoption of specific measures against the Issuer by the same authorities and, should the Issuer and/or the Group be unable to comply with such measures or to fulfil the obligations imposed by the same authorities, with significant consequences for the Issuer's and/or the Group's economic, equity and financial situation.

In this regard, it should be noted that in the event of a breach of MREL requirements, the Directive 2014/59/EU for the recovery and resolution of credit institutions ("**BRRD**") grants the resolution authorities the ability to exercise the following powers:

- (i) the powers to address or remove impediments to the possibility of resolution through the adoption of specific measures (e.g., limitation of business line development; request to issue MREL-eligible liabilities; request to renegotiate eligible liabilities or AT1 and T2 instruments already issued; request to change the maturity of own funds instruments, subject to agreement with the ECB, and eligible liabilities);
- (ii) the powers under Article 16(a) of the BRRD on the limitation of certain distributions;
- (iii) the adoption of measures under Article 104 of CRD IV on additional Pillar II Capital Requirements;
- (iv) the adoption of early intervention measures in accordance with Article 27 of the BRRD, such as the implementation of the adopted reorganization plan or the preparation of a plan to negotiate debt restructuring with all or some creditors, the modification of the corporate form; as well as the removal of members of the administrative and supervisory bodies and senior management; and
- (v) the adoption of administrative sanctions and other administrative measures pursuant to Article 144 of the Consolidated Finance Act.

*Risks related to deterioration in credit quality and the impacts of the worsening economic environment, particularly in Italy, on credit quality and banking in general*

The Group is exposed to the risks inherent in lending activities, which take the form of the possibility that its contractual counterparties will fail to fulfil all or part of their payment obligations. In the data of the 2022 Consolidated Half-Yearly Financial Statements, significant concentrations are observed at the geographical level, detecting a concentration of counterparties in the Tuscany region, where the Bank is particularly rooted in the territory. In the data of the 2022 Consolidated Half-Yearly Financial Statements: (i) the Group has an amount of customer loans classified as non-performing exposures (i.e., including non-performing loans, probable defaults and impaired past due exposures) of Euro 4,082 million gross, Euro 1.966 million net (the percentage incidence of net impaired loans to total loans to customers is 2.5%); (ii) the Group's coverage ratio of impaired loans to customers for the Group as a whole is 51.8%; (iii) the incidence rates of net loans to customers at amortized cost classified as stage 1 (financial instruments that have not experienced a significant increase in credit risk since initial recognition) and stage 2 (financial instruments that have experienced a significant increase in credit risk since initial recognition but have no objective evidence of loss) are 82.9% and 14.5%, respectively. The occurrence of a deterioration in credit quality - taking into account the persistence of the COVID-19 pandemic and the uncertainties associated with the health emergency itself and the conflict in Ukraine,

with the impacts it is generating in particular on commodity prices and on inflation more generally - could mean that the provisions set aside to cope with these risks result in significant adverse effects on the Group's operating results and economic, equity and/or financial position.

For more information on the above, please refer to the 2022 Consolidated Half-Yearly Financial Statements and the Consolidated Interim Report as at 30 September 2022 incorporated by reference into this Base Prospectus.

Please note that the 2021 SREP Decision contains certain recommendations in relation to exposures classified as non-performing exposures as of 31 March 2018 and, in particular, recommends that:

- a) for non-performing exposures secured and classified as such for more than seven years, as per the recommendation included in the SREP decision regarding own funds requirements to be met starting from 1 January 2021 ("2020 SREP Decision"), 50% coverage be achieved by year-end 2021, with a linear path to full coverage by year-end 2026; and
- b) for non-performing exposures that have been unsecured and classified as such for more than two years, 60% coverage be achieved by year-end 2021, with a linear path to full coverage by year-end 2025.

The Group is in line with the non-performance exposures coverage targets made explicit in the 2021 SREP Decision. In the event that the provisions in the financial statements, determined in accordance with the accounting standards, are not sufficient to align with the minimum coverage required by the so-called calendar provisioning, the Group proceeds to apply deductions from regulatory capital up to the amount necessary to adjust to the minimum coverage required, as provided by the regulations.

As part of the 2021 SREP Decision, ECB pointed out that the customers entrusted by the Group have benefited significantly from state public support measures, both in terms of moratoria and guarantees issued, and that therefore the Issuer is exposed to the risk that, when these measures are discontinued, the quality of the loan portfolio may significantly deteriorate.

Pursuant to the aforementioned 2021 SREP Decision, the Bank is also required to send the ECB an update of its three-year strategic and operational plan for managing nonperforming loans.

As part of the 2022 Draft SREP Decision, the ECB updated, as expected, the recommended level for the coverage of exposures classified as non-performing exposures as of 31 March 2018 (70% for the secured component and 80% for the unsecured component, 50% and 60% respectively in the 2021 SREP Decision); these levels have already been factored into both the prospective calendar provisioning impact estimates in the Business Plan 2022-2026 and the non-performing exposure Strategy. The risk factor related to the lapsing of state support measures is not reiterated, but credit risk is still considered a key risk factor in the face of the delay in the implementation of the new early warning system of intercepting deterioration in creditworthiness, governance shortcomings of changes in the credit risk models used for the purpose of calculating capital requirements, and general uncertainties related to the impacts of the pandemic, the war in Ukraine, and evolving macroeconomic conditions. Finally, in the 2022 Draft SREP Decision, ECB acknowledges that in light of accounting provisions and specific deductions from regulatory capital made after 31 December 2021, the Group is aligned with its calendar provisioning hedges.

The Bank is also exposed to the risk of deteriorating credit quality as a result of the domestic and international economic situation.

The Business Plan 2022-2026 considers a scenario characterized by a slowdown in Italian GDP dynamics in 2022, after rebounding in 2021, with acceleration in 2023. Compared to Bank of Italy expectations, the scenario assumes lower growth estimates for 2022 and higher ones for 2023. Failure of the Business Plan 2022-2026 scenario, which prefigures an improvement in default flow starting in 2023, could result in a less significant decrease in default rates than expected, with significant negative effects on the Group's credit quality.

In particular, in accordance with the provisions of the Business Plan 2022-2026, the Bank expects an inflationary peak in 2022 with a settlement on the 2% threshold in the following years; the growth of

inflation - despite not being considered as a critical variable in the Business Plan 2022-2026 for the purposes of a deterioration of the credit scenario - could generate a progressive deterioration in the quality of assets attributable to the corporate and private system. In particular, for individuals, a scenario of high inflation along with an inadequate realignment of wages would lead to a progressive erosion of disposable income with resulting potential strains on instalment-income ratios in the payment of mortgages and personal loans. Compared with the assumptions referring to the evolution of inflation in the macroeconomic scenario underlying the elaboration of the Business Plan 2022-2026, Bank of Italy's expectations of medium-term inflation are higher; however, a higher level of expected prices leads to negative impacts on the real value of disposable income and households' propensity to save, but also to increases, in nominal terms, in the value of investments and working capital financing needs by businesses and nominal growth in household spending. Such strains, should a high inflation scenario persist, could result in counterparty default with a consequent increase in the riskiness of the Bank's assets.

To assess the effects of a worsening scenario, the Group estimated that a slowdown in the economic cycle, with rising interest rates and higher levels of inflation, could bring an increase in the cost of risk of about Euro 650 million over the three years, based on a cumulative negative change in GDP of about 500 basis points. The estimate was based on the assumption of a negative effect of about Euro 130 million for each point of GDP lost relative to Business Plan 2022-2026 assumptions. The isolated impact of this vulnerability on the Business Plan 2022-2026's pre-tax result would be about Euro 650 million over the three years.

A worsening of the domestic and international macroeconomic scenario could alter the ability of the Group's contractual counterparties to meet their payment obligations to the Group, thereby increasing the risk related to the Group's credit exposure, with significant adverse effects on the Group's operating results and economic, capital and/or financial position.

The Business Plan 2022-2026's macroeconomic assumptions regarding the dynamics of GDP, inflation and the BTP-Bund spread are more favourable than current market assumptions. Any significant deviations between the actual macroeconomic dynamics and the macroeconomic dynamics assumed as the basis for the Business Plan 2022-2026 could result in significant adverse effects on the Group's operating results and economic, capital and/or financial position.

The Issuer believes, however, that the observed changes in the macroeconomic scenario, even taking into account the IMF forecast updated in October 2022 about the trend of Italian GDP<sup>11</sup>, would not produce negative impacts that could affect the validity of the Business Plan 2022-2026.

#### *Risks related to impairment of goodwill, intangible assets and equity investments*

In line with IAS 36, goodwill is subject to impairment testing at least once a year and in any case when there are signs of deterioration. The activity of testing goodwill for impairment is based on a preliminary allocation of the value of goodwill to the various cash generating units ("CGUs") to which it is attributable; the definition of the scope of the CGUs is carried out in a manner consistent with the segment reporting given in the financial statements, which in turn reflects management reporting.

In light of the circumstance that the Group's most significant equity investments (see below) pertain to the insurance business, which is particularly exposed to market variables (e.g. interest rates), the profiles of uncertainty that characterize the national and global macroeconomic framework, also due to the impacts and developments on public health and the economy resulting from the COVID-19 pandemic and the Russian war in Ukraine, could have significant negative effects on the estimated cash flows assumed, as well as on the main financial assumptions considered, and could consequently result in the need to provide for impairment losses of goodwill, intangible assets and equity investments, including significant ones.

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<sup>11</sup> International Monetary Fund, World Economic Outlook, October 2022

For equity investments, the process of recognizing any impairment initially involves checking for impairment indicators and, in the event of violation of these indicators, the determination of any impairment is determined to the extent that the recoverable value is lower than the carrying value. The parameters and projections on which the estimates are based evolve with the updating of plans of associated equity investments, which are significantly influenced by the macroeconomic environment and financial market dynamics.

As of 30 June 2022, monitoring of the main impairment indicators showed indications of potential impairment of the investments held in AXA-MPS Assicurazioni Vita S.p.A. and AXA-MPS Assicurazioni Danni. The recoverable value of the investee assets was then calculated using the Appraisal Value method for AXA-MPS Assicurazioni Vita S.p.A. and the Dividend Discount Model (DDM) method for AXA-MPS Assicurazioni Danni S.p.A. In both cases, the recoverable value was found to be higher than the corresponding book value, and the carrying value of the investments was therefore confirmed.

With regard to the 2021 Consolidated Financial Statements and the 2020 Consolidated Financial Statements, the results of the valuations did not result in the need to make value adjustments to the equity investments recorded in the financial statements.

In light of the foregoing, although the impairment tests carried out by the Issuer did not reveal the need to proceed with the recognition of value adjustments for goodwill, intangible assets with a finite useful life and, except as described above, equity investments recorded in the financial statements, it cannot, however, be ruled out that in the future it may be appropriate to proceed with the recognition of value adjustments and make write-downs of the aforementioned balance sheet items, even if significant.

For more information on the impairment of goodwill, intangible assets and equity investments please refer to the 2022 Consolidated Half-Yearly Financial Statements incorporated by reference into this Base Prospectus.

#### *Liquidity risk for the 12-month period and risks related to the Issuer's indebtedness and system liquidity support measures*

As of the date of the Base Prospectus, there is a risk that in a time horizon beyond 12 months from 24 November 2022, unexpected events of a macroeconomic nature, events that cause damage to the Bank's reputation, new prudential or regulatory requirements related to regulatory developments, which would have even significant adverse effects on the liquidity profile and the economic and financial situation of the Bank and the Group, will occur.

Without prejudice to the foregoing, the Group's liquidity position could be exposed, in a time horizon beyond 12 months from 24 November 2022, to a series of both exogenous and internal events that could generate a decrease in its customers' deposits, difficulties or inability to access markets, to receive funds from counterparties outside the Group, or result in the impairment of certain assets and/or the inability to finance or liquidate them. Among these, the possible systemic economic/financial crisis (*e.g.*, in case of escalation of the conflict initiated by Russia), the worsening of the Issuer's reputational profile, and possible tensions in the debt market (making the Group's issuance program more difficult to implement) is of particular relevance. As of the date of the Base Prospectus, the Issuer has reserves that are deemed sufficient for the twelve months following that date even in the face of the occurrence of severe adverse events.

As of the date of the Base Prospectus, there is a risk that, further to the 12-month period from 24 November 2022, severe strains may occur in the procurement of liquidity in the market, which could adversely affect the achievement of the Group's objectives, especially in view of the international geopolitical and pandemic environment, resulting in even more significant adverse effects on the Bank's and the Group's economic, financial and capital position. Failure to comply with the minimum requirements under the regulations applicable to the Issuer for liquidity indicators could result in the adoption of specific measures against the Issuer by the authorities and, if the Issuer and/or the Group



were unable to comply with such measures or to fulfil the obligations imposed by the same authorities, this could lead to even significant adverse effects on the Issuer's and/or the Group's economic, financial and asset situation.

In particular, within the scope of liquidity risk, two types of risk can be identified, such as:

- market liquidity risk: related to the possibility that the Bank, in case of need, may not be able to liquidate an asset on the balance sheet without incurring capital losses or a significantly longer time to realization due to low liquidity or inefficiencies in the reference market; and
- funding liquidity risk: represents the possibility that the Bank may not be able to meet expected and unexpected payment commitments on a cost-effective basis and without impairing its core business or financial position.

With respect to risks related to the Issuer's indebtedness and interventions to support system liquidity, significant reduction or withdrawal of system liquidity support by governments and central authorities or reduction of liquidity obtainable through access to the Eurosystem could generate difficulties and/or higher costs in accessing market sources of liquidity, with potential even significant adverse effects on the Bank's and/or the Group's activities and economic, capital and/or financial position.

The ECB, within the SREP Decision 2021, also gave its opinion on the Internal Liquidity Adequacy Assessment Process ("ILAAP") implemented by the Group, concluding that no additional liquidity requirements are deemed necessary. The ECB also highlighted some areas for improvement: greater efficiency and incisiveness of internal inspection activities, the need for an update and rationalization of internal regulations in the area of liquidity management and risk, refinement in the calculation of a management indicator and greater automation in data management and processing. These weaknesses could call into question the Issuer's ability to properly assess the current and prospective liquidity position. In the 2022 Draft SREP Decision, the ECB, while acknowledging that progress had been made with respect to most of the areas for improvement described in the 2021 SREP Decision, it highlighted the risk and IT data infrastructure as a major area for improvement.

The 2021 SREP Decision also highlighted, among the Bank's weaknesses/points of attention, the one related to liquidity risk and in particular funding risk, with reference to the Bank's limited ability to access the unsecured and wholesale market on competitive terms, along with the high level of asset encumbrance. These observations are also confirmed in the 2022 Draft SREP Decision.

As of the date of the Base Prospectus, the Issuer's indebtedness to the ECB, which is attributable to the refinancing operations put in place by the ECB, is Euro 29.5 billion, represented entirely by targeted longer-term refinancing operations ("TLTRO III") operations, of which (i) Euro 4.0 billion called on 18 December 2019 with maturity on 21 December 2022, (ii) Euro 17.0 billion called on 24 June 2020, with maturity on 28 June 2023, (iii) Euro 3.0 billion called on 30 September 2020, with maturity on 27 September 2023, (iv) Euro 2.5 billion called on 24 March 2021, with maturity on 27 March 2024, and (v) Euro 3.0 billion called on 24 June 2021, with maturity on 26 June 2024.

If the collateral provided by the Bank to the ECB against the refinancing activity carried out by the ECB proves to be inadequate with respect to the amount of the refinancing operations, the ECB may request, subject to the Bank of Italy's notification to the Group, the early collectability of the refinancing operations carried out.

The occurrence of the aforementioned event would oblige the Group to immediately reduce the amount of refinancing transactions with the ECB by the same amount or to provide additional eligible assets and/or cash as collateral. Other causes of early collectability include corporate reorganisations and non-compliance with reporting requirements. The occurrence of such an event could result in the consequent risk of encountering difficulties in accessing sources of market liquidity or of having to incur greater, unbudgeted, charges for this purpose, with consequent, even significant negative effects on the Bank's and/or the Group's business and economic, equity and/or financial situation. As mentioned at the

beginning of the paragraph, the maturity ladder is not affected by the ECB funding already carried out but by the level of eligible assets available for the purpose of refinancing operations with the ECB.

As a result of the monetary policy decisions taken by the Governing Council on 27 October 2022 in which the terms and conditions of the third round of TLTRO III were changed, the possibility of partial early repayment of TLTROIIIs could be considered. In fact, the Governing Council decided to adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early redemption dates.

The possible failure to achieve the objectives of diversification of funding sources envisaged in the Business Plan 2022-2026 could be determined by external or BMPS' specific events.

Among the main external elements of uncertainty are, in particular, stress situations in the bank funding market or the institutional funding market, resulting from financial or macroeconomic shocks. Approximately Euro 6 billion of issuances of MREL eligible securities are envisaged during the period of the Business Plan 2022-2026 (in relation to subordinated loans, it should be noted that they are neutral for liquidity risk purposes since, in the event of a failure to issue, the call on existing subordinated loans would not be exercised and they would be brought to natural maturity). With reference to a time horizon beyond 12 months starting from 24 November 2022, failure to issue would make it appropriate to take compensatory actions, in order to achieve targets on key regulatory liquidity indicators (LCR/NSFR), such as increasing funding from deposits or from funding transactions such as repurchase agreements on paper other than high-quality liquid assets, such as to have a positive impact on the Bank's liquidity position. It should be noted that failure to implement such compensatory actions, in the absence of institutional issuances eligible for MREL purposes, would not allow the achievement of the Business Plan 2022-2026 targets on LCR/NSFR indicators, which would have a significant negative impact on the Group's economic, capital and/or financial position.

#### *Risk of exposure to debt securities issued by sovereign states*

The Group is exposed to the risk of exposure to debt securities issued by sovereign states and has exposure to bonds issued by central and local governments and government entities of the Republic of Italy. As of 30 June 2022, the Group's exposure in securities to the Italian government represented 10% of the Group's total assets, up from 9% as of 31 December 2021, 7% as of 31 December 2020, and down slightly from 11 percent as of 31 December 2019. Overall, securities issued by governments, central banks, and other public entities account for 63%, approximately, of total financial assets (Group's securities assets and net position in derivatives), a percentage that is essentially stable compared to the end of 2021 (64%), up from the end of 2020 (57%), and down slightly from the end of 2019 (65%).

Tensions in the sovereign bond market and the volatility of government bonds, significant increases in inflation, and increases in interest rates by the ECB may therefore have negative effects on the Group's business, economic, capital and/or financial position, operating results, and prospects. In particular, rising rates may have a negative effect on the Group's positions measured at fair value by virtue of the short exposure, in terms of sensitivity, to a +1 basis point change in interest rates (Euro -0.2 million on Trading Book - FVTPL, Euro -0.6 million on Banking Book - FVOCI, as of 30 June 2022).

Similarly, any deterioration in the yield differential of Italian government bonds compared to other European benchmark government bonds and/or any joint actions by the major rating agencies, such as to result in a credit rating of the Italian government below investment grade, could result in negative impacts on the Group's liquidity position and negative impacts on the value of the portfolio, as well as on capital ratios.

For more information on the Issuer's risks related to the exposure to debt securities issued by sovereign states, please refer to the 2022 Consolidated Half-Yearly Financial Statements incorporated by reference into this Base Prospectus.

### *Risks related to the application of Burden Sharing to 2008 FRESH Securities*

The Bank is exposed to the risk that the unfavourable outcome of the litigation with the holders of the floating rate equity-linked subordinated hybrid preferred securities ("**FRESH 2008 Securities**") structure and the consequent failure to convert the FRESH 2008 Securities into ordinary shares of the Issuer - as a result of the Ministerial Decree of 27 July 2017 ("**Burden Sharing**") and/or the failure to apply to them Article 22, paragraph 4 of Decree 237 - pursuant to which contractual or other clauses entered into by the Issuer concerning its own shares or capital instruments and relating to the equity rights pertaining to the FRESH 2008 Securities, which prevent or limit their full eligibility for inclusion in Primary Tier 1 Capital, are ineffective - may have a negative impact in terms of the profitability of the investment in BMPS shares.

Certain holders of FRESH 2008 Securities maturing in 2099, by a document served on 19 December 2017, sued BMPS before the Luxembourg Court - together with certain additional companies that entered into a swap agreement with the Issuer having the FRESH 2008 Securities as underlying - to seek a declaration that the Decree 237 is inapplicable to the holders of FRESH 2008 Securities and, consequently, to obtain a ruling that: (a) said bonds cannot be forcibly converted into shares; (b) said bonds continue to remain valid and effective in accordance with the terms and conditions of their issuance, as governed by Luxembourg law; and (c) that BMPS is not entitled, in the absence of the conversion of the FRESH 2008 Securities, to obtain from JP Morgan the payment of Euro 49.9 million arising from the execution of the usufruct agreement signed by it in the context of the issuance of the Bank's shares against the forced conversion of the FRESH 2008 Securities. As of the date of the Base Prospectus, the first instance of these proceedings is pending.

In the event of an unfavourable outcome of the aforesaid litigation, the FRESH 2008 Securities will not be converted into BMPS shares and, consequently (i) the Bank will not collect the amount of Euro 49.9 million resulting from the issuance of the same; (ii) there would also be the non-application, to the issuance of the FRESH 2008 Securities, of the Burden Sharing principle and, consequently, the bondholders could request to receive the coupon (equal to Euribor 3M+425 basis points on a notional amount of Euro 1 billion) if the Bank is in a position to distribute dividends or, as a result of the sale of the stake held by the MEF, a merger with another company occurs. In this regard, it should be noted that the Bank has not paid dividends since the date of the Burden Sharing and, therefore, any unfavourable outcome of the litigation will only produce prospective effects and only in case of dividend distribution. The proceedings as of the date of the Base Prospectus are currently suspended pending a ruling by the Italian court; the Bank is carrying out preparatory activities for the resumption of the proceedings at the Court of Milan.

### *Risks associated with assignments of impaired loans*

In the Business Plan 2022-2026, non-performing exposure disposals for a total of Euro 2 billion are envisaged; as of the date of the Base Prospectus, contracts have already been signed for the disposal of non-performing exposures for a total gross book value as of 31 March 2022 of Euro 0.9 billion, and the legal effectiveness of the relevant transfer, originally expected by the end of 2022, has already occurred for an amount of Euro 0.86 billion. In general, the conclusion of transfer transactions could lead to the charge to the income statement of higher loan impairments in a significant amount attributable to any differences between the value at which the transferred loans are recorded in the Bank's balance sheet and the consideration that market operators specialized in the management of impaired loans are willing to offer to purchase them. Given the same expectations of recovery of cash flows obtainable from the debtor and/or liquidation procedures, the difference between the book value and the sale consideration is in fact influenced by the high rates of return that investors intend to achieve, as well as by the management costs (costs of personnel and organizational structures dedicated to recovery activities) that potential buyers must cover, factors that, consistently with market practice, are discounted in determining the purchase price of the receivables themselves.

With exclusive reference to the sales of impaired receivables already completed as of the date of the Base Prospectus, the Group is also exposed to risks attributable to (a) any potential indemnity obligations to which it would be subject if the representations and warranties issued in relation to each portfolio of receivables sold turned out to be untrue or incorrect; (b) the risk that the claims already notified to it would be deemed well-founded or, in any case, founded to a greater extent than estimated by the same.

In this regard, it should be noted in particular that as of the date of the Base Prospectus: (i) in relation to certain sale transactions, all claims notified to the Bank have not yet been analyzed; (ii) the terms for the notification of claims arising from the incorrectness of the representations and warranties of the Issuer have not yet expired; (iii) there is uncertainty as to the occurrence of a future and uncertain event that could expose the Bank to indemnifications<sup>12</sup>; and (iv) there is no certainty as to the fate of the claims assessed as unfounded by the Issuer (both in the event that such assessment has been rejected by the counterparties and in the event that the counterparties have not expressed an opinion in this regard).

It should be noted that as of the date of the Base Prospectus, the Group has received notifications of disputes amounting to Euro 745 million, of which approximately Euro 744 million related to:

- the securitization transaction "Valentine/Crystal" carried out by the Group in December 2017 in favour of Siena NPL 2018 S.r.l., in the context of which more than 10,300 claims have been received as of 31 July 2021 – i.e. the expiration date of the representations and warranties and the deadline for the notification of claims for breach of the same - for a *petitum* of approximately Euro 711 million. As of the date of the Base Prospectus, the Group has analyzed 33% of the total number of claims notified, equal to 76% of the total *petitum*, considering as founded only a limited percentage of the claims analyzed. With regard to the claims considered unfounded, while on one hand, the Issuer has promptly communicated the reasons for which it considers them to be so, on the other hand, Siena NPL 2018 S.r.l. in its replies has reiterated, for the majority of such claims, the original arguments;
- the "Hydra-M" spin-off transaction finalized in fiscal year 2020 concerning Euro 7.2 billion of impaired loans and whose deadline for sending claims expires on 1 December 2022. In the context of this operation as of 30 June 2022, 67 claims have been notified for a *petitum* of approximately Euro 28 million, of which the Bank has analysed a number equal to 32% of the *petitum*, deeming a minority share to be founded and initiating the negotiating tables necessary for the amicable settlement of those considered unfounded;
- the securitisation "Fantino" (as better described below), in the context of which - on 19 October 2022 – Illimity Bank S.p.A. sent to the Issuer an indemnification notice for an indemnity amount of approximately Euro 5 million.

It is also worth mentioning that the assignment of probable defaults called "Bravo" under which the Group is exposed to disputes for a maximum of Euro 9 million arising from a declaration due in July 2023. In this regard, it should be noted that as of the date of the Base Prospectus no dispute attributable to this assignment has been received.

Finally, it should be noted that the provisions set aside by the Group for the overall disposal transactions are also determined through the use of statistical techniques to take into account the overall expected risk. It cannot be ruled out that the provisions set aside by the Group will prove to be insufficient, or with possible negative effects on the Bank's and/or Group's economic, equity and/or financial situation.

In addition, on 4 August 2022, the Group entered into three receivables transfer agreements in relation to a portfolio of impaired loans, called "Fantino", for a total gross book value of Euro 0.9 billion. The legal transfer and consequent derecognition by the Group of the portfolio, originally expected by the

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<sup>12</sup> In particular, in relation to the assignment in favour of Siena NPL 2018 S.r.l. (Pjt. "Valentine/Crystal"), the Bank is exposed to the risk of receiving further claims since: (i) in relation to certain receivables in respect of which are pending passive judicial proceedings (listed in a specific annex of the relevant receivables transfer agreement), Siena NPL 2018 S.r.l. has the right to notify a claim until the conclusion of the afore-mentioned judicial proceedings; and (ii) Siena NPL 2018 S.r.l. has notified, before 31 July 2021 (i.e. the deadline for the notification of claims), certain claims having a "preventive" nature (so called "pre-claims"), which could give right to indemnification, also beyond the afore mentioned date, upon the occurrence of the future and uncertain event deducted in the relevant pre-claim

end of 2022, has already taken place for an amount of Euro 0.86 billion. The representations and warranties set out in the receivables transfer agreements entered into with the counterparties to the transaction (i.e., Illimity Bank S.p.A., Intrum Holding S.r.l. and AMCO - Asset Management Company S.p.A.) expose the Group to the following disbursement risks:

- Illimity Bank S.p.A.: maximum outlay amounting to Euro 13.9 million;
- Intrum Holding S.r.l. (through the securitisation vehicle Alicudi SPV S.r.l.): maximum outlay amounting to Euro 3.1 million;
- AMCO: maximum outlay amounting to Euro 7.2 million.

In particular, the representations and warranties given by the banks of the Group have a duration of: (i) with regard to the portfolio transferred to Illimity Bank S.p.A., 15 months from the transfer of the relevant receivables (i.e. 6 November 2022 or 4 December 2022) (with the exception of some limited hypotheses in which the term, regardless of the transfer date of the relevant receivable, starts from 4 December 2022); (ii) with regard to the portfolio transferred to Intrum, 12 months from the date of the certified e-mail by which the Issuer confirms that it has made available the documentation in electronic format; and (iii) with regard to the portfolio transferred to AMCO, 18 months from the transfer of the receivables. As a consequence, the assignees will have the right to notify claims until the above-mentioned deadlines.

In this regard, it should be noted that as of the date of the Base Prospectus further disputes to the detriment of the Group could emerge from the aforementioned transactions.

#### *Risks related to the distribution of dividends*

As of the date of the Base Prospectus, the Bank is not allowed to proceed with the distribution of dividends, as - by the most recent SREP decision dated 2 February 2022 and as reiterated in the 2022 Draft SREP Decision - the ECB confirmed the already existing decision to prohibit the Issuer from proceeding with the distribution of dividends until the decision is revoked; therefore, until the Bank reaches the capital requirements required by the supervisory authority and, as a result, the latter decides to remove this prohibition, the Issuer, even if there are distributable profits for the year, will not be able to proceed with the distribution of dividends. As of the date of the Base Prospectus, the Bank is therefore exposed to the risk that, even if it achieves the required capital requirements, the supervisory authority will decide not to remove the prohibition on distribution or that, even in the absence of the aforementioned prohibition, it will still fail to make distributable profits.

As of the date of the Base Prospectus, the Issuer is also subject to the limits on the possibility of distributing dividends provided for in Article 16(a) of Directive 2019/879/EU ("BRRD II"), transposed in Italy by Legislative Decree No. 193 of 8 November 2021 in the event of a violation of the CBR considered in addition to the MREL. The Commitments published by the European Commission on 3 October 2022 also prohibited the Bank - assuming that no dividend distribution prohibitions set by the ECB or the SRB are already in place - from making dividend distributions unless the CET 1 ratio and Total Capital Ratio are higher than the SREP guidance provided by the ECB by at least 50 to 100 basis points.

In connection with the temporary violation of the CBR, considered in addition to the existing MREL requirements, recorded by the Group as of 31 March 2022, by a letter notified on 2 May 2022, the Single Resolution Board, pursuant to Article 10(a) of Regulation (EU) No 806/2014 of the European Parliament and Council of 15 July 2014 (so-called SRM), notified the Bank of its decision regarding the prohibition of:

- distributing dividends;
- paying coupons on AT1 instruments;

- assumption of obligations to pay variable compensation or discretionary retirement benefits or payment of variable compensation against commitments made when the combined capital reserve requirement was not met (the CBR-MREL violation), beyond the limit of the so-called "M-MDA" (Maximum Distributable Amount in relation to MREL).

It should be noted that although the Business Plan 2022-2026 envisages, upon the occurrence of the relevant assumptions, the distribution of dividends starting from 2026 (30% pay-out ratio on 2025-2026 results), the Issuer may not be able to proceed with the distribution of dividends due to legislative and regulatory prohibitions and/or limitations or resulting from measures of the relevant supervisory authorities.

In this regard, it should be noted that the ECB, in a note published on 23 July 2021, decided not to extend beyond 30 September 2021 its recommendation addressed to all banks to limit the distribution of dividends, published in order for banks to preserve their capital and preserve their ability to support the economy in the context of great uncertainty resulting from the COVID-19 pandemic (Recommendation ECB/2020/19, most recently replaced by Recommendation ECB/2020/62). However, the ECB continues to recommend that banks (i) adopt prudence in their decisions on dividends (as well as on share buybacks), carefully considering the sustainability of their business model, and (ii) do not underestimate the risk that additional losses may later affect the evolution of their capital profile when the support measures come to an end. As of the date of the Base Prospectus, however, it is not possible to exclude the risk of events occurring that would result in the publication of new recommendations by the supervisory authorities.

Notwithstanding the above, finally, it cannot be ruled out that, even in the face of distributable operating profits, the distribution of dividends to shareholders will not be resolved, thereby having a negative impact on the return on investment in the Bank's shares.

#### *Risks Related to Assumptions and Methodologies for Fair Value Measurement of the Issuer's Assets and Liabilities*

The preparation of the financial statements also requires the use of estimates and assumptions that may have a significant effect on the amounts recorded in the balance sheet and income statement. In particular, the Group is exposed to the risk that changes in the current values recorded at fair value in the financial statements as a result of changes in the main factors considered and the subjective assessments used may generate potential negative impacts on the Issuer's profitability.

In line with IFRS 13, which governs fair value measurement rules, the Group classifies assets and liabilities carried at fair value in the financial statements, based on a threefold hierarchy that reflects the reliability of the inputs used in making valuations.

Level 1 fair value assets and liabilities (L1) consist exclusively of financial instruments listed in active markets, and as the valuation is made on the basis of market prices (so-called "active markets"), the riskiness of the portfolio is typically related to fluctuations in market prices.

Level 2 (L2) and Level 3 (L3) fair value valuations of assets and liabilities that are not based on market quotations require the selection of market information (including interest rates, exchange rates, valuations of comparable instruments), if available, and/or the adoption of subjective valuations also based on historical experience or internal valuation models, which by their very nature may vary. Changes in the current values recorded in the financial statements as a result of changes in the main factors considered and the subjective valuations used could generate negative impacts on the Group's profitability.

The preparation of financial disclosures also requires the use of other estimates and assumptions that can have significant effects on the amounts recognized in the balance sheet and income statement. The other main instances for which the use of subjective judgements by management is most required are:

- a) the quantification of impairment losses on receivables and, in general, other financial assets;

- b) the assessment of the appropriateness of the value of equity investments and other non-financial assets (goodwill, tangible assets, including the value in use of assets acquired through leasing, and intangible assets);
- c) the estimate and assumptions on the recoverability of DTAs;
- d) the estimation of liabilities arising from defined-benefit corporate pension funds;
- e) the quantification of provisions for legal and tax liabilities; and
- f) the quantification of the fair value of properties held for investment and properties used in the business.

As anticipated, the measurement of fair value Level 2 and fair value Level 3 involves the use of market information, if available, and/or the adoption of subjective assessments, also based on historical experience or internal valuation models. Estimates and assumptions may be different from year to year and, therefore, it cannot be ruled out that, in subsequent years, the current values recorded in the financial statements may change, even significantly, with potential negative impacts on the Group's profitability.

For more information on the assumptions and methodologies for Fair Value Measurement of the Issuer's assets and liabilities, please refer to the 2022 Consolidated Half-Yearly Financial Statements incorporated by reference into this Base Prospectus.

#### *Risks related to the impairment of DTAs*

As of the date of the Base Prospectus, the Issuer is exposed to the risk that the recorded DTAs may in the future be subject to partial or full impairment in the financial statements (i) should the Issuer's future profitability levels be lower than estimated and insufficient to ensure the reabsorption of DTAs (including in view of the possible impacts resulting from the COVID-19 pandemic and the conflict in Ukraine), or (ii) should significant changes in current tax legislation and related practice occur. As of 30 June 2022, DTAs at the Group level amounted to Euro 1,115.3 million (compared to Euro 1,046.4 million as of 31 December 2021, Euro 1,183.7 million as of 31 December 2020, and Euro 1,809.4 million as of 31 December 2019), of which Euro 577.5 million can be converted into a tax credit under Law of 22 December 2011, no. 214 ("**Law 214/2011**") (Euro 577.5 million as of 31 December 2021, Euro 760.2 million as of 31 December 2020, and Euro 975.9 million as of 31 December 2019). The recognition was made to the extent that the contingent DTAs were deemed, under the assumption of continuity of current tax legislation and related practice, recoverable (so-called probability test) either because they can be transformed into tax credits pursuant to Law 214/2011 (DTAs with guaranteed recovery), or because they can be offset against the taxes that will be due against estimated future taxable income. As a result of the aforementioned probability test as of 30 June 2022, DTAs amounting to an additional Euro 3,520.7 million are unrecognized.

With regard to insufficient future taxable income, the risk of impairment would concern only the DTAs that cannot be transformed into tax credits (amounting to Euro 537.8 million as of 30 June 2022), since the recovery of the transformable DTAs is irrespective of the Issuer's future earning capacity. In the event of future regulatory changes, on the other hand, the risk of impairment could affect the total amount of DTAs recorded in the financial statements; for example, with reference to the balances recorded in the Issuer's 2022 Consolidated Half-Yearly Financial Statements as of 30 June 2022, a one-point reduction in the nominal IRES rate would result in a partial impairment of the relevant DTAs in the amount of Euro 35.6 million, and the possible repeal of IRAP would result in the full cancellation of DTAs referring to this tax in the amount of Euro 135.8 million.

The effects of the aforementioned write-downs (as well as any revaluations) on capital ratios for regulatory supervisory purposes would differ depending on the type of DTAs affected, depending on the different prudential treatment provided. Specifically:

- with regard to DTAs from tax losses and/or from "ACE" (Aid to Economic Growth under Art. 1 Law Decree 201/2011) surpluses, the impact of any write-down on capital ratios would be nil, as this type of DTA is deducted in full from regulatory capital (the effect on the income statement would be sterilised by the deduction);

- with regard to DTAs that can be transformed into tax credits under Law 214/2011, the impact would be high because such DTAs are not negative elements of capital and are included in Risk Weighted Assets (RWA) with a 100% weighting (the effect on the income statement would be only partially offset by the opposite effect on RWA); and

- with respect to DTAs having a different nature from the previous ones, the impact on capital ratios would be nil up to the point at which said DTAs exceed the allowance and relevant for the part included in it.

Finally, it should be noted that any write-down of unrecognized DTAs would have no impact on capital ratios.

In addition, the Issuer is exposed to the risk that unrecognized DTAs could also be subject to partial or total write-downs in the future, resulting in the non-existence of the associated latent assets. In particular, they could be subject to reduction if significant changes to current tax regulations and related practices occur, as well as a result of any denials made by the tax authorities with respect to disapplicative interpellations that may be proposed by the Issuer pursuant to current applicable legal provisions in connection with the business combination transactions envisaged in the Business Plan 2022-2026. In particular, Articles 172 and 173 of the T.U.I.R. provide, inter alia, limitations on the carry-forward of tax losses and "ACE" surpluses (with respect to merger and demerger transactions, respectively). In this last regard, moreover, it should be noted that the recent clarifications provided by the Agenzia delle Entrate (in Circular No. 31/E of 1 August 2022) regarding the carryover of tax positions in demerger transactions, expose the issuer to the risk that DTAs potentially bookable on the subjective positions being transferred by MPS Capital Services Banca per le Imprese S.p.A. as part of the demerger transaction finalized on 19 November 2020, may be subject to impairment in the amount of approximately Euro 4 million. This amount is to be considered non-material, however, compared to the amount of DTAs that could potentially be recognized (amounting to Euro 3,520.7 million).

## **RISK FACTORS RELATED TO THE OPERATING ACTIVITY AND THE INDUSTRY IN WHICH THE ISSUER AND THE GROUP OPERATE**

### *Risks related to outstanding legal proceedings*

The Group is involved in various capacities in certain legal proceedings (civil, labor, criminal and administrative). In particular, the criminal proceedings originate in an extraordinary and exceptional context related to the criminal investigations that specifically affected the Issuer in the years 2012, 2013, and from 2015 until the date of the Base Prospectus.

As of 30 June 2022, the Group is a party to court proceedings arising from the conduct of its business (excluding labour and tax proceedings) with a total petitum, where quantified, of Euro 4.6 billion and a provision for risks and charges of approximately Euro 0.9 billion and out-of-court claims for a petitum of approximately Euro 1.8 billion, mainly pertaining to claims classified as "probable" at risk of losing.

In light of the foregoing, it cannot be ruled out that any investigative and procedural findings significantly different from these estimates, such as the establishment in the future of further significant litigation, could - also in light of developments in case law - lead to the need for a revision of the same, possibly highlighting the insufficiency of these provisions, resulting in even significant risk to the economic, financial and equity situation and prospects of the Issuer and/or the Group.

It should also be noted that, as of the date of the Base Prospectus, the Group's image is damaged by the events related to the judicial proceedings initiated by the Public Prosecutor's Office in the last decade



against the Bank and certain individuals at the time who were exponents of the same, including the structured finance transactions called "Alexandria" and "Santorini" and the real estate reorganization transaction of the Group called "Chianti Classico." Negative perceptions of the Group's image on the part of customers, counterparties, shareholders, investors or the competent supervisory authorities could affect the ability of BMPS and/or the Group to maintain, or create, new business relationships and continue to access "funding" resources, with even significant repercussions for its activities and volume of profits and capital. Such negative perception could also result from the possible emergence of new judicial, tax or arbitration proceedings against the Issuer and/or the other banks of the Group as well as its employees or exponents or from possible administrative sanctions, significant financial losses, regardless of the grounds for the claims made.

In this regard, it should be noted that as part of the analysis carried out on the individual SREP pillars, the 2021 SREP Decision highlighted among the Bank's weaknesses/points of attention profiles that relate, among other things, to operational risk, where legal risk explains most of the exposure. Legal risk is due both to past events that have weakened the Group's reputation and to the high number of ongoing lawsuits, to which were added insufficient governance and control processes compared to the size and complexity of this risk, which was identified by the ECB as higher than the corresponding risk affecting the Bank's competitors. The size of the pending proceedings is also identified by the ECB as an obstacle to a merger transaction on market terms and may still result in a significant negative impact on the Issuer's future profitability. The supervisory authority expects that this exposure will continue to be high in the years ahead and that the path to normalizing the Bank's reputation and litigation risk will be a long one. These assessments were also confirmed by the supervisory authority in the 2022 Draft SREP Decision according to which, moreover, while noting the reduction in exposure pursued in 2021 due to the settlement with the MPS Foundation and other minor transactions, a new increase in out-of-court claims in the middle part of 2022 is highlighted due to the initiative of a single company. In addition, the ECB highlights that although a possible further reduction in exposure to legal risks may materialize due to the development of one of the criminal proceedings in which BMPS is a civil party and in which some former executives are involved, it cannot be excluded that new strands of litigation against the Bank may open up, particularly in relation to another criminal proceeding concerning alleged irregularities in the accounting of NPLs.

*Risks related to the administrative liability of legal persons and the possible inadequacy of the Issuer's organization and management model pursuant to Legislative Decree No. 231/2001*

As of the date of the Base Prospectus, the Bank is involved in four criminal proceedings with respect to which the Bank has been charged with liability under Legislative Decree 231/2001, specifically:

- in criminal proceeding no. 955/16, concerning the accounting of the Alexandria and Santorini transactions; the Bank's allegation of liability is based on the alleged offences of market manipulation and false corporate communications;
- in criminal proceeding no.1874/14 before the Court of Forlì attributable to the conduct of some employees of the Forlì branch; the contestation of administrative offences under Legislative Decree 231/2001 is based on the predicate offences of obstructing the exercise of the functions of public supervisory authorities, money laundering and transnational criminal association;
- in criminal proceeding No. 429/22 currently before the Court of Siena in relation to the sale of investment diamonds under the assumption of the crime of self-laundering;

in criminal proceeding no. 33714/2016 before the Court of Milan, regarding which the Public Prosecutor on 16 September 2022, notwithstanding the order of dismissal against the Bank on 4 May 2018, issued a decree of reopening of the investigation pursuant to the combined provisions of Articles 58 and 34 of Legislative Decree 231/2001 and Article 414 of the Italian Code of Criminal Procedure - with reference to the hypotheses of false prospectus, false corporate communications of listed companies (pursuant to Article 2622 of the Italian Civil Code) and market manipulation alleged against

individuals (no. 3 former exponents and a former executive) in relation to the 2013, 2014, 2015 financial statements and the 2015 and 2016 half-yearly reports due to the alleged incorrect assessment of the adjustments made over time, with reference to so-called impaired loans.

In light of the above, BMPS is exposed to the risk of incurring convictions as a responsible party pursuant to Legislative Decree 231/2001 with significant negative effects on its economic, financial and equity situation as a result.

The Issuer and the Group are therefore exposed to the risk of incurring penalties arising from any assessment of the inadequacy of the models adopted, including the organization, management and control model envisaged by the provisions of Legislative Decree 231/2001 and subsequent amendments and additions (the "**231 Model**") and/or from the commission of an offence that provides for the administrative liability of the Issuer and the Group pursuant to Legislative Decree 231/2001 as well as pursuant to similar provisions applicable in the countries in which the Group operates.

In this regard, it should be noted that the adoption of organization, management and control models does not per se exclude the applicability of the sanctions provided for in Legislative Decree 231/2001 and that the adequacy and suitability of the model to prevent the crimes covered by the legislation is ascertained from time to time by the judicial authority called upon to verify the individual cases of crime. If the 231 Model is not considered adequate by the judicial authority, and in the event of an offence, it is not recognized that the Issuer is exempt from liability; a fine and confiscation of any price or profit of the offence is foreseen against the Issuer, in addition to publication of the conviction and, for more serious cases, the possible application of disqualification sanctions, such as disqualification from conducting business, the suspension or revocation of authorizations, licenses or concessions, the prohibition to contract with the public administration, the exclusion from facilitations, financing, contributions or subsidies and the possible revocation of those already granted as well as, finally, the prohibition to advertise goods and services, with consequent significant negative effects on the activity, prospects, reputation as well as the economic, equity and financial situation of the Issuer and the Group.

#### *Risks related to bancassurance relationships*

As of the date of the Base Prospectus, the Group carries out bancassurance activities on the basis of an agreement with the group headed by AXA S.A. concerning the development of activities in the bancassurance, life and non-life and supplementary pension business, effective until 2027, the date of natural dissolution, unless otherwise agreed between the parties. As of 30 June 2022, the incidence of agreements arising from the JVs' bancassurance business with AXA S.A. on the Group's total revenues is approximately 7.9 percent<sup>13</sup>.

The shareholders' agreement originally entered into between MPS Finance Banca Immobiliare S.p.A. ("**MPS Finance**") (which was later universally succeeded by the Bank) and AXA Mediterranean Holding S.A. ("AXA MH") with the Bank and AXA S.A. also participating, aimed at regulating the governance of certain joint ventures between the two companies, provides that upon the occurrence of certain material events - such as change of control, breach of lock-up clauses, natural expiration of the agreement, serious default of one of the parties and/or invalidity of the agreement itself - the following rights arise: (a) the right of AXA MH to sell to the Bank the shares of AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A. held by AXA MH (the "**Put Option**") as well as (b) the right of MPS Finance (as of the date of the Base Prospectus, the right is of BMPS) to purchase the shares of AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A. held by AXA MH (the "**Call Option**"). Depending on the relevant event that triggers the exercise of the Call Option or the Put Option, it is expected that the sale or purchase price of the shares AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A. will vary between 80% and 120% of the value of the shares of the two aforementioned companies, as determined by the Bank and AXA MH and/or a team of independent experts. This value of the shares will be determined (i) for the life

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<sup>13</sup> Revenues from the afore-mentioned agreements are included in the reclassified Income Statement items "Net Commissions" and "Dividends, Similar Income and Gains (Losses) from Equity Investments."

business, taking into consideration the embedded value and goodwill, whereas (ii) for the non-life business, using the discounted cash flow methodology.

Should the relevant framework agreement terminate (as a result of the activation of the Put Option or the Call Option arising from the occurrence of one of the relevant events), the Bank would be required to purchase the entire share capital of the existing joint ventures with AXA S.A., under the terms and conditions described above. The resulting investment is not envisaged under the Business Plan 2022-2026 and, as of the date of the Base Prospectus, cannot be quantified, even taking into account existing contractual provisions; such an investment could hinder the Bank's ability to pursue the Business Plan 2022-2026's capital targets, making it necessary to revise the Business Plan 2022-2026.

The actual exercise of the Put Option by AXA MH - on the occurrence of one of the relevant events provided for in the shareholders' agreement, including the change of control in the Bank resulting from the sale by the MEF of the stake held in it - and consequently the obligation of BMPS to purchase the shares of AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A. held by AXA MH could result in even significant negative effects on the Bank's and/or the Group's economic, equity and/or financial situation. In particular, said purchase transactions could have significant impacts on the Issuer's solvency ratios based on the rules in force from time to time relating to the prudential treatment of insurance holdings.

As of the date of the Base Prospectus, there is a risk that any conflicting situations between the parties participating in said alliance initiatives could lead, among other things, to operational deadlocks, resulting in the Group's inability to pursue the economic benefits derived from them and with possible even significant negative effects on the Bank's and/or the Group's activities and economic, equity and/or financial situation.

Finally, it should be noted that the agreement in place with AXA MH - having terms and conditions in line with market practice for similar transactions - provides for an obligation of indemnification by the Bank in the event of a breach of the provisions contained therein up to a maximum limit of 10% of the Life Branch Price, with an absolute deductible of Euro 5,000,000, in relation to AMAV and within the maximum limit of 10% of the consideration paid by AXA MH for the purchase of ordinary shares representing 50% of the capital of AXA MPS Assicurazioni Danni S.p.A., with an absolute deductible of Euro 2,000,000. In this regard, it should be noted that although the indemnification obligation relating to the general guarantees expired in 2008, as of the date of the Base Prospectus the Bank is exposed to the risk that, in the event of a breach of the declarations made in tax, social security, insurance, labour law as well as concerning compliance with anti-money laundering, regulatory and supervisory regulations, it will be required to bear the charges arising from the aforementioned indemnification obligations.

### *Operational risks*

The Group is exposed to operational risk, which consists of the risk of incurring losses resulting from internal or external fraud, the inadequacy or improper functioning of business procedures, errors or deficiencies in human resources and internal systems, interruptions or malfunctions of services or systems, errors or omissions in the provision of services offered, or exogenous events.

The Group determines the capital requirement for operational risk using the advanced method (Advanced Measurement Approach) for major Group companies and the basic method (Base Indicator Approach) for smaller subsidiaries. Operational loss events to which the Group is exposed fall into the following regulatory categories:

- internal fraud;
- external fraud;
- labour relations;
- business practices;

- property damage;
- IT systems; and
- process execution.

Within the operational risks there are risks of incurring economic, reputational and market share losses in connection with the use of information and communication technology. Types of information technology risks include:

- risks related to malfunctions, errors, deficiencies and environmental events, which may compromise the availability and integrity of data and systems, the continuity of business processes, or the implementation of evolutions and changes on systems;
- cyber (or cybersecurity) risks related to the success of external attacks or malicious activities of internal parties, which may compromise the confidentiality, integrity and authenticity of corporate data and information, and the continuity of services provided; and
- risks related to the use of IT services/systems provided by third parties. The main factors of exposure to IT risk concern:
  - the continuous evolution and sophistication of the cyber threat, also fueled by geopolitical tensions at the international level;
  - the expansion of the attack surface, related to the digitization of services and business processes, and the transformation of the corporate information system into a "technology hub," with the increasing use of outsourcing and cloud solutions; and
  - the need to achieve business objectives through the implementation of digital transformation and data enhancement plans from a business perspective.

The ECB, in the 2021 SREP Decision, stressed the need to strengthen cyber risk prevention and mitigation processes with a view to minimizing the risk of the occurrence of major cyber incidents. In the 2022 Draft SREP Decision, the ECB acknowledged the implementation of the remedial actions defined by the supervisory authority, but considers that the IT risk is still high, with areas of focus in organizational structure, implementation of technical solutions, assertiveness of control functions, and in general IT risk culture, considering the high exposure to cybersecurity, availability and continuity risks of IT resources and outsourcing risks. In addition, the low quality of IT and data quality operational management controls is highlighted.

The ECB also stressed the relevance of the tightness of anti-money laundering safeguards to operational risk, considering that during the pandemic period, partly due to repeated lockdowns, the reduction in customer contacts slowed down the improvement actions implemented by the Bank.

Finally, the ECB, again as part of the 2021 SREP Decision, considered the Bank's governance and risk sphere system to be improvable, highlighting the need to strengthen certain compliance, internal audit and data quality processes. In particular, the ECB requested the extension of the compliance function's activities to all regulated areas of the Bank and its systematic involvement in the decision-making process of the Board of Directors, while for the internal audit function it called for some additions to the methodology used in carrying out audits of the branch network and general management structures. As of the date of the Base Prospectus, the relevant remedial actions have been completed and are being applied. In the 2022 Draft SREP Decision, the ECB acknowledged the implementation of these remedial actions from an organisational and methodological point of view, but points out that, to be fully effective, processes and behaviours must also improve in the same way; therefore, there is a risk that the supervisory authority may not consider them satisfactory, requiring further remedial actions, resulting in significant adverse effects on the Bank's business and capital and/or financial position of the Bank and/or the Group. Furthermore, in the 2022 Draft SREP Decision, the ECB highlighted weaknesses in the governance of IT infrastructure, data aggregation and reporting, which need to be significantly improved in light of the low capacity to produce necessary information in a timely and effective manner.

Should the operational risk management processes prove to be inadequate, the Issuer and the Group could be exposed to unforeseen risks, including due to unforeseeable events wholly or partially beyond the control of the Issuer or the Group, resulting in the possibility of incurring losses, including significant losses, and potentially detrimental effects on the Group's economic, asset and/or financial position.

### *Market risks*

The Group is exposed to market risk represented by potential losses in the value of financial instruments held by the Issuer, including securities of sovereign states, as a result of movements in market variables (such as, by way of example, interest rates, credit spreads, share prices, exchange rates, inflation levels) or other factors, which could generate a deterioration in the Issuer's and/or the Group's capital strength, both with regard to the trading portfolio (c. so-called "trading book"), and with regard to the portion of the banking portfolio (so-called "banking book") subject to market risks.

The Issuer quantifies this type of risk through the use of a "Value to Risk" measure (the "VaR"); with reference to the trading book as of 30 June 2022, the VaR at the 99% is approximately of Euro 5.14 million at the Group level (approximately Euro 3.38 million as of 31 December 2021, Euro 5.24 million as of 31 December 2020 and Euro 8.72 million as of 31 December 2019).

The Group believes that it is particularly exposed to market risks, both with reference to external elements (the potential volatility of underlying risk factors) and to internal factors related, for example, to the VaR methodology used to estimate unexpected losses related to the overall trading and banking book portfolio.

Banking portfolios, in particular, represent the main component of the Group's market in terms of internal capital, mainly attributable to BMPS' exposure to debt securities, concentrated on the component of Italian government securities measured at amortized cost (i.e., positions in amortizing cost (AC)).

With regard to the trading book, the market risk, measured in terms of VaR, is lower than in the past and stems from liquidity providing/market making activities in the markets concerned, from trading with customers with a related risk taking activity, from offering products and services for corporate and institutional customers (bancassurance products, hedging derivatives, structured bonds and certificates) with active risk management from a risk warehousing perspective, and from the Bank's treasury hedging activities for customer service transactions. The short/medium-term proprietary trading component is insignificant, limited to liquid instruments with low transaction costs.

As anticipated, market risk could be generated by changes in the general performance of the economy and national and international financial markets, monetary and fiscal policies, market liquidity on a global scale, availability and cost of capital, interventions by rating agencies, political events at both local and international levels, war and acts of terrorism, and the spread of epidemics that impact public health and the economy. In the current context, this risk may also manifest itself as a result of the global increase in inflation and commodity prices in the face of, among other things, the continuation of hostilities in Ukraine, as well as the further expected increase in interest rates that may be implemented by the ECB, which is already evident in market expectations as of the first quarter of the year.

Finally, it should be noted that as part of the analysis carried out on the individual SREP pillars, the 2021 SREP Decision highlighted, among the Bank's weakness, profiles/points of attention that related, among other things, to market risk, in relation to the Bank's significant exposure to government bonds. In the 2022 Draft SREP Decision, while acknowledging the reduction in the risk profile on Italian government bonds implemented by the Bank, the ECB continued to highlight this element as a significant risk factor in light of the significant volatility of the BTP credit spread.

### *Risks related to supervisory authority investigations*

Since the Issuer carries out banking activities and provides investment services, it is subject to extensive regulation and supervision by, among others, the ECB, Bank of Italy, and Consob, each for the aspects under its jurisdiction. In particular, as of the date of the Base Prospectus, inspections of the Bank by Consob and the ECB are ongoing.

In particular, as of 4 November 2014, the Single Supervisory Mechanism (the "SSM") was launched, which includes the ECB and the competent national authorities of the participating member states, including the Bank of Italy, and is responsible for the prudential supervision of all "significant" credit institutions in the participating member states. As of that date, therefore, BMPS as a "significant" bank 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 has retained supervisory powers over the Issuer, in accordance with the rules of the Consolidated Finance Act). In the exercise of their supervisory powers, the ECB and the Bank of Italy subject the Issuer to various ordinary and extraordinary inspection and/or verification activities on a periodic basis in order to carry out their prudential supervisory tasks. Regarding verification activities in particular, reference is made to those with a system-wide scope of investigation ("Thematic Review") or those related to the management of internal risk models for the purpose of calculating capital requirements. The aforementioned inspection and/or verification activities feed into the annual prudential review and assessment process, the purpose of which is to ascertain that the credit institution is equipped with appropriate capital and organizational safeguards with respect to the risks assumed, ensuring the overall management balance.

As of the date of the Base Prospectus, the following assessment procedures are still open, pending the final outcome:

- (i) Consob inspection activity, initiated on 3 May 2022, aimed at ascertaining the state of compliance with the new regulations resulting from the transposition of MiFID II with regard to the following profiles: (1) the procedural structures defined in terms of product governance; (2) the procedures for assessing the adequacy of transactions carried out on behalf of clients;
- (ii) inspection activity on internal models - Internal Model Investigation by the European Central Bank initiated in February 2022. As a result of these proceedings, whose decision is expected during the third quarter of 2022, the Group is in particular exposed to the risk that additional obligations in terms of RWA will be determined, with consequent implications, *ceteris paribus*, for the Bank's capital ratios;
- (iii) credit and counterparty risk inspection activities initiated by the European Central Bank in April 2022. The outcome of these proceedings, the inspection report of which is expected during the second half of 2022, could lead to a revision of the classification criteria and, consequently, provisions on the portfolios under inspection with consequent negative impacts on the Group's capital.

For further information on the assessment procedures on the Issuer please refer to sub-section "ECB/Bank of Italy and Consob inspections during the period 2015-2022" under section "Banca Monte dei Paschi di Siena S.p.A." of the Base Prospectus.

In light of the foregoing, the Group is exposed to the risk that as a result of the aforementioned inspections, procedural deficiencies may emerge that could imply the need to take organizational actions and reinforce safeguards aimed at addressing these deficiencies. Any inadequacy of the corrective actions and remedial plans undertaken by the Bank to implement any recommendations made by the supervisory authorities could lead to significant negative effects on the Group's economic, equity and/or financial situation and possible sanction proceedings, including those of an interdictory nature, with consequent reputational repercussions.

Specifically, in relation to on-site inspections, failure to comply with the implementation of remedial actions within the required timeframe exposes the Bank to the risk of a negative assessment by the Authority, which may incorporate such a judgment as part of the broader annual SREP assessment process, even applying specific requirements to achieve the target set, if necessary. In relation to internal

models inspections, failure to comply with findings requirements exposes the Bank to the risk of sanctions, limitations and/or RWA add-on requests.

Such remedial actions, where not formally accepted by the ECB, are not final in nature, and could therefore be subject to future requests for review by the supervisory authority.

Finally, it should be noted that in the context of the 2021 SREP Decision, the ECB highlighted - inter alia - the need for the Bank to (a) improve processes and practices related to the formulation of authorization petitions to the ECB itself, with reference, in particular, to the assessment of suitability of corporate officers and amendments to the by-laws, and (b) strengthen the oversight of the compliance function towards certain business processes, such as authorization petitions to the ECB and resolutions of the Board of Directors. The relevant remedial actions have been completed and represented to the ECB, which will take them into account in the next SREP decision.

#### *Risks related to the speculative rating assigned to the Issuer and its debt*

The Issuer and its debt are subject to ratings by Moody's Investors Service ("**Moody's**"), Fitch Ratings Ireland Limited ("**Fitch**"), and DBRS Morningstar ("**DBRS**", and together with Moody's and Fitch, the "**Agencies**"), which, as of the date of the Base Prospectus, have assigned ratings to the Issuer that fall into the non-investment grade category, which is characterised by an accentuated risk profile and includes debt securities that are particularly exposed to adverse economic, financial, and sectoral conditions. Specifically, the ratings assigned are:

- (i) for Fitch: b (Viability Rating), B+ (Long-term Deposit Rating) and B (Long-term Senior Debt Rating), B (Short-term Deposit Rating) as per the latest Rating action dated 1 December 2021. The outlook is classed as "evolving". According to the rating agency Fitch, weak capital levels limit the bank's ability to revive business, room for further restructuring as well as improving profitability levels and sustainability. The Bank's asset quality and risk profile reflect the significant de-risking process carried out in recent years;
- (ii) for Moody's: b3 (standalone Baseline Credit Assessment), B1 (long-term deposit rating) and Caa1 (long-term senior debt rating), NP (short-term deposit rating), as per the latest rating action dated 17 March 2022. The outlook is stable. According to Moody's, the rating reflects weakness in the business network, capital position, and profitability albeit with improvements realized in the last period; the bank's performance remains volatile and subject to losses that can erode capital. In addition, the cost structure remains higher than other Italian banks;
- (iii) for DBRS: B (high) (Intrinsic Assessment), BB(low) (long-term deposit rating) and B (high) (long-term senior debt rating), R-4 (short-term deposit rating) as per the latest rating action dated 15 June 2022. The outlook is qualified as "stable." According to the rating agency DBRS, the ratings reflect weakness and volatility in profitability, despite a return to profit in 2021; however, due to the significant de-risking achieved in recent years, pressures from the cost of risk have decreased. The ratings also reflect low capital levels.

It should be noted that the aforementioned agencies consider the Group's capitalization levels to be vulnerable to possible impacts arising from the macroeconomic environment; impacts that the rating agencies indicated could be exacerbated by already weak profitability and difficulties in restoring full commercial capacity in the market.

In determining the rating assigned to the Issuer, the rating agencies consider and examine various indicators of the Group's performance, and in particular the results of the commercial network, the Bank's profitability, cost structure, capital levels, asset quality, and legal risks.

The main factors that may lead to a possible rating downgrade are:

- a failure to implement the Bank's new strategy envisaged in the Business Plan 2022-2026, with a focus on both profitability levels and its sustainability over time; and

- a deterioration in asset quality and legal litigation trends.

Should the Issuer experience a deterioration (so-called downgrading) in the ratings assigned by the agencies, there could be a greater burden in raising financing, less easy recourse to the capital market and, more generally, potential negative repercussions for the Group's liquidity.

The Issuer's rating may also be affected by the rating of the Italian State which, as of the date of the Base Prospectus, is Baa3 for Moody's with a negative outlook, BBB for S&P with a stable outlook, BBB for Fitch with a stable outlook, and BBBh for DBRS with a stable outlook. Any significant downgrade in Italy's sovereign rating could adversely affect the Issuer's ratings, with consequent negative effects on the Bank's and/or the Group's business and economic, capital, and/or financial position.

#### *Interest Rate Risk in the Banking Book (IRRBB)*

The Group is exposed to interest rate trends in the markets in which it operates, changes in which (both positive and negative) can have a negative impact on the value of the Group's assets and liabilities and on net interest income. As part of the analysis carried out on the individual SREP pillars, the 2021 SREP Decision highlighted some of the Bank's weaknesses/points of attention profiles that related to the interest rate risk of the banking book, highlighting the need to improve the effectiveness of the measurement system (in fact, the Bank should not only include in the measurement the impact of a movement in rates on net interest income, but also on instruments held on the balance sheet whose value impacts the income statement or directly on equity), ex-ante assessment and ex-post reporting. This weakness could reduce the effectiveness of the Bank's internal control system and thus the Board's ability to effectively guide the Group's positioning with respect to rate curve movements, with possible negative effects on the income statement and thus also on the Issuer's capital position. This assessment was reiterated in the 2022 Draft SREP Decision.

The banking book identifies all the Group's commercial operations related to the maturity transformation of balance sheet assets and liabilities, treasury, foreign branches, and reference hedging derivatives. The Group is exposed to interest rate trends in the markets in which it operates, changes in which (both positive and negative) can have an impact on the value of the Group's assets and liabilities and on net interest income. In turn, interest rate trends are driven by a number of factors outside the Group's control, such as monetary policies, macroeconomic trends, and political conditions in the relevant countries. In addition, consider that the results of banking and financing operations also depend on the management of the Group's exposure to interest rates.

The banking book's interest rate risk measurements are mainly based on the exposure to interest rate risk for a change in the interest margin (short-term perspective) and economic value (long-term perspective) of assets and liabilities in the banking book, applying both parallel shifts, of varying magnitude, to all rate curves and non-parallel shifts in rate curves.

#### *Risks related to the impact of current uncertainties in the macroeconomic, financial and political environment on the performance of the Issuer and the Group*

The economic results of the Issuer and the Group companies, in view of their activities, are significantly influenced by the dynamics of the financial markets as well as by the macroeconomic environment (with particular regard to growth prospects) of Italy. In particular, the national and global macroeconomic framework is marked by significant profiles of uncertainty, including of the economic fallout from the conflict affecting Ukraine and Russia, especially in terms of price dynamics, monetary and economic policy responses to high inflation, growing geopolitical tensions, the possible impacts and developments of the COVID-19 pandemic. With particular reference to the aforementioned war conflict, in addition to the plausible return to a scenario characterized by power blocs with negative effects on trade exchanges and the possibility of conflict escalation on a global scale, the war and sanctions imposed on the Russian Federation impact international price dynamics.



Indeed, the Russian Federation emerges as the main supplier of gas to Europe and Italy, and has gained control of Ukrainian maritime grain supplies with obvious repercussions for the countries that depend on it. The continuation of the aforementioned hostilities has therefore generated an increase in energy costs with a consequent increase in costs and financial requirements at the head of industrial companies. The persistence of this scenario over time could jeopardize the companies that could be impacted by the trend in the prices and availability of energy and raw materials (identified by the Group in companies belonging to the transport and logistics, refining and wholesale of fuels and fuels, those related to electric power, plus some specific production chains such as wool and milling industries, cold processing of steel, and production and processing of chemical fibres) to which the Group has a portfolio of credit exposures of less than Euro 2 billion as of 30 June 2022.

From a financial perspective, it also cannot be ruled out that the continuation of sanctions will push Russia into default on foreign debt, increasing instability in international markets.

The global macroeconomic picture is also affected by uncertainty about: (a) the speed with which monetary authorities will raise the cost of money and the spillover effects of a restrictive policy on the global economic and financial system; (b) an announcement of EU fiscal policies that may return to a less expansionary stance in the medium term; (c) geopolitical tensions between the U.S. and China and turmoil in countries that are seeing reduced grain supplies due to the aftermath of the conflict; and (d) new lockdowns due to the resurgence of the COVID-19 pandemic emergency in China that would restrict supply in many global supply chains.

With reference to the COVID-19 pandemic emergency, despite the fact that the Italian government lifted the state of emergency on 31 March 2022, the risk cannot be ruled out, albeit significantly reduced, that new variants of the virus will lead to a resurgence of the pandemic, with new repercussions on the national economic cycle, while at the international level the introduction of new lockdowns (e.g., in China) could limit supply in many global supply chains.

There are also specific risks related to the Italian financial and political situation and the implementation of the National Recovery and Resilience Plan that, in a context of a gradual withdrawal of monetary stimulus, affects investors' perception of country risk by being reflected in a high yield differential between the Italian 10-year and the German bund.

Should these risks lead to a stagnation or recessionary trend in the Italian economy in the medium to long term, this could adversely affect the dynamics of the main banking aggregates and the specific impacts on the Bank's and Group's economic, financial and capital position could be significant. In particular, a contraction in demand for credit could manifest itself for the banking sector, with a decrease in customer deposits mainly with reference to companies, a slowdown in ordinary banking activity, a deterioration of the loan portfolio with a concomitant increase in the stock of impaired loans and insolvency situations, decrease in the value of assets due to the decrease in stock and bond prices, deterioration of revenues and increase in loan adjustments, with negative effects on the Group's activities and economic, financial and equity position. In this context, it notes, in particular, the possibility that the economic slowdown will lead to a deterioration in the quality of the loan portfolio, with a consequent increase in the incidence of non-performing loans and the need to increase provisions in the income statement; there is also the possibility of a negative impact on the Group's ability to generate revenues, due to the weakening of demand for both financing and investment services and products from customers.

This recessionary scenario would also have negative impacts on: (i) commissions, with negative effects due to the volatility of financial markets, which are reflected in securities prices and on the contribution from indirect deposits, operations and products placed; (ii) net interest income, which, in addition to the reduction in intermediated volumes, would suffer a higher cost of "funding"; the result of securities portfolio management activities due to the aforementioned volatility of financial markets; and (iii) the fair value measurements of financial assets and liabilities, due to their lower market value.

It should be borne in mind that the Business Plan 2022-2026, approved by the Board of Directors on 22 June 2022, considers a macroeconomic scenario that is consistent, in terms of Italian economic growth,

with the estimates of the main national and international institutions (e.g., ECB, Bank of Italy, Istat) available at the date of approval of the Business Plan 2022-2026; however, it cannot be excluded that the evolution of the main phenomena that characterize the current macroeconomic context will produce significant deviations from the assumptions of the Business Plan 2022-2026 considered valid at the date of the Base Prospectus, with significant negative impacts on the achievement of the expected sustainable profitability.

For further information with respect to the risks described in this paragraph please also see the sections “*Reference context*”, “*Russia – Ukraine Conflict*” and “*COVID-19*” of the Consolidated Interim Report as at 30 September 2022.

### *Counterparty Risks*

As part of its operations, the Group trades derivative contracts on a wide variety of underlyings, such as interest rates, foreign exchange rates, prices in equity indices, commodity derivatives, and credit rights both with counterparties in the financial services sector, commercial banks, government departments, financial and insurance companies, investment banks, funds, and other institutional clients, and with non-institutional clients.

The Group, as required by supervisory regulations, for the purpose of measuring counterparty risk exposure, uses, as of June 2021, in accordance with the provisions of Regulation (EU) 2019/876 (the “CRR II”), the Standardized Approach for Counterparty Credit Risk (SA CCR) method for the determination of Exposure at Default (EAD) for all transactions in Over the Counter (OTC) derivatives, Exchange Traded Derivatives (ETD) and LST, and the comprehensive method as defined by Regulation (EU) 2013/275 for the determination of EAD for SFT transactions. For the purpose of mitigating the value of EADs, Credit Risk Mitigation techniques (i.e. netting agreement, collateral agreement) are widely used in the Group, in compliance with the requirements set by current regulations. The Group also oversees the counterparty risk associated with derivative and repo transactions through the definition of guidelines and policies for management, measurement and monitoring differentiated according to counterparty characteristics. These policies ensure that the counterparty risk measurement system, in relation to the definition of the calculation methodology, production and analysis of EAD measures, is integrated into business processes, with exposure levels subject to daily monitoring by the control functions and presiding over specific limits, defined and deliberated by the Bank for derivative and SFT positions. The above contributes to maintaining counterparty risks at low levels, resulting in the Issuer's estimate of low materiality. Operations with financial institutions are almost entirely assisted by netting contracts with collateral exchange. With regard to operations with ordinary customers, the process is based on the distinction of roles and responsibilities between the different entities of the Group. Derivatives operations with customers involve the centralization of the product factory and market risk oversight in the subsidiary MPS Capital Services, with allocation, management and oversight of counterparty credit risk to customers in the Group's banks.

In light of the above, the Group is exposed to the risk of default by its counterparties to derivative contracts, or that they become insolvent before the maturity of the relevant contract. This risk, which has been exacerbated as a result of the volatility of financial markets, may also arise in the presence of collateral, when any such collateral provided by the counterparty in favor of the Bank, or other Group company, against derivative exposures is not realized or settled at a value sufficient to cover the exposure with respect to the relevant counterparty.

### *Risks related to the purchase and use of Superbonus/Ecobonus/Sismabonus tax credits*

The Bank is exposed to the risk of non-recoverability of tax credits acquired for transactions under Article 121, of Decree Law No. 34/2020. As of 30 June 2022, the nominal amount of the acquired credits present in the balance sheet assets is Euro 460.5 million. As of the same date, the aforementioned receivables have already been offset, under the conditions of the law, in the amount of Euro 62.3

million; the remaining amount recorded in the assets (Euro 398.2 million) will be subject to recovery in subsequent annual instalments (up to a maximum of ten annual instalments).

Pursuant to Article 121 of Decree Law No. 34/2020 ("Urgent measures on health, support for labor and the economy, as well as social policies related to the epidemiological emergency from COVID-19"), the Issuer purchased tax credits arising from transactions related to interventions in the construction sector (so-called superbonus, ecobonus, sismabonus, bonus facciate, etc.). Purchased tax credits must be used to offset payments of taxes and contributions due (the so-called "Tax Capacity"), within deadlines established by law, or transferred to third parties in time for use by the transferees. Failure to use or transfer within the terms results in a loss equal to the value not used or not transferred. Without prejudice to the controls imposed by the regulations and the rigorous preliminary verifications aimed at ascertaining the existence of all the requirements prescribed by law for the regular accrual of credits in the hands of taxpayers that the Issuer carries out as part of the credit acquisition process, in the event that the tax authorities challenge the Issuer for "complicity" in any violations put in place by the taxpayers from which the acquired credits originate, the same would be subject to administrative sanctions, as well as joint and several liability for the payment of taxes and interest with the taxpayer.

It should be noted that if, for any reason, (i) significant changes in the current tax legislation were to occur or (ii) the payments on which to offset were less than the amount of the credits acquired, and the credits acquired in excess of the offsetting capacity (Tax Capacity) were not sold to third parties in a timely manner or (iii) co-responsibility emerged with respect to violations committed by taxpayers, or, again, (iv) credits were purchased despite the fact that there are situations for which the conditions set forth in Art. 35 ("obligation to report suspicious transactions") and 42 ("abstention") of Legislative Decree 231/2007 apply, the unrecovered value of the purchased receivables would have to be charged to loss, with negative effects on the Issuer's economic, asset and/or financial situation. The Bank has identified a non-significant amount of the aforementioned purchased receivables (amounting to Euro 1.7 million) that could result from suspicious transactions and, therefore, this amount of the receivable cannot be used, constituting an unrecoverable loss.

With reference to the risk that the tax authorities may challenge the Issuer for "aiding and abetting" any violations put in place by the taxpayers from which the purchased receivables originate, it should be noted that certain clarifications recently provided by the Revenue Agency (in Circular No. 23/E of 23 June 2022 and better clarified by Circular No. 33/E of 6 October 2022) in terms of the declination of "complicity in the violation" by the transferee of receivables, which have been widely criticized by sector operators, the trade associations that represent them and the most authoritative doctrine, could lead to an aggravation of said risk, despite the adoption in the Issuer's operations of rigorous document verification processes.

#### *Risks related to transactions with related parties*

The Issuer and its subsidiaries have entered into transactions and have various kinds of relationships with related parties. As of 30 June 2022, the incidence of transactions with related parties in relation to balance sheet items was 14.5% of asset items and 2.4% of liability items almost entirely attributable to transactions concluded with the MEF - mainly related to the purchase of government bonds - and the latter's its subsidiaries and/or associates.

Transactions with related parties present the typical risks associated with transactions that take place between parties whose ownership or otherwise proximity to the Issuer and/or its decision-making structures could compromise the objectivity and impartiality of decisions on such transactions.

Although the Group continuously applies the safeguards aimed at managing conflicts of interest provided for in the Bank's Procedure for Related Party Transactions, there is, however, no certainty that, if such transactions had been concluded with third parties, the latter would have negotiated and entered into the relevant contracts, or executed the same transactions, under the same conditions and in the same manner.

### *Risks related to the territorial concentration of the Group's activities*

As of 30 June 2022, BMPS's commercial network is present throughout the country and divided into five territorial areas; due to presidium and historicity, one of the five areas coincides with the region of Tuscany, from which it takes its name, while the other four areas appear to cover a wider territory represented on average by four to five Italian regions.

The operations of BMPS's commercial network show a concentration of branches and volumes of deposits and loans in the Tuscan territorial area, with average incidences fluctuating in a range between 21% and 27%, on average higher than the other territorial areas of about 20%. Similarly, the Group's distribution network is strongly rooted in the reference territories, as is also evident from the market shares in Tuscany of loans (14.91% compared to 4.35% of all of total Italy as of 30 June 2022) and deposits (13.72% compared to 3.59% of all of total Italy as of 30 June 2022).

There is therefore a potential risk that any change for the worse in the economic picture of the Tuscany region, in partial or total misalignment with the general national picture, could generate negative economic, financial and capital repercussions for the Group.

In the face of this risk, it is particularly important for the Group to constantly monitor economic trends, in order to catch any signs of deterioration referring to specific territories, and to diversify its activities across the various economic sectors, with particular regard to those with corporate customers and lending as counterparts.

In light of the above, it cannot be ruled out that the specific regional context may change and deteriorate, even in relative terms compared to the trend of the national economy, with possible negative effects on the Group's activities and economic, equity and/or financial situation.

## **RISK FACTORS RELATED TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS**

### *Risks related to the Group's key figures and the Group's ability to retain or attract certain professional skills*

The Group's results and the future success of its activities depend to a significant extent on the Group's ability to attract, retain and motivate qualified personnel with considerable experience in the business sectors in which the Group operates, as well as on the work of certain key figures, who, in view of their consolidated experience in the sector in which the Group operates, as well as their technical and professional skills, have contributed and continue to contribute significantly to the development of the Group's activities and its business strategies.

In particular, the Issuer counts among the key figures within its Board of Directors and key managers the Managing Director Luigi Lovaglio and the members of the Management Committee.

In this regard, it should be noted that, in view of the regulations applicable to the Bank, its ability to attract and retain key personnel could be hindered by:

- (i) any limitations on remuneration (so-called "salary cap") imposed on the Issuer by the relevant authorities;
- (ii) the provisions pursuant to Part One, Title IV, Chapter 2, Section V of the supervisory provisions, for banks and banking groups benefiting from exceptional public interventions; in such cases, in fact, variable remuneration is strictly limited as a percentage of net operating income when it is not compatible with the maintenance of an adequate level of capitalization and with a timely exit from public support; moreover, no variable remuneration must be paid to corporate officers unless justified;

- (iii) the European Commission's Commitments published on 3 October 2022, pursuant to which, among other things, the Bank shall implement stringent executive compensation policies and the remuneration of any employee shall not exceed ten times the average remuneration of the Bank's employees.

On the topic of remuneration, BCE highlights in the 2022 Draft SREP Decision that some shortcomings related to remuneration procedures and the lack of alignment between remuneration framework and risk, already highlighted in previous SREP cycles, persist. In particular, BCE highlights how there are, in BMPS policies, instruments called "benefits" with discretionary management and not linked to specific objective criteria.

In fact, the aforementioned conditions could lead to a reduction in the Group's competitive capacity, hindering its ability to retain key personnel and undermining the activities, where necessary, of identifying, in a short time, equally qualified persons capable of replacing them and providing the same operational and professional contribution to the Issuer. The occurrence of the aforementioned circumstances could therefore lead to a slowdown in the Group's growth and development process, a reduction in the Group's competitive ability, and affect its achievement of its set objectives, with potential negative effects on its economic, equity and/or financial situation and/or prospects.

## **RISK FACTORS RELATED TO THE LEGAL AND REGULATORY FRAMEWORK OF THE SECTOR OF BUSINESS IN WHICH THE ISSUER AND THE GROUP OPERATE**

### *Risks related to the entry into force of the new accounting standard IFRS 17 "Insurance Contracts"*

On 18 May 2017, the IASB issued the new accounting standard IFRS 17 governing the accounting treatment of insurance contracts, which was endorsed on 19 November 2021, with the publication of Regulation No. 2036/2021 in the Official Gazette. On 25 June 2020, the IASB published a number of amendments that, among other things, provided for postponement of the first application to 1 January 2023. Compared to the previous IFRS 4 standard, which allowed insurance companies some discretion in identifying and measuring insurance assets and liabilities at the expense of comparability of financial statement disclosures, the new IFRS 17 standard introduces an integrated approach to accounting for insurance contracts, with the aim of ensuring relevant disclosures that faithfully represent the effects of insurance contracts on an entity's financial position, results of operations, and cash flows.

Changes in the carrying amount of insurance contracts due to the transition to IFRS 17 will be accounted for as an offset to equity on 1 January 2023.

The expected change could consequently have an impact on the Group's capital ratios.

### *Risks associated with uncertainty about the future results of stress tests or asset quality review (AQR) exercises*

The SSM is responsible for the prudential supervision of all credit institutions in participating member states and ensures that the EU policy on the prudential supervision of credit institutions is implemented consistently and effectively and that credit institutions are subject to the highest quality of supervision. In this context, the ECB has been entrusted with specific prudential supervisory tasks over credit institutions by, among other things, providing for the possibility for credit institutions to conduct, where appropriate in coordination with the European Banking Authority ("EBA"), stress tests (supervisory stress tests) to ascertain whether the measures, strategies, processes and mechanisms put in place by credit institutions and the own funds they hold would enable sound risk management and hedging in dealing with future, but plausible, adverse events. The stress tests are designed to serve as inputs to the SREP: the outcome of the SREP could result in an additional own funds requirement, as well as other qualitative and quantitative measures.

The EBA conducted an EU-wide stress test for 2021 (following the postponement of the 2020 exercise due to the COVID-19 pandemic) aimed at assessing the resilience of the European banking sector, including the Group. The results were published at the end of July 2021 and are available on the EBA website. On 8 December 2021, the EBA, in line with its decision to conduct a two-year exercise, announced its decision to conduct the next EU-wide stress test in 2023, in which the Group will participate. The features of the exercise are largely overlapping with the one carried out in 2021; the most significant new elements are a specific focus on energy-intensive economic sectors and the way in which fee income is stressed, which will not be based on banks' internal models but will be carried out centrally by the authority. Participation in the stress tests carries the risk of possible upward revision of the P2G, and thus the levels of capital to be held by the Group, in the event of a negative result in the "baseline" scenario and/or the "adverse" scenario.

In addition, the EBA, in cooperation with the relevant Supervisory Authorities, may in the future decide to recommend a new asset quality review (or "Asset Quality Review" or "AQR") on the most important European banks, including the Issuer, in order to verify the classifications and assessments they have made on their loans in order to address concerns related to deteriorating asset quality. Such an asset quality review exercise may, possibly, also be combined with an additional stress test conducted by the ECB as part of a new global assessment exercise.

Given the impossibility of quantifying the impacts arising from the stress tests before the stress tests are conducted, there can be no assurance where the EBA and other relevant Supervisory Authorities conduct new comprehensive assessment exercises (or stress test exercises or asset quality review exercises) that the Issuer will meet the minimum parameters. In the event of bankruptcy, the Issuer could be subject to ECB measures that, among other things, could require the implementation of new capitalization actions or other appropriate measures to address the capital shortfalls found in the Bank's own funds, with potentially negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

*Risks related to changes in banking and financial sector regulations and additional regulations to which the Group is subject*

The Group is subject to compliance with a complex set of regulations and supervision by, among others, the Bank of Italy, Consob and, from 4 November 2014, the ECB, which is entrusted, pursuant to the regulations establishing the SSM, with the task of, inter alia, ensuring the homogeneous application of the regulatory provisions of the Euro Area and is responsible for the prudential supervision of all "significant" credit institutions in the participating member states. Supervision by the aforementioned Authorities covers various areas of the Issuer's and the Group's activities and may concern, among other things, levels of liquidity, capital adequacy and leverage, regulations on transactions with related parties and connected persons, prevention and combating of money laundering, protection of privacy, transparency and fairness in customer relations, and reporting and record-keeping obligations.

Any changes in the regulations, or even in the manner in which they are applied, as well as the eventuality that the Issuer and/or Group companies fail to ensure compliance with the applicable regulations, could result in adverse effects on the Bank's and/or Group's activities, assets, liabilities, and financial position, as well as on the products and services they offer. The impacts of the continuous evolution of the regulatory framework - including, but not limited to, the introduction of more stringent rules on exposures to Sovereign States and NPLs, the application of the Fundamental Review of the Trading Book (FRTB), the adoption of the Standardized Measurement Approach (SMA) for operational risks, the introduction of output floors for the reduction of benefits from internal models or the introduction of changes to the calculation of the capital requirement on credit risk (so-called "regulatory headwinds") represent elements of uncertainty with specific reference to the required capitalization profiles and, more generally, to the valuation parameters applied by supervisory bodies.

With reference to the evolution of prudential supervision regulations, it should be noted that on 27 October 2021, the European Commission adopted a new package of reforms aimed at the banking sector

to further strengthen the resilience of banks (known as the "Banking Package 2021"), with the proposed transposition into CRR and Directive 36/2013/EU of the final standards approved by the Basel Committee at the end of 2017, in relation to the treatment of the main risks (credit, market and operational) and the so-called "output floor" that aims to counter the possible underestimation of risk resulting from the use of banks' internal models. As of the date of the Base Prospectus, the aforementioned banking reform package is under consideration by the EU Parliament and Council, which will respectively work on possible amendments before agreeing on a common text (so-called Trilogue). Once the approval process is completed, transposition of the directive will have to be carried out within 18 months from the date of publication in the EU Official Journal, while the new CRR provisions are expected to come into force from 1 January 2025 (with a five-year transitional arrangement), *i.e.* two years beyond the Basel-agreed deadline, which has already been deferred by one year in response to the pandemic crisis.

In light of the ongoing banking reform, it cannot be ruled out that the changes to the prudential supervisory framework may lead to an increase in RWAs, resulting in the inability of the Issuer and the Group to meet the minimum capital adequacy requirements, with possible adverse effects on the Issuer's and the Group's capital, economic and financial situation that may necessitate the adoption of additional capital strengthening measures.

In addition, it should be noted that as part of the EU-wide process of defining legislative measures aimed at supporting the development of sustainable finance, regulations and directives implementing MiFID II regulations have been, through delegated acts, amended with a view to encouraging the integration of sustainable investment profiles; if the Bank is unable to achieve timely compliance with the European regulations, it could be subject to measures and/or sanctions with possible negative impacts on its reputation, as well as on the Group's operating results and economic, capital and financial situation.

The Issuer is also participated in by the MEF in an amount of 64.23% of the capital; for this reason at present it has a particularly extensive perimeter of related parties and connected persons whose management, due to the relative structure and breadth, constitutes a particularly heavy burden for the Issuer for the purposes of its application of the regulations on transactions with related parties and connected persons.”