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

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

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

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

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

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

This Prospectus has been approved as a base prospectus issued in compliance with the Prospectus Directive 2003/71/EC (the "**Prospectus Directive**") by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the competent authority in the Grand Duchy of Luxembourg for the purposes of the Prospectus Directive. In accordance with article 7.7 of the Prospectus Law, the CSSF assumes no responsibility as to the economic and financial opportuneness of any transactions under the Programme or the quality or solvency of the Issuer. Application has been made for Covered Bonds to be admitted during the period of 12 months from the date of this Prospectus to listing on the official list and trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of Markets in Financial Instruments Directive 2004/39/EC (*MiFID*) as subsequently amended. The Programme also permits Covered Bonds to be issued on the basis that (i) they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer or (ii) they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system.

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

From their relevant issue dates, the Covered Bonds will be issued in bearer and dematerialised form or in any other form as set out in the relevant Final Terms. The Covered Bonds issued in bearer and dematerialised form will be held on behalf of their ultimate owners by Monte Titoli S.p.A. ("**Monte Titoli**") for the account of the relevant Monte Titoli account holders. Monte Titoli will also act as depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**"). The Covered Bonds issued in bearer and dematerialised form will at all times be evidenced by book-entries in accordance with the provisions of the Financial Laws Consolidation Act and with the joint regulation of the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") and the Bank of Italy dated 22 February 2008 and published in the Official Gazette No. 54 of 4 March 2008, as subsequently amended and supplemented. No physical document of title will be issued in respect of the Covered Bonds issued in bearer and dematerialised form.

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

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

(ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series

of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds,

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

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

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

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

Each Series or Tranche of Covered Bonds issued under the Programme, if rated, is expected to be assigned, unless otherwise stated in the applicable Final Terms, the following credit ratings: A2 by Moody's Investors Service Limited ("**Moody's**"), BBB by Fitch Ratings Ltd. ("**Fitch**") and A (high) UR with Negative Implication by DBRS Ratings Limited ("**DBRS**" and, together with Moody's and Fitch, the "**Rating Agencies**" and, each of them, a "**Rating Agency**"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The Covered Bonds issued under the Programme may also not be assigned a rating. If the Covered Bonds issued under the Programme may be assigned a rating, the credit rating applied for in relation to the Covered Bonds will be issued by credit rating agencies established in the EEA and registered under Regulation (EU) No 1060/2009 (as amended from time to time, the "**CRA Regulation**"). Please refer to the ESMA webpage http://www.esma.europa.eu/page/List-registered-and-certified-CRAs in order to consult the updated list of registered credit rating agencies.

Any websites included in the Prospectus are for information purposes only and do not form part of the Prospectus.

JOINT-ARRANGERS FOR THE PROGRAMME

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

DEALERS

Morgan Stanley | **MPS Capital Services Banca per l'Impresa S.p.A.** | **NatWest Markets**

The date of this Prospectus is 22 December 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTENTS

RISK FACTORS 1
SUPPLEMENTS, FINAL TERMS AND FURTHER PROSPECTUSES 167
STRUCTURE OVERVIEW 168
GENERAL DESCRIPTION OF THE PROGRAMME 174
DOCUMENTS INCORPORATED BY REFERENCE 198
TERMS AND CONDITIONS OF THE COVERED BONDS 201
RULES OF THE ORGANISATION OF THE BONDHOLDERS 260
FORM OF FINAL TERMS 288
USE OF PROCEEDS 300
BANCA MONTE DEI PASCHI DI SIENA S.P.A. 301
CREDIT AND COLLECTION POLICY 425
THE GUARANTOR 433
DESCRIPTION OF THE PROGRAMME DOCUMENTS 436
CREDIT STRUCTURE 462
CASHFLOWS 473
DESCRIPTION OF THE COVER POOL 479
THE ASSET MONITOR 498
DESCRIPTION OF CERTAIN RELEVANT LEGISLATION IN ITALY 500
TAXATION 506
SUBSCRIPTION AND SALE 520
GENERAL INFORMATION 525
GLOSSARY 530

RISK FACTORS

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

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

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

1. GENERAL INVESTMENT CONSIDERATIONS

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

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

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

1.2 *Obligations under the Covered Bonds*

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

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

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

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

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

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

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

In the exercise of its powers, trusts, authorities and discretions the Representative of the Bondholders shall only have regard to the interests of the holders of the Covered Bonds and

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

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

1.5 ***Extendible obligations under the Guarantee***

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

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

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

To the extent that the Guarantor has received a Guarantee Enforcement Notice in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series or Tranche of Covered Bonds, the Guarantor shall make partial payment of the relevant Final Redemption Amount in accordance with the Guarantee Priority of Payments and as described in Condition 8 (*Redemption and Purchase*) and payment of all unpaid amounts shall be deferred automatically until the applicable Extended Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date or the Maturity Date (as the case may be) may be paid by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended

Maturity Date, in accordance with the applicable Priority of Payments. The Extended Maturity Date will fall 38 years after the Maturity Date.

Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 8 (*Redemption and Purchase*) and the Guarantor will pay Guaranteed Amounts, constituting interest due on each Guarantor Payment Date and on the Extended Maturity Date. In these circumstances, except where the Guarantor has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the Guarantor to make payment in respect of the Final Redemption Amount on the Maturity Date (subject to any applicable grace period) (or such later date within the applicable grace period) shall not constitute a Guarantor Event of Default. However, failure by the Guarantor to pay the Guaranteed Amounts corresponding to the Final Redemption Amount on or the balance thereof or prior to the Extended Maturity Date and/or Guaranteed Amounts constituting interest on any Guarantor Payment Date will (subject to any applicable grace periods) be a Guarantor Event of Default.

1.6 ***Limited secondary market***

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

1.7 ***Exchange Rate Risks and exchange controls***

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease; (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds, and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

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

1.8 *Priority of Payments*

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

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

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

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

Additionally, there can be no assurance as to how such subordination provisions would be viewed in other jurisdictions such as Italy or whether they would be upheld under the insolvency laws of any such relevant jurisdiction. If a subordination provision included in the Programme Documents was successfully challenged under the insolvency laws of any relevant jurisdiction and any relevant foreign judgement or order was recognised by the Italian courts, there can be no assurance that these actions would not adversely affect the rights of the

Bondholders, the rating of the Covered Bonds, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy all or any of its obligations under the Covered Bonds.

1.9 *Ratings of the Covered Bonds*

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

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

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

1.10 *Covered Bonds issued under the Programme*

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

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

will then have a claim against the Guarantor under the Guarantee for an amount equal to the Principal Amount Outstanding plus any interest accrued in respect of each Covered Bond, together with accrued interest and any other amounts due under the Covered Bonds, and any Guarantor Available Funds will be distributed according to the Post-Enforcement Priority of Payments.

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

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

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

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

1.11 *Controls over the transaction*

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

1.12 *Limits to Integration*

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

More specifically, under the Bank of Italy Regulations, integration is allowed exclusively for the purpose of (a) complying with the Mandatory Tests; (b) complying with any contractual overcollateralization requirements agreed by the parties to the relevant Programme Documents

or (c) complying with the limit of 15 per cent. in relation to certain Top-Up Asset including in the Cover Pool.

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

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

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

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

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

1.15 *Legal investment considerations may restrict certain investments*

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

1.16 *Changes of law*

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

1.17 *Law 130*

Law 130 was enacted in Italy in April 1999 and amended to allow for the issuance of covered bonds in 2005. Law 130 was further amended by law decree No. 145 of 23 December 2013, called "*Decreto Destinazione Italia*" (the "***Destinazione Italia* Decree**") converted into law No.

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

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

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

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

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

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

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

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

Some Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

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

If in the case of any particular Tranche of Covered Bonds the relevant Final Terms specifies that the Covered Bonds are redeemable at the Issuer's option pursuant to Condition 8(d) (*Redemption at the option of the Issuer*), the Issuer may choose to redeem the Covered Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds.

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

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

1.21 ***Zero Coupon Covered Bonds***

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

1.22 ***Amortising Covered Bonds***

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

1.23 ***Fixed/Floating Rate Covered Bonds***

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Covered Bonds.

1.24 ***Redemption for tax reasons***

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any withholding or deduction for or on account of, any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any taxing jurisdiction (as referred to in Condition 10 (*Taxation*)), as a result of any change in, or amendment to, the laws or regulations of any taxing jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Series of the Covered Bonds and such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may redeem all outstanding Coverd Bonds in accordance with the Terms and Conditions. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Covered Bonds.

1.25 ***Interest rate risks***

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

1.26 ***Floating rate risks***

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

1.27 ***Potential conflicts of interest***

Any Calculation Agent appointed under the Programme (whether a Paying Agent or otherwise) is the agent of the Issuer and not the agent of the Bondholders. Potential conflicts of interest may exist between the Calculation Agent (if any) and Bondholders (including where a Dealer acts as a Calculation Agent), including with respect to certain determinations and judgments that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Bondholders during the term of the Covered Bonds and upon their redemption.

1.28 ***Mortgage borrower protection***

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

- the right of prepayment of the principal amount of the mortgage loan, without incurring a penalty or, in respect of mortgage loan agreements entered into before 2 February 2007, at a reduced penalty rate (article 120-*ter* of the Consolidated Banking Act, introduced by Legislative Decree No. 141 of 13 August 2010 as amended by Legislative Decree No. 218 of 14 December 2010);
- right to the substitution (*portabilità*) of a mortgage loan with another mortgage loan and/or the right to request subrogation by an assignee bank into the rights of their creditors in accordance with article 1202 (*surrogazione per volontà del debitore*) of the Civil Code, by eliminating the limits and costs previously borne by the borrowers for the exercise of such right (article 120-*quater* of the Consolidated Banking Act,

introduced by Legislative Decree No. 141 of 13 August 2010 as amended by Legislative Decree No. 218 of 14 December 2010);

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

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

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

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

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

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

- the right to suspend instalment payments relating to mortgage loans in case of (i) damages which do not permit access to the relevant building, (ii) commercial businesses located in the relevant municipalities up to a maximum period corresponding to the state of emergency as per Council of Ministers Order dated 20 September 2017 and declaration of up to 180 days state of emergency caused by exceptional weather conditions in Livorno, Rosignano Marittimo e Collesalvetti (published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 226 of 27 September 2017 "**Order 226**").

- the right to suspend instalment payments relating to mortgage loans in case of (i) damages which do not permit access to the relevant building, (ii) commercial businesses

located in the relevant municipalities up to a maximum period corresponding to the state of emergenc as per Council of Ministers Order dated 8 September 2017 and declaration of up to 180 days state of emergency caused by a hearthquake in the Ischia Island (published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) No. 218 of 18 September 2017 "**Order 218**")

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

2. RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

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

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

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

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

In summary, the Restructuring Plan provides for:

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

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

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

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

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

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

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

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

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

The Restructuring Plan includes the preliminary estimate of the effects deriving from the entry into force of accounting principle IFRS 9. It should be finally considered that the Restructuring Plan includes an estimate of the RWA on the portfolio of the AIRB's exposure in default. The new methodological approach for the estimate of RWA exposure in default is still waiting for the validation by the ECB. In the following weeks, the Issuer will finalise the request for the use of such new methodological approach; the same may be used for determining the RWA,

after the completion of the validation activity by the supervisory authority. In the meantime, the ECB may request the Issuer – which cannot adopt such new approach for the purpose of the regulatory calculation of RWA on exposure in default – for a RWA's regulatory add-on. Should the methodology under the ECB's regulatory add-on result in a more strict estimate than the one implemented by the Bank, it may highlight further capital increases which are not quantifiable.

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

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

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

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

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

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

(v) *risk containment:* undertaking to finalise the assignment of the NPL portfolio (the "**Assignment of the NPL Portfolio**"), enhancement of risk control measures (with specific reference to the adequacy of lending policies and commercial policies adopted by the Bank, as well as to the monitoring of such risk), restrictions to treasury finance activities in terms of VaR and of nature of instruments dealt with;

(vi) *prohibition to carry out acquisitions:* specifically the Bank may not proceed with the acquisition of any interest or asset, unless (a) the European Commission authorises such acquisition in exceptional circumstances, demanding financial soundness to be restored

or competition to be assured, (b) the acquisition does not exceed certain thresholds in terms of price, and (c) such acquisition is put in place in the context of the ordinary banking activity in respect of the management of obligations already outstanding to customers showing financial difficulties or provided for in the context of the same Restructuring Plan;

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

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

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

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

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

Furthermore, in the event of any deviation, even a minimal one, from the European Commission's provisions that may involve the failure to comply with the conditions according to which the decision was adopted, the European Commission may consider ineffective the statement of compatibility with the "State aid" due to the failed realisation or violation of any condition. Consequently, the European Commission may either decide to undertake a new formal investigation procedure or directly file a petition in front of the European Court of Justice, for the purposes of obtaining the declaration of non-fulfilment of the undertakings given by the Italian State. Although less probable, the European Commission may also consider that the "State aid" has been carried out unlawfully and consequently undertake the relevant specific procedure. Such scenario is less probable since it occurs where no specific conditions are violated but rather the State aid's project is implemented without complying with the provisions as set thereon (i.e. in a different area; without implementing planned hirings; or in light of a decreased of investments). In the context of such procedures, the European Commission may issue urgent measures, such as an injuction requesting the State to suspend the implementation of aid measures or, if the conditions are met, to proceed with the recovery of the already given "State aid". In this respect, the Issuer may cope with significant damages, also reputational damages, considering the re-launching activity of the Bank, with consequent negative effects on the activities and on the Bank's and/or the Montepaschi Group's economical, capital and/or financial condition. In addition to reputational damages, due to negative publicity arising from the non-fulfilment of the Restructuring Plan's conditions, the Issuer would be further exposed to - *inter alia* - the risk of additional measures aimed at rebalancing the usual competition of the sector (included other forms of Burden Sharing) as well as the risk associated with the restitution of the given "State aid".

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

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

(a) *Bank's exposure to Impaired Loans*

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

As at 30 September 2017, Impaired Loans gross of value adjustments amount to Euro 45.0 billion (Euro 19.6 billion net of assigned loans), down of Euro 0.8 billion, decreased by 1.7 per cent. (reduction of Euro 26.2 billion, equal to 57.2 per cent. net of assigned loans) compared to the figure recorded as at 31 December 2016 equal to Euro 45.8 billion (down by 2.3 per cent. compared to 31 December 2015). With reference to the various aggregate figures, the first nine months of 2017 records an increase by Euro 2.4 billion of "Doubtful Loans" (net of assigned loans the decrease amounts to Euro 23 billion), a contraction of "Unlikely to Pay" by Euro 2.9

billion and of "Past Due Impaired Exposures" (Euro 0.3 billion) (together and respectively, the "**Doubtful Loans**", the "**Unlikely to Pay**", and the "**Past Due Impaired Exposures**" as defined in Circular No. 272 issued by the Bank of Italy on 30 July 2008 – as amended from time to time). As at 30 September 2017, Impaired Loans net of value adjustments, amount to Euro 15.1 billion (Euro 10.3 billion net of loans subject matter of assignment), down by Euro 5.1 billion, with a 25.5 per cent. decrease, compared to the figure recorded as at 31 December 2016 equal to Euro 20.3 billion (down by 15.9 per cent. compared to 31 December 2015). The third-quarter dynamic highlights a reduction of the impact on loans to customers of both net Doubtful Loans equal to 7.6 per cent. (2.7 per cent. net of assigned loans) compared to 9.7 per cent. as at 31 December 2016 and Unlikely to Pay (equal to 7.6 per cent compared to 8.5 per cent. recorded as at 31 December 2016). The impact on loans to customers of Past Due Impaired Exposures are substantially unchanged.

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

As at 30 September 2017, the Group recorded net value adjustments for Impaired Loans, financial assets and other transactions for Euro 4,902 million, increased by Euro 2,883 million compared to those recorded in the same period of the prior financial year, mainly due to adjustments recorded during the third-quarter of 2017 over the perimeter of Doubtful Loans included in the NPL portfolio for the purpose of aligning the book value to the expected assignment price in the context of the Assignment of the NPL Portfolio.

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

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

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

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

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

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

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

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

Specifically, it should be noted that Quaestio's commitment to purchase the relevant securities (meaning the securities that will be issued under the Assignment of the NPL Portfolio, the "**Relevant Notes**") is subject to certain conditions (to be fulfilled by 31 December 2017) including the completion of the Capital Increase (as defined below) reserved to MEF and the Burden Sharing (such condition already occurred in August 2017), and the general attainment of all necessary approvals and authorizations by the competent authorities for the entire transaction (the Restructuring Plan's approval has already been obtained). Additionally, it has to be considered that the Quaestio Agreement is subordinated to the completion of the Offer (as described below under the section "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – Voluntary public offering for exchange and settlement*" of this

Prospectus). In this respect, the Issuer deems that the literal meaning of "completion" is not linked to the results of the same Offer.

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

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

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

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

structure with specific quantitative tests, with the aim of supporting the accounting derecognition.

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

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

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

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

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

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

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

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

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

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

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

2.3 ***Risks associated with the Precautionary Recapitalisation intervention***

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

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

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

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

(a) *Risks associated with the Burden Sharing*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

issued in favour of the holders of Burden Sharing Notes on the basis of the original structure of the issue.

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

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

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

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

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

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

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

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

In light of the above taking into account the interpretation adopted by the Bank on the implementation of Decree 237, which has led to consider ineffective some agreements and/or clauses of FRESH 2008 – it cannot be excluded that the counterparts of the agreements underlying to the issuance FRESH 2008, as well as the same holders of FRESH 2008 securities may act against the Bank to challenge the applicability of the provisions of article 22, paragraph

4 of Decree 237 which has led the Issuer to deem the agreements and/or clauses null and void. In such a case, it cannot be excluded that such agreements and/or clauses remain valid (for more information on the FRESH 2008 framework, reference is made to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2008-2012*" of this Prospectus).

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

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

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

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

Despite the Bank adopting its position following discussions with the supervisory authorities on the implementation of Decree 237 and carrying out its own independent legal inspections together with its adviser, it cannot be excluded that the potential acceptance of the claim may entitle the bondholders to receive – subject to the occurrence of the conditions provided for by the conditions of the security – the payments of interest under the FRESH 2008 notes, in addition to further damages actionable by the bondholders within the context of such lawsuit.

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) *Risks associated with the Assignment of the NPL Portfolio*

Risk associated with the failed derecognition of the NPL Portfolio

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

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

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

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

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

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

Finally, it should be considered that the Bank in order to proceed with the prudential derecognition shall obtain from the ECB for a specific authorization for the *significant risk transfer*. In particular, when the securitisation's contracts will be finalised (which will not differ significantly from the general conditions as set forth in the binding agreement entered into with Quaestio on 23 June 2017), the Bank will send a specific preliminary application to the ECB.

For more information on the failed authorization to the *significant risk transfer* and, consequently, to the failed derecognition of the NPL Portfolio, as well as on the risks associated with, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

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

Risk associated with the waiver on LGD models

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

With specific reference to the LGD, on 29 July 2016 – in the wider context of the market transaction announced by the Bank's board of directors - the ECB authorised the Bank to fully

exclude the impacts on the LGD models deriving from the derecognition of a portion of the Doubtful Loan portfolio upon condition that the announced transaction would be completed in all its components.

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

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

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

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

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

- Senior A1 Notes for Euro 3,256.3 million (the "**Senior A1 Notes**");
- Senior A2 Notes for Euro 500 million (the "**Senior A2 Notes**");

- Mezzanine Notes for Euro 1,028.5 million (the "**Mezzanine Notes**"); and
- Junior Notes for Euro 685.7 million (the "**Junior Notes**").

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

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

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

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

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

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

The notes issued within the context of the securitisation (the "**ABS Notes**") are in fact asset backed securities (ABS) issued and governed pursuant to Law 130, with different subordination degree (notes with lower subordination degree are paid with priority compared to the others; Junior Notes have the highest subordination degree) and with limited recourse, meaning that the payment of interests, the redemption of principal and every other amount due under the notes is linked to the collections and recoveries realised on the securitised portfolio (the "**NPL Portfolio**"), which constitutes segregated assets for the benefit of the noteholders and the other creditors of the SPV. They are complex financial instruments destined for institutional investors, the application for listing of which on a regulated market (or other appropriate market) is expected only after the granting of an investment grade rating and of the GACS on Senior A1 Notes.

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

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

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

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

2.4 ***Risks associated with capital adequacy***

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

The Capital Increase reserved for the MEF, realised in compliance with the provisions of Decree 237 and the Recapitalisation Decree as well as in accordance with that illustrated to the

European Commission during the approval of the Restructuring Plan, allowed enhancement of the Bank's asset condition and, accordingly, of the main capital adequacy ratios applicable to the Bank and the Montepaschi Group.

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

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

(a) *Capital ratios of the Issuer and the Montepaschi Group*

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

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

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

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

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

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

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

For the purpose of calculating risk weighted assets (RWA), the Montepaschi Group was authorised in June 2008 to use advanced internal rating systems (AIRB – *Advanced Internal Rating Based*) for the determination of capital requirements in respect of credit risk, with reference to retail and corporate portfolios, and AMA (*Advanced Measurement Approach*) for operational risks. The use of such internal systems has been validated by the Bank of Italy. For the remaining portfolios and for market risk, risk weighted assets (RWA) are calculated according to standardised methodology.

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

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

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

proceeded with the full recalibration of all models through the update of anchor points ("**AP**") and the transposal of 2015 default rates ("**DR**").

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

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

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

(b) *Capital adequacy requirements applicable to the Issuer*

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

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

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

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

In relation to the above, it should be noted that failure to comply with such capital guidance would not be equal to a failure to comply with capital requirements; however, in the event of capital dropping below the level including the "Pillar 2 capital guidance", the supervisory authority, which shall be promptly informed in details by the Issuer on the reasons for the failed

compliance with the aforementioned level, will take into consideration, on a case by case basis, possible appropriate and proportional measures (including the possibility to put in place a plan aimed at restoring compliance with the capital requirements – inclusive of capital enhancement requests – in accordance with article 16, paragraph 2 of the SSM Regulation).

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

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

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

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

Furthermore, the evaluation of the capital adequacy level is affected by various variables, among which the need to deal with the impacts deriving from the new and more demanding requirements under a regulatory standpoint announced by the EU regulator (for more information in this respect reference is made to "*Risk associated with the evolution of the banking and financial sector regulation and of the additional provisions the Montepaschi*

Group is subject to"), the need to support functional plans to a more swift reduction of the stock of Impaired Loans – even in addition to the Assignment of the NPL Portfolio as described in item c) of the above paragraph – and/or the assessment of market scenarios which promise to be particularly challenging and which will require the availability of capital adequate resources to support the level of assets and investments of the Montepaschi Group. It should also be noted that the current level of capital ratios has been achieved through the Precautionary Recapitalisation, which has an exceptional nature.

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

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

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

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

- on the capital requirements side, in relation to the total capital ratio to maintain on an individual basis: (i) a level of Total SREP Capital Requirement equal to 10.25 per cent. of which 8 per cent. as minimum own funds requirement, and 2.25 per cent. as "Pillar 2" capital requirement fully comprised of CET1, and (ii) an overall capital requirement including, in addition to the TSCR, the combined capital requirement pursuant to article 128 of CRD IV; and

- the SREP Decision introduces, as required to the Bank also on consolidated basis, the capital guidance (the Pillar 2 capital guidance) equal to 1 per cent., as a requirement to be entirely satisfied internally with Common Equity Tier 1, in addition to the minimum regulatory requirement OCR in terms of CET1 and not in addition to OCR of Tier 1 and total capital minimum regulatory requirements (in respect of which, therefore, the requirements are unchanged as compared to the OCR requirements). It should be noted that failing to comply with such capital guidance is not equal to the failed compliance with capital requirements.

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

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

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

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

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

* * * * *

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

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

2.5 ***Risks associated with the investigations of supervisory authorities***

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

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

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

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

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

SREP Decision received by the Issuer on 19 June 2017

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

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

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

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

including, in addition to P2R, 1.875 per cent. in terms of capital conservation buffer and 0.06 per cent. in terms of O-SII buffer (Other Systemically Important Institution Buffer). The capital conservation buffer and the O-SII buffer will be at full steam respectively in 2019 with 2.5 per cent. and 2021 with 0.25 per cent. (the latter on a transitional basis will have a 0.13 per cent. coefficient in 2019 and a 0.19 per cent. coefficient in 2020).

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

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

Upon completion of the review process, the ECB highlighted some weakness profiles/focus areas mainly concerning: (i) the business model, with specific reference to the persistence of the Bank's low profitability and the insufficient capacity to create internal capital. In particular, it is pointed out the not full ability to implement and carry out the strategies devised by the board of directors, for instance through practical commercial measures, which is also associated with a less favourable change in macroeconomic conditions than was expected. In the absence of any new strategies aimed at reducing the NPL and refocusing on profitable business areas, the high cost of risk and the persistent reduction in margins (influenced by a decrease in the volumes of funding and lending) will continue to materially affect profitability

and the generation of internal capital (for more information, reference is made to paragraph "*Risks associated with capital adequacy*" above, describing the measures provided for in the Restructuring Plan to restore an adequate profitability level of the Issuer); (ii) the risk management system and organisational aspects considered as still not fully adequate because awaiting to assess the mitigation activities already implemented by the Montepaschi Group (*see* paragraph "*Credit risk and risk of credit quality deterioration*"); (iii) the credit quality associated with the high and above-average level of NPL. In this respect, the supervisory authority highlighted that the Issuer did not manage to implement the NPL management strategy submitted in 2015 (*see* paragraph "*Risks associated with the failed realisation of the Restructuring Plan*"; (iv) the market risk associated with certain details related to the measurement of the banking book's interest rate risk (for details on risks associated with capital adequacy, reference is made to "*Risks associated with capital adequacy*") and the high sensitivity to credit spread of the Government securities portfolio see paragraph "*Risks associated with the Montepaschi Group exposure to sovereign debt*"); (v) the operational risk in respect of the numbers of pending legal actions and the consolidation of the Montepaschi Group's reputation, which is still considered weak though gradually improving (for more details on operational risk, reference is made to paragraph "*Operational Risk*" of this Prospectus); (vi) the risk associated with the capital adequacy (for more details on risks associated with capital adequacy, please see paragraph "*Risk associated with capital adequacy*" of the Prospectus); and (vii the liquidity risk associated with the volatility of commercial deposits and the Issuer's exposure to stress events, as observed in the last quarter of 2016 following the failure of 2016 Transaction. The supervisory authority has further highlighted risk profiles associated with the BMPS' structural financial position, the rebalancing of which still depends on the implementation of the extraordinary measures set out in the Restructuring Plan, among which the Capital Enhancement and Assignment of the NPL Portfolio (for more details on the related risks and the measures adopted by the Bank to mitigate the liquidity risk, reference is made to "*Liquidity risk*" below).

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

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

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

and in relation to the sustainability of deposit collection. For more details on the risks associated with capital adequacy and the SREPs of the subsidiary MP Belgio reference is made to "*Risks associated with capital adequacy and SREPs of foreign branches*" of the Prospectus.

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

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

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

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

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

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

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

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

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

- classification of the performing loan portfolio;
- verification of provisions created on the non-performing portfolio;
- review of collateral values; and
- data quality of credit risk.

On 7 June 2017, the ECB sent the Issuer the final report on such investigation activity highlighting several areas of improvement in the matter of identification of exposures to credit risk, classification, monitoring, reporting, organisation, data base and collateral management, policy and determination of provisions and specific disclosure to corporate bodies on the deterioration of credit quality. Some of the criticalities highlighted have already been resolved/implemented in the course of 2016 with the ARGO2 programme as described below ("**ARGO2**").

Provided that the Bank, as at the date of the Prospectus, has not received yet the draft follow-up letter from the joint supervisory team with the relating recommendations thereon, the Issuer does not hold to have to implement, following the aforementioned investigations, any further adjustments on loans which have not been already provided for in the Restructuring Plan.

In this respect, it has to be further noted that the Restructuring Plan fully transposes the findings of the investigation closed by the ECB on the loan portfolio (CFR) as at 31 December 2015 which highlighted further provisions to be created compared to the coverage levels as at the reference date. Such additional adjustments substantially overlap with those already recorded from 31 December 2015 to date, with the effects of the Assignment of the NPL Portfolio and

with the increased coverage of the Impaired Loans portfolio provided for in the Restructuring Plan to facilitate such loans reduction process in the period 2017-2021. The residual impact of such additional adjustments linked to the abovementioned investigation (equal to around Euro 0.26 billion) has been included in the projections of the first years of the Plan, in consideration of a prudential credit cost estimate. It has to be deemed that such provisioning differences will be reflected in accounting insofar they will be matched with credit events which will entail a reduction of the cash-flows expected in respect of the exposures and/or portfolios under investigations.

Provided that, as at the date of this Prospectus, the Bank has not received yet the draft follow-up letter from the Joint Supervisory Team with the relating recommendations thereon, it cannot be excluded that, in the future, there will be deviations from the actions being implemented provided for in the context of the ARGO2 programme, from the action provided for by the Restructuring Plan for the improvement of the credit quality, and from the action plan that the Issuer will submit in respect of the aforementioned verifications. It being understood that the Issuer may not be certain about which possible measures the EU supervisory authority may adopt in case of failed fulfilment of the measures in progress according to the manners and times provided for and, therefore, what risk profiles may arise for the Issuer from such possibility, in such circumstance the EU supervisory authority may send the Issuer a formal letter with further requests of in-depth analyses and activities to be realised within specific deadlines with possible effects on the economic and capital condition of the Montepaschi Group which are broadly described in "*Risks associated with capital adequacy*" above. Further, this may entails negative evaluation on the outcome of the subsequent SREP process and, as a consequence, the ECB may ask the Issuer for specific intervention measures and/or the application of higher capital requirements.

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

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

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

2. *Problem loans*: recommendations relating to: (i) completion of the review of recovery strategies and consequent internal reorganisation and rationalisation of external legal advisers; (ii) introduction of new processes for the reduction of disbursement and

recovery times; (iii) completion of the integration at Group level of the credit monitoring and recovery process; and (iv) update of policies;

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

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

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

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

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

In relation to the ARGO2 – as reported more in detail in the section "*Banca Monte dei Paschi di Siena S.P.A. Major Events – Recent developments – 2016 - Inspection 2016*" of the Prospectus – the monitoring activity, as at 30 June 2017 which has been sent, as agreed, to the ECB in October, states the completion of all the deliverables (meaning as methodological, organisational and/or IT solutions developed and adopted following specific planning activities) and the related put in operation (the so called "deployment") as response to the recommendations having a deadline as at 31 December 2016, except for some of these associated with the remedy actions no. 12 and no. 21, for which:

- in relation to remedy action no. 12 – relating to the update and upgrade of the informative basis for the purpose of including all relevant information on collaterals:

- the Bank completed the digitization of documents, with contextual integration of the informative set, of the stock of mortgage loans granted between 2002 and the end of 2015 (starting from such date the process provides for this activity to be carried out at the time of the generation of the new flow) for a number equal to 253,000 over a total of 380,000 loans, the majority of which (249,000) has already been entered in the Bank's informative bases, with the goal of completing all entries by 2017; and
- retrieval and digitization activities of the remaining 127,000 loans are still in progress, being the documents of such loans mainly stored with branches, whereas, within the Bank's IT systems, the completion of digitalisation is planned by the second half of 2017 and the implementation of corrective measures by the first quarter of 2018 (enlargement of information set and data quality);

- in relation to corrective action no. 21 – relating to the integration of MPS Capital Services and MPS Leasing&Factoring in BMPS's credit processes, including IT tools, for the purpose of assuring the correct application of policies at Group level – whilst starting from February 2017 the tool used by the Bank for the calculation of the analytic depreciation was adopted by MPS Capital Services, the deliverable aimed at extending the accounting management IT applications of the Bank's disputes to MPSCS is still not completed as it subordinated to the consistency with the strategic choices of the Restructuring Plan compared to the business model of such company, currently under assessment; the above is without prejudice to the fact that the actual reduction of the Doubtful Loan portfolio, which will remain after the completion of the Assignment of the NPL Portfolio, will significantly reduce the impact of the partial treatment inequality compared to the Bank.

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

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

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

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

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

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

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

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In light of the above, and with the exception of inspection activities in the matter of transparency of contractual conditions in respect of which – as previously mentioned – have been undertaken the verifications and in-depth analyses which will allow to provide the Bank

of Italy with the clarifications requested and the indication of the remedy actions deemed necessary, the Issuer, as at the date of this Prospectus, identified mitigation actions for each area of improvement emerging from the investigations, some of which have already been closed and positively evaluated by the supervisory body, while others have been closed but are waiting for evaluation by the supervisory body and others are in the process of being implemented.

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

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

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

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

(c) *Consob investigations*

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

In relation to the first proceedings sub (1), with resolution no. 18850 of 2 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 43,000,

on the General Director in office and some managers of the Issuer without ascertaining any violation of the members of the board of directors and board of statutory auditors in office at the time of the events. The measure has not been challenged by the Bank.

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

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

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

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

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

In the event that the Bank pays the sanctions as a joint obligor, as well as in all cases provided for by the law, the Bank shall take all the necessary steps functional at exercising the mandatory recourse actions *vis-à-vis* the sanctioned subjects and – in such case – no certainty is given that the amount paid by virtue of such obligation will be recovered following commencement of

any such action. It is understood that the Issuer will have the power to suspend any recourse action against apical individuals in respect of whom no wilful misconduct, gross negligence, no corporate actions for liability were filed or committal for trial were ascertained in connection with the disputed events or with any associated pending criminal proceedings, limited to the period allowing to resort to all of the legal remedies made available by the regulations in force.

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

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

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

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

SREP stress test 2018, with possible negative effects on the business and the economic, capital and financial condition of the Issuer and/or the Montepaschi Group. For more information on the risks associated with new stress test exercises – and, specifically, in relation to the one announced for the first semester of 2018 – reference is made to "*Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises*" below.

2.6 ***Credit risk and risk of credit quality deterioration***

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

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

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

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

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

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

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

customers are mainly concentrated in the Central (35 per cent.) regions; followed by North-east and South (respectively 25.0 per cent. and 21.8 per cent.) and North-west (18.1 per cent.).

Forborne exposures

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

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

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

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

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

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

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

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

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

(a) renegotiation of payment terms of an instalment loan;

(b) extension of a temporary credit line approaching maturity; and

(c) concession of a new credit line or increase of an outstanding credit line in the context of which overdraft or overdue uses are envisaged.

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

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

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

Large Exposures

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

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

The decreased number of Large Exposures as at 30 September 2017 and the related decreased book and weighted value compared to 31 December 2016 derives from the increase of own funds and accordingly of eligible capital, following both the realisation of the Burden Sharing and the Precautionary Recapitalisation, implemented by the MEF, and the overall reduction of the operations with those counterparties object of reporting upon Large Exposure. At consolidated level, no Large Exposures exceed the regulatory threshold equal to 25 per cent. of the eligible capital. At single Group company level, no such exceedings are recorded either upon the Issuer or upon MPS Leasing & Factoring, while MPS Capital Service exceeds such threshold with respect to 7 exposures which will be re-entered once the capital increase of Euro 898,857,120 – as expected by the half of November – will be realised, involving the repositioning of own funds on a such level to ensure the compliance with regulatory thresholds.

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

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

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

As at 30 September 2017, 31 December 2016 and 31 December 2015, there were no positions exceeding the limit also due to the effect of the Euro 500 million capital increase finalised by the subsidiary in the course of the fourth quarter 2015. For the Issuer, as at 31 December 2016,

the exposures limit was exceeded in respect of one corporate counterparty which set the ratio with eligible capital at 25.45 per cent..

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

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

The persisting crisis situation of credit markets and of the slowing down phase of the global economy observed over the last years may further reduce families' available income and enterprises profitability and/or have a negative impacts on banking customers' ability to fulfil the obligations undertaken. In addition, the future occurrence of additional adverse economic circumstance, may entail a further reduction of the value of collaterals received and/or the impossibility for clients to supplement collaterals given. Finally, the general macroeconomic situation, the trend of specific business sectors and the actions of supervisory authorities may entail a further reduction of the value of the collateral received by the Issuer and/or the Montepaschi Group.

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

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

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

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

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

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

In relation to the verifications conducted on the domestic network in the course of 2015, verifications brought to light some behavioural anomalies compared to established processes, which from time to time reported to the respective reference structures. Specifically, the need to achieve a more accurate use of the "credit monitoring" application as an instrument specifically introduced for the purpose of ensuring the timely identification of positions showing anomaly signals has been highlighted. In this respect, in fact, the non-complete abidance with the required fulfilments has been noted, which does not allow for the correct update of managed portfolios. Compensatory controls are in any case carried out by the credit department. Further areas of improvement can be referred to the preliminary investigation phase of the credit process, as well as to the perfection and management of personal and consortium guarantees and the retention of contractual documents (See "*board of statutory auditors' report*" included in the 2015 Financial Statement pp. 865-880).

During 2016, the board of statutory auditors continued its verification activity concerning the credit area. Specifically, with the assistance of the internal audit function, the board of statutory auditors directly visited the network where an annual activity programme was being conducted

and focused on the credit origination process, with regard to abidance by with the fulfilments associated with the beginning of the preliminary investigation, the formalisation of guarantees (assessment) and the subsequent granting of credit lines to customers (disbursement). Such investigations commenced in the first quarter of 2016 within some "Market Territorial Departments" (*Direzioni Territoriali Mercato* – "**DTM**"), selected for each territorial area comprising the network. Verifications highlighted a situation of adequacy under the credit process formalisation point of view within the company's regulations, although finding focus areas mainly referred to behavioural aspects concerning the execution modalities of the various stages of the process itself.

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

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

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

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

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

With regard to the "document management" process, a picture characterised by a non-negligible level of uncompleted files has emerged. This situation is caused by delays in the various contracting and communication of credit lines phases. Even in this case the reasons are mainly to be found in behavioural aspects, to be referred to practices not always aligned with the current legislation or to inadequate knowledge of operational modalities. During the verifications, awareness interventions were carried out, with positive feedback, on the correct

operational modalities to be adopted for the purpose of mitigating the risks associated with the activity under examination. The board of statutory auditors declared that it was committed, together with the internal audit function, to the constant monitoring of the effectiveness of the remedy actions put in place by the competent functions for the purpose of fully removing the anomalies found.

As part of the monitoring activity conducted by the board of statutory auditors, upon indication of the JST, of relevance is the one associated with the ARGO2, aimed at achieving the improvement goals (findings) highlighted by the ECB during the on-site inspection on the credit portfolio, conducted by the same authority in the course of 2015. The verifications under examination evidence the overall enhancement of controls over credit risk, specifically obtained with the restructuring of provisions, rules and underlying processes. In fact the regulatory framework, operational processes as well as supporting IT systems were reviewed. Although in an improved framework, the persistence of focus areas with specific reference to the effectiveness of line controls (the so called 1st level controls), or of operational and management controls, aimed at assuring the correct performance of operations and constant compliance with corporate policies were however been recorded. Furthermore, the filed consistency between behaviours put in place and corporate rules is of relevance, specifically with reference to credit recovery associated activities, where the main risk factor is behavioural.

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

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

2.7 *Risks associated with assignments of Impaired Loans*

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

Without prejudice to what was provided in the context of the Assignment of the NPL Portfolio (for more information in this respect, reference is made to "*Risks associated with the Assignment of the NPL Portfolio*" above), it has to be noted that the Issuer may find itself in needs to resort to new Impaired Loan assignment transactions in respect of a possible further

deterioration of credit quality, even after the conclusion of the Assignment of the NPL Portfolio, should the Montepaschi Group be forced to pursue more demanding reduction targets of the amount of Impaired Loans in terms of amount or times compared to planned ones, even as a consequence of requests by the supervisory authority, with consequent negative effects on the economic, capital and financial condition of the Issuer and the Montepaschi Group.

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

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

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

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

2.8 ***Liquidity risk***

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

Liquidity risk means the Bank's inability to fulfil certain or expected payment obligations with reasonable certainty. This occurs when internal (specific crisis) or external (macroeconomic

conditions) reasons result in the Bank having to deal with a sudden reduction of available liquidity or with a sudden need to increase the funding.

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

- *market liquidity risk:* associated with the possibility that the Bank is not able to liquidate a balance sheet asset without incurring capital losses or with realisation times generally longer due to low liquidity or inefficiencies in the reference market; and

- *funding liquidity risk:* represents the possibility that the Bank is not able to fulfil expected and unexpected payment obligations, according to cost-effective criteria and without prejudice to its typical business or the same Bank's financial condition.

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

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

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

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

(a) *Liquidity indicators relating to the Issuer*

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

- *Liquidity Coverage Ratio* ("**LCR**"), representing the short term liquidity indicator and corresponding to the ratio between the amount of high quality liquidity assets and to total net cash outflows in the 30 subsequent calendar days. Starting from January 2016, the indicator is subject to a minimum regulatory requirement of 70 per cent., which is equal to 80 per cent. in 2017 and will be equal to 100 per cent. in 2018;

- *Net Stable Funding Ratio* ("**NSFR**"), representing the 12 month structural liquidity indicator and corresponding to the ratio between the available amount of stable funding and the mandatory amount of stable funding. In this respect, the European Commission published, on 23 November 2016, a legislative proposal providing for - *inter alia* – the introduction of the NSFR. This first introduction phase of the NSFR is preparatory to the definition of the calculation rules of the indicator and the minimum requirements to be complied with; and

- *Loan to Deposit Ratio,* representing the ratio between lending to customers and direct deposit collection, excluding transactions with central counterparties.

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

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

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

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

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

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

As at 31 December 2015 the Montepaschi Group's loan-to-deposit ratio was equal to 93.4 per cent., while as at 31 December 2014, it was equal to 97.4 per cent. (restated data).

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

During the first nine months of 2017 and, specifically, at the end of September 2017, the Montepaschi Group's debt to customers was equal to Euro 82.0 billion (increased by Euro 1.3 billion compared to Euro 80.7 billion as at 31 December 2016) with current accounts and term deposits recording, compared to the end of 2016, an overall increase equal to Euro 11.0 billion. Such aggregate data have been affected by the recovery of commercial deposit collection. As at 30 September 2017, the Montepaschi Group carried out its banking business holding relations with around five million clients. On a monthly basis, the Montepaschi Group monitors concentration risks of funding sources of both a financial and commercial nature, with specific focus on the detail of the main non-retail counterparties. The risk of concentration of the deposits collection's sources held by Montepaschi Group exists and is linked to a significant depositor, the average in stock of which is affected by the seasonality with a sensible reduction expected for the end of the year. The risks' measures include any evolution of such balance and the related adequacy evaluations on the actual and future liquidity have highlighted positive results both in the ordinary operations and under stress conditions. At the end of September 2017, deposit collection through unsecured channels amounted to 66.6 per cent. of total collections, of which 5.9 per cent. were related to financial non-retail counterparties and 15.8 per cent. were related to non-financial non-retail counterparties. In this latter category the main counterparty is "CSEA – Cassa per i Servizi Energetici e Ambientali", with an overall exposure of 28.4 per cent. of total non-financial non-retail counterparties (corresponding to 6.7 per cent. of total deposit collections carried out through unsecured channels).

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

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

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

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

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

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

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

In this general context, the problems specific to the Montepaschi Group, with particular reference to the outcome of the Comprehensive Assessment, published in October 2014, further reduced the Montepaschi Group's ability to access the market, which in the course of 2015 has, in fact, been more difficult and expensive compared to the rest of the system. Such difficulty to access the market continued also in 2016 and 2017, mainly as a consequence of: (i) the introduction of the bail-in regime (which consists in the reduction of shareholders' and creditors' rights or their rights being converted into capital pursuant to Decree 180) and, specifically, of the Minimum Requirements for Own Funds and Eligible Liabilities (the "**MREL**"), i.e. of minimum requirements of own funds and eligible liabilities required, (ii) market concerns associated with the burden of NPLs on the Montepaschi Group's balance sheet, also subsequent to the letter received from the ECB on 23 June 2016 and (iii) the failed finalisation of the 2016 Transaction.

After the approval of the Restructuring Plan by the European Commission – last occurred on 4 July – the Bank executed the Capital Enhancement, according to the terms and modalities provided for in the MEF Decrees published on 28 July 2017 in the Official Gazette – pursuant

to Law Decree 23 December 2016, no. 237 (converted with amendments by Law 17 February 2017 no. 15 and subsequently amended) which provided for, respectively *(a)* the Bank's Capital Increase, to service the subscription of no. 593,869,870 shares by the MEF and *(b)* the application of burden sharing measures as per art. 22, subsections 2 and 4 of the Decree 237 and the issuance of shares to be assigned to the holders of subordinated notes issued by the Bank to which such measures are applicable.

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

(c) *Risks associated with the Issuer indebtedness*

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

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

The Bank expects to maintain access to TLTROs in compliance with the access criteria set by the ECB and related to the credit level granted thereby to the banking system. The TLTROs will continue to represent, in presence of financial instruments made available by the same European Central Bank, the main medium/long term exposure to the ECB. Uses of MROs

(Main Refinancing Operation) launched on a weekly basis and used to manage short term liquidity, or other funding sources possibly made available by the ECB, may in any case take place for short-term liquidity management purposes, liquidity that may also be obtained by accessing the market through repo transactions.

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

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

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

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

(d) *Reputational risk*

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

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

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

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

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

The Montepaschi Group has significant exposures to sovereign debt securities and, in particular, to Italian public debt securities. Accordingly, a possible downgrading of the credit rating assigned to Italy (already subjected to a number of downgrades by the main rating agencies in the last years) may have a negative impact on the liquidity and counterbalancing capacity of the Montepaschi Group, with possible repercussions on the business and the economic, capital and/or financial condition of the Bank and/or the Montepaschi Group.

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

(f) *Risk associated with internal systems to manage liquidity risk*

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

- defining the Montepaschi Group's liquidity management policies and coordinating the implementation of such policies within the companies falling under the reference perimeter;

- governing the Montepaschi Group's short, medium and long term liquidity position, at consolidated and single subsidiaries level, through a centralised operational management; and
- controlling and monitoring liquidity risk for the Montepaschi Group and the single subsidiaries.

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

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

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

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

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

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

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

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

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

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

2.9 *Risks associated with the failed distribution of dividends*

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

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

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

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

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

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

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

2.10 *Risks associated with the Montepaschi Group exposure to sovereign debt*

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

As at 30 September 2017, the Montepaschi Group's cash exposure to governments or other public entities both of European countries (EU and non-EU Area) and extra-European countries was equal to Euro 20,381 million (up compared to Euro 20,251 million as at 31 December 2016), almost entirely held vis-à-vis Italy (97.2 per cent. of the total figure) and mainly recognised in the AFS accounting category. Specifically, as at 30 September 2017, the book value of the Montepaschi Group's sovereign exposures represented by "debt securities" amounted to Euro 17,829 million (up compared to Euro 17,504 million as at 31 December 2016), almost entirely concentrated on Italy (for Euro 17,253 million, equal to 96.8 per cent. of the total figure) and with residual positions *vis-à-vis* other countries (Such debt securities are mainly recorded in the AFS accounting category (78.6 per cent.).

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

In detail, the exposure is represented by:

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

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

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

The Montepaschi Group was accordingly exposed, as at the single reference dates and on the aforementioned terms, to the movements in government securities in general and, in particular, in Italian public debt securities. The persisting tensions on the Government securities market or the volatility thereof may cause negative effects, even relevant, on the business and the

economic, capital and/or financial condition of the Bank and/or the Montepaschi Group. Furthermore, a lowering of the creditworthiness of the Republic of Italy, together with a consequent decrease in the securities value, would cause a negative impact on the economic results in respect of the held for trading portfolio and possible negative impacts in terms of cost of funding of the positions held and of the Montepaschi Group's counterbalancing capacity; the higher impact caused by the decreased value of securities would furthermore give rise to an increased negative value of the AFS reserve.

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

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

The AFS reserve linked to the Italian government securities is sensitive both to the Republic of Italy credit spread and to interest rate fluctuations. In particular, the fair value sensitivity to the spread of the Republic of Italy recorded a negative value of Euro 5.76 million as at 30 September 2017 (down in absolute terms compared to a negative value of Euro 8.88 million as at 31 December 2016) due to a +1 basis point movement in the Italian credit curve, i.e. there is a positive effect on the AFS reserve in case the spread narrows. The sensitivity to interest rates was instead negative by Euro 2.15 million as at 30 September 2017 (negative by Euro 3.94 million as at 31 December 2016) due to a +1 basis point movement in the rate curve, so as there is a negative effect on the AFS reserve in case of increased interest rates.

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

In the context of the 2016 SREP process, the ECB indicated, among weakness profiles/focus points, the significant sensitivity of the Italian Government securities portfolio to market variables, among which the credit spread, as well as the amount of the exposure, still deemed significant. In this respect, it has to be noted that the Issuer already realised a significant

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

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

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

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

As at the date of this Prospectus, a number of judicial proceedings (including civil, criminal and administrative actions) are pending against the Issuer. Some of these derive from the extraordinary and exceptional context related to criminal investigations ordered by courts involving the Issuer in 2012 and 2013.

In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, (ii) labour disputes, (iii) tax disputes and (iv) disputes arising from the Burden

Sharing. As at the date of the Prospectus, no mis-selling actions have been brought against the Bank by the holders of UT2 Notes, object of the conversion within the Burden Sharing context.

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

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

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

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

In relation to disputes in which the Bank is involved, it has to be specified that, as at the date of the Prospectus, it cannot be excluded that disputes against the Bank may increase in number, also in consideration of the criminal proceedings pending before the Courts of Milan as well as the extraordinary transactions put in place by the Bank, in particular in relation to the civil

plaintiffs in the context of such proceedings (for more information, reference is made to paragraph (c) below).

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

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

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

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

In relation to the transaction associated with the restructuring of the "Alexandria" notes, as a result of the serving, on 3 April 2015, of the closing measure of preliminary investigations pursuant to and to the effects of art. 415-*bis* c.p.c., the Public Prosecutor's office at the Courts of Milan filed – in relation to the disclosure relating to financial year 2009 – an indictment request against Mr. Mussari, Mr. Vigni and Mr. Baldassarri and two members of the management of Nomura in respect of the offences under art. 2622, paragraphs 1 and 3 of the Italian Civil Code in the matter of false corporate communications and under art. 185 of the Consolidated Finance Act in the matter of market manipulation, committed in association among them with a conduct relevant for the purpose of art. 3 and art. 4, paragraph 1, of Law 146/2006 in the matter of transnational crimes. With the subsequent measure of 13 January 2016, the Public Prosecutor at the Courts of Milan also ordered the serving on the Bank and the other suspects of the closing of preliminary investigations notice pursuant to and to the effects of art. 415-*bis* c.p.p. concerning the other investigation strands relating to "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions; these criminal proceedings were combined with those under the above paragraph for the crimes referred to in financial year 2009.

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

In this respect it has to be specified that, with the consent of the Public Prosecutor's Office, on 2 July 2016, Banca Monte dei Paschi di Siena filed a plea bargaining request in the criminal proceeding pending before the Milan Public Hearing Judge ("PHJ"), in respect of the charges

to the Bank pursuant to Legislative Decree no. 231/2001 in the matter of offence based administrative liability of entities. The predicate offences of the Bank's administrate liability concern cases of false corporate communications, market abuse and obstruction to supervision and are exclusively charged to the former administered management for the period between 2009 and 2012. With the plea bargaining request, granted by the Milan PHJ on 14 October 2016 with application of the penalty agreed upon, the Bank exited the proceedings relating to the administrative offence consequent to the crimes committed by its former top managers, limiting the consequences to a monetary administrative sanction of Euro 600,000 and a confiscation of Euro 10 million.

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

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

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

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

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

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

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

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

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

(d) *Risks deriving from sanctioning procedures*

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

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

The Issuer has been sued in such proceedings: (i) by Mr. Vigni by virtue of an indemnity undertaking (in respect of third party claims) allegedly given by the Bank in his favour in the context of the mutual termination agreement of the managerial relationship; (ii) by Mr. Mussari, by virtue of the Bank's liability under art. 2049 of the Italian Civil Code, for the actions of a number of managers allegedly accountable for the transaction carried out with Nomura. It should be also noted that, also as a consequence of the aforementioned investigations initiated by judges in 2012 and of the aforementioned proceedings, further criminal, sanctioning and civil proceedings have been initiated by judges, supervisory authorities, consumer associations, investors and the Bank itself. The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity which inspired the actions undertaken by the new management, aimed at identifying the best initiatives in protection of the Bank, the assets and the image thereof, even through direct legal actions against the former top management and counterparties involved.

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

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

In this respect, amongst the initiatives against the Issuer, some investors and/or shareholders of the Bank initiated actions aimed at obtaining the compensation for alleged damages suffered by the same subjects due to the alleged inaccuracy of the disclosure provided by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, due to the assumed unfairness of the price sensitive information provided from 2008 to 2015. As at the date of the Prospectus, 17 proceedings with compensatory aims have been initiated before the Court of Siena, Bari, Milan, Florence.

In such claims, the plaintiffs mainly act for the declaration of the Bank's liability pursuant to article 94 of the Consolidated Finance Act, as well as for the cancellation of the capital

increases' subscription agreement because of wilful and/or essential error pursuant to the Italian Civil Code. As at the same date, the overall *petitum* for such actions is equal to around Euro 272.3 million of which 226.1 million referred to three principal actions.

Furthermore, as at the date of the Prospectus, various complaints have been filed individually by investors – through consumers or legal associations – 69 of which, on a total amount of 735, have taken part into the claim initiated by Marangoni Arnaldo (as described under the section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings — Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*") – for a total of around Euro 651 million of claimed amounts, where quantified, associated with alleged losses incurred linked to the facts abovementioned. Of such requests, around 10 per cent. turned into civil judicial initiatives (in the great majority with intervention in the proceedings initiated by one single shareholder). Such requests – individually or collectively – although heterogeneous, are mainly reasoned with generic references to the alleged infringement, by the Bank, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank since generic, ungrounded, and unsupported by suitable documental evidences and in some instances time barred. The residual *petitum* claimed by complainants who did not initiate judicial proceedings is equal to around Euro 589 million.

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

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

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

Consolidated Financial Act, in addition to the actions of the abovementioned directors and statutory auditors pursuant to the article 2049 of the Italian Civil Code. In this respect the Bank is evaluating, with the assistance of its lawyers, the line of defense which seems the more appropriate and the related actions.

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

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

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

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

(g) *Risk deriving from sanctioning procedures promoted by the authorities*

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

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

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

possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers) was also closed.

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

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

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

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

For more information on such sanctioning procedures promoted by the AGCM, reference is made to "*Banca Monte dei Paschi S.p.A. - Legal Proceedings — Sanctioning procedures*",

paragraphs "*Competition and Market Authority ("AGCM") Proceedings I794 of the AGCM – Remuneration of the SEDA service*" and "*Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*" below.

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

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

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

The Issuer, as at 30 September 2015, having carried out all appropriate in depth analyses with its accounting consultants, recognised both aforementioned Term Structured Repo transactions in its financial statement taking account of the single contractual components, in consideration of the operational modalities with which they have been carried out and the economic purposes pursued thereby. It has therefore been deemed that conditions were not satisfied to represent them under an accounting standpoint as credit default swap.

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

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

With resolution no. 19459 of 11 December 2015, and after completing its investigation, CONSOB found that the consolidated and individual financial statements for 2014 and the

semi-annual report as at 30 June 2015 were not compliant with the rules governing the drafting thereof, namely the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the items referring to the "Alexandria" transaction, which were closed by means of the entering into of a specific settlement agreement executed between the Bank and Nomura on 23 September 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Should the opportunity for the Bank to proceed with a possible aggregation with another institution materialise, such transaction would expose the Bank to the risks and complexities that are typical of the integration process of credit groups. Furthermore, also depending on the

economic terms and technical modalities through which a potential aggregation transaction would in case take place, as well as on the valorisation of the Bank and its shares as resulting from the determination of the relating exchange ratios which would be applied in the context of this possible transaction, the Bank's shareholders could incur a dilution, even significant, of their interest in the entity resulting from the aggregation. In this respect, please note that this valorisation may be prejudicial to the Bank's shareholders.

3. OTHER RISKS ASSOCIATED WITH THE BANKING AND FINANCIAL BUSINESS

3.1 *Market and interest rate risk*

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

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

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

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

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

For management purposes, market risk is monitored using a Value at Risk ("**VaR**") measure, which represents the maximum loss that could be realised in a specified time horizon in a

specified confidence range. As at 30 September 2017 the VaR of the Montepaschi Group's trading portfolio, calculated with a confidence range of 99 per cent. and a time horizon of one day, amounted to Euro 6.20 million. In the first nine months of 2017 the average VaR was equal to Euro 7.27 million, while during financial year 2016 the average VaR had been equal to Euro 6.65 million. As at 30 September 2017 the relating capital requirements for supervisory purposes were equal to Euro 287.49 million (as at 31 December 2016 they were equal to Euro 243.65 million).

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

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

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

3.2 *Counterparty risk*

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

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

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

In relation to operations in repos the Montepaschi Group enters into contracts mainly with institutional counterparties and to a lower extent, with ordinary clients. As at 30 September 2017, the Montepaschi Group's exposure to repos amounted to Euro 8,819 million, recording a 11.7 per cent. decrease compared to the level of Euro 9,271 million at the end of December 2016. As at 30 September 2017, instead, the exposure to reverse repos amounted to Euro 15,304 million, recording a decrease equal to 50,5 per cent. compared to the value of Euro 30,916 million as at 31 December 2016.

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

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

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

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

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

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

3.3 *Concentration risk*

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

Specifically, concentration risk may be split into two types:

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

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

3.4 *Risk management*

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

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

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

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

- the risk management committee drafts the policy in the matter of risk management, assesses the Issuer's risk appetite in accordance with annual and multi-annual targets

and verifies overall compliance with the limits assigned to the various operational levels; proposes the allocation of capital to be submitted to the approval of the board of directors; assesses, at aggregate and single entity level, the risk profile achieved and hence the capital consumption; and analyses the trend of risk-return performance indicators;

- the finance and liquidity committee expresses the principles and strategic guidance in the matter of treasury finance; resolves upon and submits proposals in the matter of exposures to rate and liquidity risk of the banking portfolio and for the definition of capital management actions; and

- the credit and credit policies committee expresses guidance in the matter of governance of organisational structures, credit processes and problem loans performance; furthermore it expresses an at least annual opinion on credit policies, verifying the commercial sustainability thereof and consistency with risk appetite, and approves, at least annually, corporate policies on "credit assessment"; it is accountable, based on delegated powers, for resolving on the matter of lending, credit management and problem assets.

The Montepaschi Group, in carrying out its activities, assumes various types of risks mainly referred to the following categories: credit risk, market risk, operational risk, counterparty risk, liquidity risk, issuer risk, concentration risk, business risk, reputational risk, real estate risk, equity interest portfolio risk, risk concerning investment products/services destined to customers, and technological risks (different from operational risks only in terms of mitigation, since it is managed through business continuity and disaster recovery tools). Such types of risk, managed and monitored through Group policies and procedures, can be referred – in light of the specific activity put in place – both to the banking book and the trading book and are subject to on-going monitoring by different levels of controls and, where a quantitative approach is possible, to specific measurement.

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

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

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

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

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

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

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

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

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

Furthermore, notwithstanding the existence of the aforementioned internal procedures aimed at identifying and managing risk, the occurrence of certain events, to date unpredictable or not assessed, as well as the inability of the Montepaschi Group's structures and human resources to handle certain risk elements in carrying out certain activities, may entail losses and accordingly have a relevant negative impact on the business and the economic, capital and/or financial condition of the Issuer and/or the Montepaschi Group.

It cannot be excluded that, as a consequence of the investigation or verification activity by the competent supervisory authorities (and, specifically, future SREPs,) internal models, policies and/or procedures for the management of risks may be judged not fully adequate, with possible

consequent negative effects, even material, *inter alia*, on the calculation of capital ratios. Finally, in light of the legislative evolution concerning the adoption of internal models, it will probably be necessary to review certain models and the related parameters to make them fully compliant with the new legislative requirements.

3.5 *Risks associated with debt restructuring transactions*

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

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

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

Among debt restructuring transactions which are relevant for the Issuer, as a consequence of the definitive nature of homologation decrees by the Courts of Milan in respect of the restructuring agreements of the companies belonging to the Sorgenia Group pursuant to art. 182-*bis* of the Bankruptcy Law (entered into on 14 November 2014 and becoming effective on 16 March 2015), the Issuer holds a 16.67 per cent. interests in the share capital of Nuova Sorgenia Holding S.p.A., which company in turn controls Sorgenia S.p.A.. Furthermore, note that, as at 30 September 2017 the Montepaschi Group's overall credit exposure to the Sorgenia

Group was equal to Euro 388.5 million (Euro 360 million by cash and Euro 28.5 million by accrual), in addition to a portion of the bond loan to be converted into shares issued by Sorgenia S.p.A. in 2015, equal to Euro 44.2 million and equity financial instruments issued by Nuova Sorgenia Holding S.p.A. for Euro 88.4 million.

In consideration of the financial difficulties incurred by Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A. and the need to proceed with the re-modulation of the terms provided for by restructuring agreements, the Issuer, for the purpose of allowing those companies to have the necessary time to finalise the new business plan and the financial manoeuvres, entered into an moratorium and standstill agreement, which became effective on 26 August 2016, by virtue of which it undertook, until 31 December 2016, or until the entering into of the new restructuring agreement, where preceding, not to revoke credit facilities granted to the companies of the Sorgenia Group, specifically undertaking to maintain in place the endorsement credit facilities granted to Sorgenia S.p.A. and the derivatives entered into with the same companies. Furthermore, pursuant to the moratorium and standstill agreement, the Issuer undertook not to: (i) create or enforce guarantees supporting the credits claimed against the same debtors; (ii) ask the repayment of liabilities on account of principal and the payment of delay interests (accrued and to accrue) on the exposure subject matter of the restructuring transaction, (iii) transfer its contractual position or the credits claimed against the companies of the Sorgenia Group; and (iv) file a petition for the initiation of insolvency proceedings against the debtors.

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

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

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

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

Again among debt restructuring transactions relevant for the Issuer and within the context of a credit securitisation transaction pursuant to Law 130 to be realised with one or more SPVs referred to as Pillarstone Italy, on 26 June 2017 the assignment of the receivables claimed by the Montepaschi Group was resolved upon, for a total of Euro 298 million, to the company Rizzo Bottiglieri De Carlini Armatori S.p.A. (in composition with creditors procedure pursuant to art.160 and 186 *bis* of the Bankruptcy Law). On 1 July 2017, BMPS and MPS Capital

Services assigned to the vehicle Norma SPV s.r.l. the receivables due by Rizzo Bottiglieri De Carlini Armatori S.p.A.. On 21 July 2017, the issue of notes by Norma SPV S.r.l. was carried out. BMPS and MPS Capital Services purchased the mezzanine and junior notes proportionately to the receivables assigned, which therefore have not been subject to derecognition within their respective financial statements.

3.6 *Risks associated with the ownership structure*

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

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

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

The settlement date of the Offer was 24 November 2017.

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

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

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

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

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

On 16 November 2015, it was published in the Official Gazzette the Decree 180 and Legislative Decree No. 181/2015 (together, the "**BRRD Decrees**") implementing the directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU, the "**Bank Recovery and Resolution**

Directive", or "**BRRD**") and issued for the purpose of supplementing the Single Supervisory Mechanism which establishes a recovery and resolution framework of credit institutions and identifies, *inter alia*, the powers and tools that resolution authorities – among which the Bank of Italy – may adopt for the resolution of a bank which is failing or likely to fail, as defined by article 17, subsection 2, of the aforementioned Decree 180.

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

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

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

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

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

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

In particular, shares, other equity interests and equity instruments issued by a failing entity – pursuant article 27 of the Decree 180 – may be reduced or converted : (i) regardless the launching of the resolution or forced administrative liquidation; or (ii) in combination with a

resolution action, when the resolution plan provides for measures entailing the value reduction of shareholders' and creditors' receivables or their conversion into capital; in this case, the reduction or conversion is ordered immediately prior to or contemporaneously with the application of such measures. Resolution measures – pursuant to article 39, subsection 1, of the Decree 180 – also include the bail-in, which consists of the reduction of shareholders' and creditors' rights or their rights being converted into capital.

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

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

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

(1) first of all the reduction shall be applied, up to the amount of losses, according to the following order:

- Common Equity Tier 1 instruments, among which the Issuer's shares;
- Additional Tier 1 Instruments;
- Tier 2 Instruments, including subordinated bonds;
- subordinated debts other than Additional Tier 1 Instruments and Tier 2 Instruments; and
- residual liabilities, including senior notes;

(2) once losses are absorbed, or in the absence of losses, the conversation into shares eligible as CET 1 will be applied, according to the following order:

- Additional Tier 1 Instruments;
- Tier 2 Instruments, including subordinated bonds;
- subordinated debts other than Additional Tier 1 Instruments and Tier 2 Instruments; and
- residual liabilities, including senior notes.

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

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

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

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

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

In order to implement banking crisis management measures, the resolution authority, pursuant to article 60 of Decree 180, may *inter alia*: (i) order the transfer of the failing bank's shares; (ii) order the assignment of the failing bank's assets; (iii) reduce, even to zero, the nominal value of the bank's shares; (iv) cancel debt securities issued by the bank (not excluded from bail-in); (v) convert liabilities into shares or amend maturities and interest rates or suspend the payment thereof; (vi) impose the issuance of new shares; and (vii) dismiss managers and top executives. As at the date of the Prospectus the measures laid down by article 50 of Decree 180 (relating to the minimum requirement of own funds and liabilities eligible for bail-in) have not been adopted yet.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- DBRS (23 August 2017): DBRS raised the long term rating to 'B (high)' from 'B (low)' and the short term rating to 'R-4' from 'R-5', amending the outlook from 'Under Review Developing' to 'Stable', as a consequence of the realisation of the Precautionary Recapitalisation and the improved risk profile due to increased coverage levels in the second quarter of 2017 on the loans falling under the perimeter of the scope of the securitisation. The rating 'B (high)' takes into account the high level of Impaired Loans, the weak business profile as a consequence of the loss of commercial activity registered during 2016 and the execution risk related to the Restructuring Plan. While recognising the capacity of the Bank, in the past, to carry out the planned reductions of cost, DBRS believes that the necessary improvement of the profits and of the credit costs may present difficulties. The rating takes also into account the high level of competition faced by the Bank, the difficult context in which it operates, the commercial restrictions set in the Restructuring Plan in line with the regulation on "State aid", as well as the low interest rates and stricter regulatory environment. A gradual achievement of the goals provided by the Restructuring Plan and a greater trust by the market may contribute to an improvement of the rating. On the contrary, the failed realisation of the Plan, an additional deterioration of the risk profile of the Bank or a significant weakening in terms of capital and liquidity may contribute to a worsening of the rating;

- Fitch (11 August 2017): Fitch reduced to "f" and subsequently raised to "b" the viability rating of the Bank, increased the long term rating to "B" with outlook "Stable" from "Rating Watch Evolving" and confirmed the short term rating at "B" removing the outlook "Rating Watch Negative". The increased rating reflects the stronger capitalisation of the Bank, the improved asset quality, as a consequence of the derecognition of Impaired Loans, and the reduced pressure on capital deriving from net Impaired Loans. The "Stable" outlook reflects stable perspectives for the Bank. The rating agency expects, in the context of the Restructuring Plan 2017-2021, a gradual improvement of profitability; however, such improvement will depend on the management's capacity to realise the significant cost reductions agreed with the authorities and in the Italian economic context. Finally, Fitch foresees a risk of execution in the project of re-organisation and deep review of the organisational processes of the Bank. Should the securitisation of the Doubtful Loans not be successfully carried out or the Bank not reach the goals set in relation to the costs' reduction, the Impaired Loans' additional reduction and the increase of the profitability,

the ratings may be worsened. Moreover, should the impact of the Impaired Loans on the total of the credit significantly increase and the value of the Impaired Loans go back to being a multiple of the core capital of the Bank, the rating assigned to the latter would be worsened. On the contrary, improvements in the implementation of the new strategy and the return to adequate levels of deposits and liquidity may lead to an increase of the rating; and

- Moody's (12 July 2017): Moody's rating agency raised the BCA rating (Baseline Credit Assessment), from "ca" to "caa1" as a consequence of the finalisation of the Restructuring Plan which provides for the preventive recapitalisation by the Italian Government, the mandatory conversion of subordinated notes into shares and the significant reduction of Impaired Loans. The action reflects the expectation of improvement the Bank's credit profile as a consequence of the aforementioned transactions. However, Moody's does not include in the calculation of the BCA the entire benefit deriving from the improved profitability expected according to the Plan, since it is expected that the return to an adequate profitability will be gradual and challenging, due to the simultaneous change of the organisational structure and the strong reduction of the workforce and of the branches. The long term rating "B3" and the short term rating "NP" (Not Prime) remained unchanged. The long term outlook has been changed to "Negative" from "Under Review with Direction Uncertain". Moody's may further increase the ratings assigned as a consequence of significant improvements in the achievement of the goals of the Plan, in particular: (i) ROA above 0.4 per cent.; (ii) impact of the Impaired Loans on the total of the credits lower than 15 per cent.; and (iii) increase of the deposits or issue of senior and subordinated debt instruments not assisted by state guarantees. On the contrary, it may worsen the ratings if (i) the Bank were not to return to generate profits on a continuous basis; (ii) the CET1 ratio were to fall below 12 per cent.; (iii) the Impaired Loans were to increase again in a significant manner; or (iv) the Bank were not to be able to increase the deposits, as a consequence, remaining dependent on debt instruments guaranteed by the State.

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

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

Possible changes to the Issuer's ratings that may intervene during the validity period of the Prospectus, or the possible subjection to review thereof by rating agencies, will be disclosed to

the public by way of specific press releases published on the Issuer's website (www.gruppomps.it).

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

3.9 *Risks associated with goodwill and other intangible assets impairments*

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

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

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

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

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

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

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

The impairment test on goodwill as at 31 December 2016 and 31 December 2015, in both financial years equal to Euro 8 million and fully allocated to the "Financial Promotion and Digital Banking CGU", did not detect the need for write-downs. With regard to 2016, the test was carried out on the basis of the 2016 preliminary data and updated projections set out in the 2017-2021 risk appetite framework calculated in line with the Montepaschi Group's forecast plans, in continuity with the impairment tests conducted in the past. With respect to 2015, the test was conducted on the basis of the 2015 preliminary and 2016 budget data and the updated

projections set out in the 2016-2018 risk appetite framework updating the 2016 and 2017 economic targets set by the restructuring plan and the 2013-2017 business plan, to the achievement of which the Issuer is still today formally committed to both *vis-à-vis* the competent authorities and stakeholders.

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

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

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

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

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

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

As at 30 September 2017, the value of equity interests amounted to Euro 1,001 million, equal to 0.7 per cent. of the Montepaschi Group's total assets; the most relevant are AXA MPS Assicurazioni Vita (Euro 770 million), AXA MPS Assicurazioni Danni (Euro 75 million), Fondo Etrusco (Euro 65 million), and Fidi Toscana S.p.A. (Euro 22 million). As at 31 December 2016, instead, the value of equity interests amounted to Euro 1,032 million, equal to 0.7 per cent. of the Montepaschi Group's total assets; the most relevant were AXA MPS Assicurazioni Vita (Euro 772 million), Fondo Etrusco (Euro 65 million), AXA MPS Assicurazioni Danni (Euro 66 million) and Fidi Toscana S.p.A. (Euro 42 million).

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

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

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

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

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

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

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

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

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

3.11 *Operational Risk*

In carrying out its business, the Montepaschi Group is exposed to the so called operational risk, namely the risk to incur losses deriving from the inadequacy or malfunctioning of corporate procedures, errors and shortcomings of human resources, internal processes or IT systems, or external events. Such type of risk includes losses deriving from frauds, human errors, discontinuation of operations, unavailability of systems and increasing resorting to atomisation and outsourcing of corporate functions, contractual non-fulfilments, natural catastrophes, low IT security and legal risks, while strategic and reputational risks are excluded. Operational risks differ from other typical risks of the banking and financial business (credit and market risks) because they are not taken by the Bank based on strategic choices, but are embedded in its operations and are in any case present.

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

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

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

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

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

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

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

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

3.12 ***Risks associated with securitisations***

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

In the course of financial year 2014, the Montepaschi Group did not carry out any new securitisations, while in the course of 2015 the Montepaschi Group carried out two new securitisations: (i) Siena Consumer 2015 relating to a portfolio of dedicated, personal and car loans, originated by Consum.it and the senior securities of which – similarly to the preceding

transaction – have been placed through a private placement with institutional investors; and (ii) Siena PMI 2015, related to a portfolio of loans to small and medium enterprises originated by BMPS, the senior securities of which even in this case have been placed through a private placement with institutional investors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The parameters and information used to estimate the abovementioned values are then significantly impacted by the aforementioned factors, in respect of which it cannot be excluded

that a worsening of the related performance may give rise to negative effects on the items under evaluation and, ultimately, on the operating results and the economic, capital and/or financial condition of the Bank and/or the Montepaschi Group.

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

Loans to customers

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

- the reference context, at macroeconomic and legislative-regulatory level, affecting the management view in terms of future and rigour expectations in the assessment process. Said context is of particular relevance given the prolonged nature of the current economic and financial crisis, which may entail a further deterioration of debtor customers;

- the outcome of the application of cash flow predictive models which it is expected single debtors (or portfolios of homogeneous debtors under a risk profile) will be able to pay to fulfil, in whole or in part, the obligations undertaken to the Montepaschi Group. In the context of a range of possible approaches relating to the estimate models permitted by reference to international accounting standards, resorting to a methodology or selecting certain estimate parameters may significantly affect the assessment of loans. Such methodologies and parameters are necessarily subject to an on-going update process for the purpose of better representing the presumable realisation value.

In particular, for Impaired Loans the definition of a different portfolio perimeter to be subjected to flat-rate assessment, typically represented by exposures of lower amount, may involve the detection of further adjustments compared to those recorded on the basis of an analytical assessment; in this respect it cannot be excluded that the Montepaschi Group, with a view of making the credit monitoring mechanisms more efficient, may widen the impaired loan

portfolio assessed according to a flat-rate approach, in order for credit recovery dedicated structures to be more focused on the collection activity and on the assessment of counterparties with more relevant exposures.

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

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

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

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

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

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

It cannot, accordingly, be excluded that the selection of alternative models and parameters may entail negative effects, even significant, on the economic, capital and financial condition of the Montepaschi Group. The ECB, by letter dated 27 June 2017, informed the Bank of the fact that in the course of the first semester of 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the 2018 SREP. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according to the EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the 2018 SREP stress test, as well as the 2016 stress test, will be factored in the preparation of the 2018 SREP Decision. As at the date of the document, the parameters to be applied for the 2018 stress test not being known yet, nor the impacts thereof on the assessment of financial assets or the related effects on the Montepaschi Group's economic, capital and financial conditions can be quantified.

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

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

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

3.14 ***Risks associated with the market value of owned properties***

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

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

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

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

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

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

3.15 ***Risks relating to DTAs***

As at 30 September 2017, deferred tax assets ("**DTA**") amounted in aggregate to Euro 2,904 million (compared to Euro 3.297 million as at 31 December 2016), of which Euro 1,376 million (compared to Euro 2,367 million as at 31 December 2016) is eligible to be converted into tax credit pursuant to Law of 22 December 2011, no. 214 ("**Law 214/2011**").

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

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

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

In relation to DTAs eligible for conversion pursuant to Law 214/2011, article 11 of Law Decree no. 59/2016 subjected the possibility to continue to apply the above described regime in the matter of conversion into tax credits of advanced tax assets to the exercise of a specific irrevocable option and the payment of an annual fee ("**DTA fee**") to be paid with reference to each of the financial years starting from 2015 and subsequently, if annual requirements are met, until 2029. As clarified in the press release of the Council of Ministers of 29 April 2016,

such provision was necessary to overcome the doubts raised by the European Commission on the existence of "State aid" components in the legislative framework relating to deferred tax assets then in force.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.16 *Risks deriving from tax disputes*

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

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

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

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

of around Euro 5.4 million, reducing, by doing so, the overall charges deriving from the above adherence to an amount (Euro 9.3 million) of around Euro 3.9 million. In relation to 2011, VAT contestations which were not included in the aforementioned adherence, on 22 December 2016 the financial administration notified a sanctioning deed, for an amount of around Euro 0.4 million, in respect of which the company filed a defensive brief on 16 February 2017.

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

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

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

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

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

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

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

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

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

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

determined that the Court of Forlì were competent, and accordingly the hearing to discuss shall be held on 1 December 2017 before such Courts.

Following the mandatory charge ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the suspects for the administrative offences pursuant to art. 25-*ter*, lett. b) and art. 25-*sexies* of Legislative Decree 231/01.

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

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

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

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

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

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

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

Specifically, "State aid" notified to the European Commission after 1 January 2016, which determine the resolution under the BRRD, may be granted only in presence of a bail-in of at least 8 per cent. of total liabilities of the bank, which may even require the conversion of Tier

1 debt securities and uncovered deposits. The only exception concerns the extraordinary public financial support, precautionary and temporary, of solvable entities, in the context of which the European Commission, upon occurrence of strictly defined circumstances and subject to the prior verification of compliance with the criteria imposed by the Communication, may authorise the granting of "State aid" outside the scope of the resolution.

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

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

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

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

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

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

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

In particular, by the aforementioned resolution, CONSOB found, following the completion of the investigation, that the consolidated financial statements and balance sheet 2014 and the interim Financial Statements, as at 30 June 2015, did not comply with the rules governing the preparation thereof (especially with respect to the application of the accounting principles set out in IAS 1, IAS 34 and IAS 39), with particular and exclusive reference to the method used

("open balances" or "closed-balances") to record the accounting entries concerning the Alexandria transaction (closed in September 2015 by special settlement agreement executed between the Bank and Nomura International Plc). In the financial year 2015, the Bank confirmed the accounting choices made during the restatement 2012 and in the subsequent financial years, considering the information available at the time, considered to comply with the supervisory authority's indications and to respect the resolution by implementing, when preparing the financial statements as at 31 December 2015, a restatement pursuant to IAS 8, which reflected retrospectively the figures of the Alexandria transaction in such financial statements, adjusting it such as a credit default swap. The revision of such account records had a negative impact on the Montepaschi Group's net assets, equal to Euro 196.1 million as at 31 December 2014.

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

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

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

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

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

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

In particular, the Montepaschi Group is subject to the primary and secondary legislation applicable to companies with financial instruments listed on regulated markets, the legislation in the matter of banking and financial services (governing, *inter alia*, the sale and placement activities of financial instruments and the marketing thereof), as well as the regulatory regime of the countries, even other than Italy, in which it operates. The supervision by the aforementioned authorities covers various sectors of the Issuer business and may concern, *inter alia*, liquidity, capital adequacy and financial leverage levels, the prevention and combating of money laundering, privacy protection, transparency and fairness in the relations with clients, and reporting and recording obligations.

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

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

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

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

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

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

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

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

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

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

Specifically, the Issuer will be subject to a buffer equal to 0 per cent. until 31 December 2017, while such buffer will be equal to 0.06 per cent. starting from 1 January 2018, 0.13 per cent. starting from 1 January 2019, 0.19 per cent. starting from 1 January 2020 and 0.25 per cent. starting from 1 January 2021.

Furthermore, the Bank is bound to comply with the general limit on the investment in equity interests and real estate properties, to be contained within the amount of own funds at consolidated level, and the regulatory limits in the matter of holding of qualifying equity interests in non-financial enterprises and large exposures. The Bank is also subject to the regulatory limits provided for by the national legislation in the matter of transactions with related parties as per the "New Prudential Supervision Provisions" for banks as well as the specific obligations set forth by the regulation issued by consob.

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

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

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

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

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

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

On 10 December 2015, as better detailed below in this paragraph, the Basel committee launched a consultation on a document concerning the review of the standardised approach for the calculation of RWAs, and on 6 April 2016, published a consultation document containing a set of amendments to be applied to the structure of internal rating based approaches for the calculation of credit risk. Furthermore, review processes of the calculation models of requirements for "market risk" and "operational risk" categories are in progress. Finally, on 14 November 2016, the EBA launched a consultation on a document setting out the guidelines to estimate PD and LGD, as well as for the treatment of defaulted exposures.

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

On 4 November 2014, the Single Supervisory Mechanism was launched. Specifically, the SSM Regulation assigned to the ECB specific duties in the matter of prudential supervision of credit institutions, in cooperation with the national supervisory authorities of participating countries, in the context of the SSM. With this mechanism the ECB, in close cooperation with the national

supervisory authorities, undertook the supervisory competence over all banks of the Euro Area, on a direct basis in case of "significant" banks and on an indirect basis in relation to the other banks, which will continue to be supervised by local authorities on the basis of the criteria set by the same ECB.

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

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

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

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

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

On 19 July 2016, the EBA published in consultation an interim report on the MREL, and subsequently, on 14 December 2016, the final report on the MREL, concerning a number of relevant aspects for the implementation of the MREL among which, specifically, the proposals for the harmonisation of the calculation of capital requirements in the various Member States, the opportunity for the MREL to be satisfied resorting to contractual bail-in tools, the

identification of a minimum requirement level in respect of the business model identified for institutions and the opportunity to use, as denominator for the MREL requirement, the institution's risk weighted assets. The Montepaschi Group has not so far been bound to comply with a specific threshold with reference to the MREL (a target level is currently defined by the Single Resolution Board for information purposes only).

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

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

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

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

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

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

The review processes of the calculation models of requirements for the "market risk" and "operational risk" categories shall be added to the above. In January 2016, the "Fundamental Review of the Trading Book" (FRTB) has been finalised, i.e. the review of the standardised method and internal model for the calculation of minimum capital requirements in respect of

market risk while in March 2016 the Basel committee launched a consultation providing for the review of the standard model and the repeal of internal models for the calculation of RWAs in respect of operational risks.

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

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

On 23 November 2016, with the first legislative proposal of review of the CRR and the CRD IV, the EU regulatory process implementing in the European Union the Basel committee standards in the matter of market risk ("Fundamental Review of the Trading Book"), leverage ratio, NSFR, TLAC, standardised approach to counterparty risk, started. In the context of such amendment proposals, the European Commission proposes the introduction of the NSFR, the calibration phase thereof is preparatory to the definition of parameter calculation rules and accordingly of minimum requirements to be complied with, and the introduction of a 3 per cent. leverage ratio. The entry into force of the majority of the proposed amendments will depend on the completion times of the legislative process at EU level.

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

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

It should be finally noted that supervisory authorities have the power to bring administrative and judicial proceedings against the Montepaschi Group, which may translate, *inter alia*, in the suspension or revocation of authorisations, warning measures, fines, civil or criminal sanctions

or other disciplinary measures, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Montepaschi Group.

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

4.2 ***Risks associated with competition in the banking and financial sector***

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

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

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

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

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

4.3 ***Risks associated with the reduction of the system liquidity support***

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

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

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

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

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

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

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

In the first months of 2017, on the basis of Decree 237, the Issuer issued Euro 11 billion of Italian state guaranteed liabilities. Specifically, on 25 January 2017 two issuances of state

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

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

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

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

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

4.4 *Risks associated the sovereign quantitative easing launched by the ECB*

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

The new programme initially provided for, in addition to the pre-existing private sector asset purchase program, the possibility for the ECB to purchase, every month, Euro 60 billion of

bond securities of European States, agencies and institutions up to a maximum value of Euro 1,140 billion to be spread over a period of 19 months starting from 9 March 2015.

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

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

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

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

On 26 October 2017, the ECB announced the extension, until September 2018, of the securities purchase programme, reducing however the monthly amount, starting from January 2018, from Euro 60 to 30 billion.

4.5 ***Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises***

On 4 November 2014, the Single Supervisory Mechanism, including the ECB and the competent national authorities of the participating Member States, among which the Bank of Italy, started to operate. The SSM is in charge of the prudential supervisory of all credit entities of the participating Member States and assures that the EU policy in the matter of prudential supervision of credit institutions is implemented in a consistent and effective manner and credit institutions are subject to the highest quality supervision.

In the context of such supervisory mechanism, the ECB has been entrusted with specific prudential supervisory duties on credit institutions providing, *inter alia*, for the possibility of the latter to carry out, if the case is in coordination with the EBA, stress tests to ascertain whether the measures, strategies, processes and mechanisms put in place by credit institutions and own funds held thereby would allow for a sound management and coverage of risks when dealing with future but plausible negative events. Depending on the outcomes of such stress tests, the ECB is also entrusted with the power to impose on credit institutions specific obligations in the matter of additional own funds, specific disclosure and liquidity requirements, as well as other measures.

In this respect, by letter dated 27 June 2017, the ECB informed the Bank of the fact that in the course of the first semester 2018, the Bank will be subject to the SREP stress test, the findings of which will be factored in the overall assessment of the SREP 2018. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according with EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the SREP stress test 2018, similarly to the 2016 stress test, will be both factored in the preparation of the SREP Decision 2018.

In general, the outcomes of such stress tests are by their nature uncertain and only partially predictable by the financial institution involved since the evaluation methodologies used by the ECB aim at adopting an homogeneous risk evaluation within EU member states and, accordingly, may deviate – even to a significant extent – from the RWAs evaluation methods adopted by the single credit institutions involved.

In this respect, on 29 July 2016, the outcomes of the EBA's stress test have been disclosed, and showed for the Bank a very severe impact in the so called adverse scenario, which highlights a CET1 in 2018 equal to -2.2 per cent., while in the so called baseline scenario CET1 is confirmed at 12 per cent.. Specifically, such outcomes are strongly impacted by the high NPL ratio of the Issuer.

Furthermore, the EBA, in cooperation with the competent supervisory authorities, may in the future decide to recommend a new asset quality review on the most important European banks and, among those, also the Issuer, with the purpose of verifying the classifications and evaluations operated by them on their loans for the purpose of dealing with the worries linked to the deterioration of asset quality. Such asset quality review exercise may, furthermore, possibly also be combined with an additional stress test conducted by the ECB in the context of a new comprehensive assessment exercise, similar to the one closed in October 2014.

Should the ECB, in cooperation with the EBA and the other competent supervisory authorities, carry out new comprehensive assessment exercises (or stress test or asset quality review exercises), it cannot be assured that the Issuer will meet the minimum parameters set in the context of such exercises and that, accordingly, in case of failure, it will not be the addressee of ECB measures that, *inter alia*, may impose the implementation of new capitalisation actions or other measures suitable to replenish the capital insufficiencies found in the Bank's own funds, with possible negative effects on the business and the economic, capital and/or financial conditions of the same and/or the Montepaschi Group.

4.6 ***Risks associated with the entry into force of the new accounting principles and the amendment of applicable accounting principles***

The Montepaschi Group is exposed, similarly to the other entities operating in the banking sector, to the effects of the entry into force and subsequent application of new accounting principles or rules and regulations and/or to the amendment thereof (including those deriving from International Accounting Standards as homologated and adopted in the EU jurisdiction). Specifically, in the future the Montepaschi Group may have to review the accounting and regulatory treatment of certain outstanding assets and liabilities and transactions (and related profits and charges), with possible negative effects, even significant, on the estimates contained in the financial plans for future years and may have to restate previously published financial data.

(a) *The new International Accounting Standard IFRS 9 "Financial Instruments"*

The International Accounting Standard Board ("**IASB**") issued, on 24 July 2014, the final version of IFRS 9 ("**IFRS 9**") which replaces the prior standard versions published in 2009 and 2010 for the "classification and measurement" phase, and in 2013 for the "hedge accounting" phase and completes the IASB project of replacement of IAS 39 "Financial Instruments: Recognition and Measurement".

IFRS 9:

- introduces significant amendments to the classification and measurement rules of financial assets which will be based on the business model and cash flows characteristics of the financial instrument (SPPI criterion – Solely Payments of Principal and Interests), which may entail various classification and measurement methods of financial instruments compared to IAS 39;
- provides for a new impairment accounting model based on an "expected losses" approach instead of "incurred losses" as per current IAS 39, also characterised by the introduction of the "lifetime" expected loss notion which may lead to an anticipation and a structural increase of value adjustments, specifically those pertaining to loans; and
- intervenes on "hedge accounting" rewriting the rules for the designation of a hedging relation and for the verification of its effectiveness with the purpose of guaranteeing a better alignment between hedging accounting recognition and underlying management logics.

The standard provides for the possibility for the institution to avail itself of the option to continue to apply the prior versions of International Accounting Standard IAS 39 in the matter of "hedge accounting" until completion by the IASB of the definition project of the rules relating to "macro-hedging".

Furthermore, IFRS 9 also changes the recognition of the so called "own credit", i.e. of fair value variations of liabilities designated in fair value option ascribable to movements in its own creditworthiness. The new standard provides for such variations to be recognised in an equity reserve, instead of through profit or loss as was instead provided for by IAS 39, thereby removing a volatility source of economic results.

IFRS 9, homologated by the European Commission on 22 September 2016 with Regulation no. 2016/2067, will mandatorily apply to the financial statements referred to financial years commencing on 1 January 2018, but with the possibility for early application of the entire standard or just its amendments related to the accounting treatment of own credit for financial liabilities designated at fair value. In respect of the latter aspect the Montepaschi Group decided to avail itself of this option starting from 1 January 2017.

Furthermore, as a consequence of the entry into force of IFRS 9, a review of prudential rules for the calculation of the capital absorption on credit value adjustments is also expected. The terms of such review are not yet known as at the date of the Prospectus.

The main quantitative impacts expected as at the date of first application of the standard are essentially referred to below:

(i) the application of the new impairment model, which will entail increased provisions, specifically those relating to non-impaired assets classified under stage 2, as a consequence of the application of the lifetime expected losses approach and those relating to impaired assets classified under stage 3 for the application of the forward-looking and multi-scenario approach which will allow for a timely recognition of expected credit losses (among which also the effects ascribable to the assignments of Doubtful Loans and Unlikely to Pay provided for by the Restructuring Plan); and

(ii) the application of the new rules for the transfer of positions among the various classification stages provided for by the new standard. Specifically, it is expected that a greater volatility could be generated in economic and capital results among the various reporting periods, ascribable to the dynamic movements among the various stages of pertinence of financial assets recorded in the financial statement (specifically between "stage 1" which will mainly include new positions disbursed and all fully performing positions and "stage 2" which will include positions in financial instruments which underwent a credit deterioration compared to the time of initial recognition).

Changes in the accounting value of financial instruments due to the transition to IFRS 9 will be recognised in balancing entries in net equity as at 1 January 2018.

In this respect, the Montepaschi Group took part from the very beginning in the planning activities of the Associazione Bancaria Italiana ("**ABI**") and commenced, in the course of the second semester of 2015, its own transition plan, the architecture of which is structured in the following three activity strands: (i) preliminary assessment, (ii) design and (iii) implementation. In the course of 2015 the assessment phase started, and it closed in the course of the first quarter of 2016, aimed at assessing the potential impacts of the new standard on regulatory aspects, risk models, administration, organisation, IT applications and business.

In the first quarter of 2016 a detailed analysis has been conducted with reference to the abovementioned preliminary evidences which confirmed the materiality of the changes introduced by the new standard, specifically in respect of the impairment model applicable to all financial assets (with exclusion of the "Fair Value Through Profit or Loss" – "**FVTPL**"), supporting the expectation of an increased number of write-downs compared to those estimated with the model in use as at the date of the Prospectus. On the contrary no significant capital reclassifications are expected in the application of the new provisions in the matter of classifications of financial assets provided for by IFRS 9. The design activity, which commenced in the course of the first quarter of 2016, further developed in the course of the second quarter of 2016 and was substantially closed on 31 December 2016. The architecture of the project provides for the implementation activity aimed at planning and executing the interventions identified and defined in the prior planning stages. On 9 July 2016, the Bank of Italy sent banks a "Self-assessment questionnaire on the adoption of the new accounting standard" in order to make available to intermediaries a homogeneous instrument for a self-assessment on the adoption process of IFRS 9.

On 10 November 2016, the EBA published a report summarising the main findings of the impact analysis conducted on a sample of 50 EU banks. In relation to the qualitative component of the questionnaire, the authority highlighted as the sample of concerned banks has indicated an operating complexity, specifically in relation to the aspects linked to the data and technological quality in the introduction of the standard. Furthermore the report highlighted how the change of impairment model would entail for the sample of examined banks an average growth of IAS 39 provisions equal to around 18 per cent..

In relation to the Restructuring Plan, it is worth to note that it includes the impacts deriving from the entry into force of IFRS 9, although the conversion project put in place by the Montepaschi Group is still in progress. As at the date of the first application (1 January 2018), the preliminary estimate determined a negative impact on the Montepaschi Group's book net equity equal to around Euro 1.2 billion, gross of tax effect.

The economic forecasts used to determine the aforementioned estimate can mainly be summarised in four macro indicators: GDP, Unemployment rate, Inflation and Performance of the real estate market. Specifically, in the four year period 2018 to 2021 it is expected:

- for the Italian GDP a growth respectively of +1 per cent. for 2018, +0.9 per cent. for 2019, +0.8 per cent. for 2020 and +0.9 per cent. for 2021;
- for the unemployment rate a gradual decrease from 10.9 per cent. in 2018 to 10.3 per cent. in 2019, to 9.8 per cent. in 2020 to 9.3 per cent. in 2021;
- for inflation a gradual increase, from 1.3 per cent. in 2018 to 1.7 per cent. in 2019 to 1.8 per cent. in 2020 to 1.9 per cent. in 2021;
- for the real estate market a progressive price growth of 1.8 per cent. in 2018, 2.3 per cent. in 2019, 2.5 per cent. in 2020 and 2.4 per cent. in 2021.

The models used for the new accounting standard will be subject to internal validation in the fourth quarter of 2017.

(b) *The new International Accounting Standards IFRS 15 "Revenues from contracts with customers" and IFRS 16 "Leases"*

For the sake of completeness, it has to be considered that the IASB issued, respectively on 28 May 2014 and 13 January 2016, the final versions of the International Accounting Standards IFRS 15 "*Revenues from contracts with customers*" ("**IFRS 15**") and IFRS 16 "*Leases*" ("**IFRS 16**").

The new International Accounting Standard IFRS 15, homologated by the European Commission on 22 September 2016 with Regulation no. 2016/1905, will be applicable as of 1 January 2018 with the possibility to opt for its early application. Such standard amends the current set of International Accounting Standards replacing the standards and interpretations on "revenue recognition" in force as at the date of the Prospectus and, specifically, IAS 18.

IFRS 15 provides for:

- two approaches for revenues recognition ("at point in time" or "over time");
- a new transaction analysis model ("Five steps model") focused on the transfer of control; and
- a greater disclosure required to be included in the notes to the Financial Statement.

IFRS 16 will, instead, be applicable from 1 January 2019, after the same has been homologated by the European Union. IFRS 16 amends the current set of International Accounting Standards and interpretations on leasing in force, and specifically IAS 17. IFRS 16 introduces a new

leasing definition and confirms the current distinction between the two types of leasing (operating and financial) in relation to the accounting model to be applied by the lessor.

In relation to the accounting model to be applied by the lessee, the new standard provides that, for all types of leasing, an asset shall be recognised representing right of use of the goods the subject matter of the leasing and, at the same time, the debt relating to the fees provided for by the leasing contract.

At the time of the initial recognition, such asset is assessed on the basis of the financial flows associated with the leasing contract, inclusive of, besides the current value of leasing fees, initial direct costs associated with the leasing and the possible costs necessary to restoration of the asset upon expiry of the contract. After the initial recognition, such asset will be assessed based on the provisions governing tangible assets and, accordingly, at cost net of amortisations and possible value reductions, at "re-determined value" or at fair value according to the provisions of IAS 16 or IAS 40.

Since the date of entry into force of the aforementioned standard is expected for 1 January 2019, the quantitative effects deriving from its adoption, currently not available, will be subject to future estimate by the Montepaschi Group. The application of IFRS 16 may determine, for the Issuer and/or the other Group companies, a review of the accounting modalities of revenues and costs relating to outstanding transactions as well as the recognition of new assets and liabilities associated with the signed operating leasing contracts.

Such effects will give rise to the consequent need to consistently and retrospectively review the prior periods and then amend, even significantly, the opening asset balances as at the respective dates. On the basis of legislative and/or technological and/or business context evolutions it is also possible that the Montepaschi Group may have to further review in the future the operating methodologies for the application of International Accounting Standards, with possible negative impacts, even significant, on the economic, financial and/or capital position of the Issuer and/or the Montepaschi Group.

4.7 *Risks associated with ordinary and extraordinary contribution obligations to the Single Resolution Fund and the Interbank Deposit Guarantee Fund (Fondo Interbancario di Tutela dei Depositi)*

Subsequent to the crisis which affected various financial institutions starting from 2008, various systems aimed at containing the risk of banking crises have been introduced, both at EU level and at level of single Member States, the implementation of which entails disbursements, even significant, by credit institutions in favour of the banking system in its entirety.

Deposit Guarantee Scheme and Single Resolution Fund

In application of: (i) Directive 2014/49/EU (*Deposit Guarantee Schemes Directive* – DGSD) of 16 April 2014; (ii) Directive 2014/59/EU (*Bank Recovery and Resolution Directive* – BRRD) of 15 May 2014; and (iii) Regulation (EU) no. 806/2014 of the European Parliament and the Council (the "**SRM Regulation**") establishing, *inter alia*, the Single Resolution Fund ("**SRF**"), which as of 1 January 2016 includes sub-funds at national level to which contributions collected at national level by Member States through their National Resolution Fund ("**NRF**") are allocated, the Issuer is bound to provide the financial resources necessary to finance the Deposit Guarantee Scheme ("**DGS**") and the Single Resolution Fund. Such

contribution obligations may have a significant impact on the financial and capital position of the Issuer. The multi-annual costs of the components of the extraordinary contribution which may be necessary for the management of any future banking crisis cannot currently be predicted.

Specifically, in respect of the DGS, the Issuer is bound by the following ordinary and extraordinary contribution obligations:

- ordinary advanced annual contribution to the DGS, from 2015 to 2024, aimed at the constitution of funds equal to 0.8 per cent. of guaranteed deposits as at the target date. Should, after the accruing period, the available financial resources drop below the target level, the collection of contributions is resumed at least until such level is restored. Furthermore, after the first achievement of the target level and, should the financial resources drop below two thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six year period;

- the payment commitment (ex post), in respect of any extraordinary contribution required in case available financial resources are insufficient to repay depositors: such extraordinary contributions may never exceed 0.5 per cent. of guaranteed deposits for each solar year, except for exceptional cases and subject to the prior consent of the competent Authority, where the DGS may also ask for higher contributions.

As a consequence of such introduction, the "Interbank Deposit Guarantee Fund" ("**FITD**"), updated its By-Laws through shareholders resolution of 26 November 2015 anticipating the introduction of the prepayment mechanism (aimed at reaching the aforementioned multi-annual target with target at 2024). As at 31 December 2016 the Montepaschi Group has contributed with Euro 30 million to the DGS' national schemes. As at 30 September 2017 the Issuer recorded the estimated contribution for the year 2017 at Euro 31 million; as at the date of the Prospectus the exact amount and its settlement methods are still unknown.

Contribution commitments to the SRF are as follows:

- annual ordinary pre-payment until 2023, aimed at constituting funds equal to 1 per cent. of guaranteed deposits by the end of 2023. The accrual period may be extended by further four years in case the funding mechanism has executed disbursements for more than 0.5 per cent. of guaranteed deposits. Should, after the accruing period, available financial resources drop below the target level, the collection of contributions is resumed until such level is restored. Furthermore, after the first achievement of the target level and, should financial resources drop below two thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six year period. The contribution mechanism entails ordinary annual contributions aimed at allocating costs for contributing banks in a uniform manner over a period of time. A transitional contribution phase to the SRF's national sub-funds as well as their gradual mutualisation is provided for. As at 31 December 2016 the ordinary contribution of the Montepaschi Group has been equal to Euro 71 million. As at 30 September 2017 the Montepaschi Group's contribution has been equal to Euro 63 million. The annual value of the contribution is subject to review on the basis of the execution of risk parameters and guaranteed deposit volumes; and

- payment commitments (ex post), in respect of any additional extraordinary contribution required, equal to a maximum of three times the scheduled annual contributions, in case

the available financial resources are insufficient to cover for losses and costs relating to the SRF interventions.

The Bank of Italy, in its capacity as National Resolution Authority, set up the National Resolution Fund (*Fondo Nazionale di Risoluzione*, the "**National Resolution Fund**" or "**FNR**" hereinafter), which collects from banks with registered office in Italy ordinary and extraordinary contributions, in accordance with the provisions of artt. 82 and 83 of Decree 180. At the end of 2015, the National Resolution Fund called for ordinary and extraordinary contributions; the latter to an extent of three times the annual amount of ordinary contributions, to fund the resolution measures of the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. The amount of ordinary and extraordinary contribution requested to the Montepaschi Group as at 31 December 2015 is equal to, respectively, Euro 60 million and Euro 179 million. In the context of the resolution interventions of the aforementioned banks, four bridge banks (good banks) with the purpose of maintaining continuity of the essential functions previously carried out by the banks in resolution and an intermediary (Credit Management REV) in charge of ascertaining the Doubtful Loans acquired thereby have been set up. The liquidity necessary for the Fund to carry out the aforementioned interventions has been advanced by a pool of banks, of which the Montepaschi Group was not a party, through a bridge loan at market rates and with maximum 18 month maturity, subsequently partially redeemed through the amounts coming from the aforementioned ordinary and extraordinary contributions.

As a consequence of the failed disposal of assets provided for by the resolution plan and taking into account that financial resources proved insufficient to support over time the resolution interventions carried out, at the end of December 2016, the National Resolution Fund recalled additional contributions, equal to two annuities, for an overall amount for the Montepaschi Group equal to Euro 140 million. This was due to Law Decree 183/2015 (so called "Banks Aid Decree" converted by Law 208/2015), which provides that, in case the fund's available financial resources are not sufficient to support over time the resolution interventions carried out, only for the year 2016, contributions may be increased by two times the annual amount of contributions determined in accordance with article 70 of Regulation (EU) no. 806/2014 and the implementing regulation (EU) no. 2015/81.

On the basis of the above, as at 30 September 2017, the overall amount of contributions paid by the Issuer to the Single Resolution Fund and the National Resolution Fund was equal to Euro 63 million (Euro 211 million as at 31 December 2016 and Euro 239 million as at 31 December 2015).

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

Voluntary scheme

For the purposes of overcoming the negative position taken by the European Commission in respect of the use of mandatory contributions to support interventions in favour of banks in crisis, at the end of 2015, in the context of the Interbank Deposit Guarantee Fund, a voluntary scheme was established as an additional tool not subject to the restrictions of the EU regime and of the European Commission. After the remodulation of the intervention in Tercas, the replenishment of the voluntary scheme resources was provided for a maximum amount of Euro 700 million to be used in support interventions in favour of small banks in difficulty and subject

to extraordinary administration procedure, in case of concrete recovery perspectives and for the purpose of avoiding higher burdens for the banking system consequent to liquidation or resolution interventions.

Such resources are not immediately paid by adhering banks, which simply undertake to disburse them upon request on occasion of specific interventions, up to the maximum amount set. The Montepaschi Group adhered to the voluntary scheme and accordingly recorded in the first semester of 2016 a commitment for its pertaining share of the resolved Euro 700 million, equal to Euro 48 million.

Out of this amount, the management board of FITD at the meeting of 15 June 2016 resolved to participate in the recapitalisation transaction of Cassa di Risparmio di Cesena. The ECB, with measure of 15 September 2016, authorised the assumption of the equity interest by the voluntary scheme and on 20 September 2016, all adhering banks paid their pro-quota portion of the overall recalled amount equal to Euro 281 million, of which Euro 280 million for the Capital Increase and Euro 1 million for expenses associated with the intervention and the functioning of the voluntary scheme.

For the purpose of raising the necessary funds to finally solve the crisis of Caricesena, Carismi and Carim and facilitating the assignment of the three banks to Cariparma, which submitted a conditional purchase offer, the voluntary scheme meeting held on 7 September 2107 resolved a capital increase by 95 million (from Euro 700 to Euro 795 million). As a consequence of such increase, the overall commitments of the Montepaschi Group to the Scheme, including quotas already recalled, have been estimated at Euro 55 million.

Furthermore, on 29 September 2017, an agreement was entered into between Cariparma, Fondo Interbancario di Tutela dei Depositi-voluntary scheme, Caricesena, Carismi and Carim setting out the following, in addition to requiring the necessary authorisations from the competent domestic and EU supervisory authorities:

- derecognition of a portfolio of impaired loans (Doubtful Loans and Unlikely to Pay) of the three banks for an overall gross amount of Euro 3,026 million; such derecognition shall occur through a securitisation and an intervention by the voluntary scheme to subscribe the junior notes and a quota of the mezzanine notes;

- increase in the capital of Carismi and Carim by the FITD voluntary scheme, in addition to a capital contribution for Caricesena, aimed at achieving an adequate level of capitalisation for an overall amount of Euro 470 million approximately;

- compliance with some capital requirements (i.e. average CET 1 ratio of at least 10.7 per cent.) and credit rating requirements (i.e. gross NPE ratio equal to 9 per cent. approximately).

Following the board's resolution, the scheme has been asked to proceed with the first part of the planned measure and has consequently recalled an amount of Euro 55 million, of which Euro 3.6 million regarding the Montepaschi Group.

As at 30 September 2017, the Montepaschi Group posted adjustments for an overall amount of Euro 51 million proceeding with the full depreciation of the share held in the voluntary scheme, in addition to the partial depreciation of irrevocable commitments given by the Montepaschi Group toward the same, following the assessments carried out in view of the transaction

Caricesena/Carim/Carismi. As a consequence of the agreement entered into on 29 September 2017 the Montepaschi Group has estimated additional costs for over Euro 40 million, which will be accounted for in the second six-month period of 2017.

The contribution paid by banks adhering to the voluntary scheme represents an asset, recorded in the balance sheet of the participating banks. The recognition of the asset is also supported by the explicit provision contained in FITD's By-Laws relating to the voluntary scheme which provides for any realisations deriving from the purchase of equity interests to be reassigned to the banks participating in the same scheme.

The abovementioned ordinary contribution obligations contribute to reducing profitability and negatively impact on the Bank's capital resource level. It cannot be excluded that the level of ordinary contributions asked of the Issuer is destined to grow in the future in respect of the evolution of the relative amount of protected deposits and/or of the Montepaschi Group banks' relative risk compared to all banks bound to pay the same contributions. Furthermore, it cannot be excluded that, even in the future, as a consequence of non-governable and non-foreseeable events, the Interbank Fund, the Single Resolution Fund and/or the National Resolution Fund may find themselves in the situation of having to ask for new and additional extraordinary contributions. This would entail the need to recognise further extraordinary charges with impacts, even significant, on the Montepaschi Group's asset situation and economic results.

4.8 *Risks associated with the general economic/financial crisis and the debt crisis of the Euro Area*

The results of the Issuer and the companies belonging to the Montepaschi Group are significantly affected by general economic conditions and financial markets dynamics and, in particular, by the performance of the economy in Italy (determined, *inter alia*, by factors such as the soundness perceived by investors, expected growth perspectives of the economy and credit reliability) as the country in which the Bank operates on an almost exclusive basis and to which the Montepaschi Group has a relevant credit exposure.

As a result of the crisis that has affected them since August 2007, global economies and financial markets found themselves operating in challenging and unstable conditions such as to require the intervention of governments, central banks and supernatural bodies in support of financial institutions, among which the injection of liquidity in the systems and the direct intervention in the recapitalisation of a number of such entities. This scenario has, in fact, negatively affected financial markets worldwide.

Such negative context, in addition to having contributed to accelerating the deterioration of the public finance conditions of EU countries, prejudiced in particular the banking systems more exposed to sovereign debts (so called sovereign debt crisis) causing a progressive worsening of the crisis which continued, both at Italian and EU level, for the entire 2012 with consequent increased credit risk of sovereign States and financial institutions. Despite ECB interventions, the worries of a possible default of a number of countries of the Euro Area spread among investors and economic operators, with a consequent general decrease in lending operations, a higher market volatility and strong criticalities, at international level, in the raising of liquidity. In this context, the hypothesis of a dissolution of the European Monetary Union or the exit of single countries has several times been threatened.

The worries of a stagnation phase of the European economy, in a context of high volatility, increased to such an extent that, at the beginning of 2015, the ECB announced the launch of the "Public Sector Purchase Programme" (PSPP) within the Quantitative Easing (QE).

The programme has been subsequently strengthened, with the ECB extending its duration until December 2017 its expiry, introduced long term refinancing transactions (TLTRO), further reduced the deposit rate (to -0.4 per cent.), and broadened the scope of application not only to securities issued by regions and local authorities but also to corporate securities (investment grade). Thanks in part to these measures and to a relatively satisfactory global growth, the Euro Area's economy closed in 2016 with a 1.7 per cent. growth and recorded a 2 per cent. growth rate in the first half of 2017. The lower contribution of net exports, as a result of the slowdown in the growth of foreign trade and of the difficulties found by some emerging countries, has been set off by a solid dynamic of internal demand.

With specific reference to Italy, the economic performance of the country has been significantly impacted by the international crisis and has been characterised by the stagnation of the national economy, several downgrading actions of the Italian rating and an increased spread between BTP and Bund.

In the progressive stabilisation scenario in effect since mid 2013, Italy has benefitted, late compared to the other economies of the Euro Area, from the improved EU economic cycle. The return to a marginally positive growth in GDP in 2014 (0.2 per cent.) and the moderate growth recorded in 2015 (0.7 per cent.) and 2016 (1.0 per cent.) leave the Italian economy at an activity level significantly below than pre-crisis levels.

In the course of 2017 in Italy, as well as in the other EU countries, companies' confidence indicators collected by ISTAT[4] highlighted an improved scenario which led to a GDP's contingent growth of 0.4 per cent. in the first two quarters of the year, as reported by ISTAT[5]. The growth compared to the first half of 2016 (1.4 per cent.) is the highest of the last six years and increases the likelihood that the state estimate of a 1.1 per cent. growth in 2017 will be exceeded.

Possibilities of a significant acceleration of growth in Italy continue to depend, besides the uncertain evolution of the international scenario, in the first place with uncertainty about the impact of the exit process of Great Britain from the EU, upon domestic weakness factors, such as an internal demand which, although showing signs of relative liveliness, remains fragile, a labour market improving in the last years but still showing (geographic and demographic) areas of extreme weakness, a situation of public accounts which, notwithstanding the flexibility areas negotiated with EU authorities, strongly limits the use of tax leverage.

Mainly thanks to the measures adopted by the ECB and the progressive improvement of unbalances, public finance and balance of payments, the BTP-Bund spread was progressively reduced, until dropping below 100 basis points in the course of the first quarter of 2015. From those levels, the spread returned to be above 200 basis points towards mid-April 2017 and was at around 170 basis points in the final part of August.

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[4] ISTAT. Fiducia dei Consumatori e delle Imprese – August 2017, 28 August 2017.

[5] ISTAT. Conti Economici Trimestrali – II quarter 2017, 1 September 2017.

The above illustrated scenarios determined, also for the Montepaschi Group, a slowdown of ordinary business, a substantially increased cost of funding, decreased asset values due to decreased bond prices, a deteriorated credit portfolio with increased Impaired Loans and insolvency situations and further costs deriving from write-downs and depreciations of assets, with a consequent decreased ability to generate profits. Notwithstanding tensions having recently lessened, a consistent volatility still remains in the markets and the Italian political condition remains characterised by instability phenomena. Should the contingent situation further deteriorate and should the Italian economy, in particular, stagnate, this may determine losses, even relevant, further slowing down ordinary business and make the raising of liquidity necessary to carry on the business more difficult and expensive, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Montepaschi Group.

4.9 *Risks connected with the political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union ("Brexit")*

On 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union ("**Brexit**"). On 29 March 2017, the British Prime Minister gave formal notice to the European Council under Article 50 of the Treaty on European Union of the intention to withdraw from the European Union, thus triggering the two-year period for withdrawal.

The process of negotiation will determine the future terms of the UK's relationship with the EU. Depending on the terms of the Brexit negotiations, the UK could also lose access to the single EU market and to the global trade agreements negotiated by the EU on behalf of its members. Given the unprecedented nature of a departure from the EU, the timing, terms and process for the United Kingdom's exit, are unknown and cannot be predicted.

Regardless of the time scale and the term of the United Kingdom's exit from the European Union, the result of the referendum in June 2016 created significant uncertainties with regard to the political and economic outlook of the United Kingdom and the European Union.

The exit of the United Kingdom from the European Union; the possible exit of Scotland, Wales or Northern Ireland from the United Kingdom; the possibility that other European Union countries could hold similar referendums to the one held in the United Kingdom and/or call into question their membership of the European Union; and the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency or prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on international markets. These could include further falls in equity markets, a further fall in the value of the pound and, more in general, increase financial markets volatility, with possible negative consequences on the asset prices, operating results and capital and/or financial position of the relevant Issuer and/or the Guarantor, as the case may be, and/or the Montepaschi Group.

In addition to the above and in consideration of the fact that at the date of this Prospectus there is no legal procedure or practice aimed at facilitating the exit of a Member State from the Euro, the consequences of these decisions are exacerbated by the uncertainty regarding the methods through which a Member State could manage its current assets and liabilities denominated in Euros and the exchange rate between the newly adopted currency and the Euro. A collapse of the Eurozone could be accompanied by the deterioration of the economic and financial situation of the European Union and could have a significant negative effect on the entire financial sector, creating new difficulties in the granting of sovereign loans and loans to businesses and

involving considerable changes to financial activities both at market and retail level. This situation could therefore have a significant negative impact on the operating results and capital and financial position of the relevant Issuer and/or the Guarantor, as the case may be, and/or the Montepaschi Group.

4.10 ***Basel III and CRDIV***

In the wake of the global financial crisis that began in 2008, the BCBS approved, in the fourth quarter of 2010, revised global regulatory standards ("**Basel III**") on bank capital adequacy and liquidity, which impose requirements for, *inter alia*, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. The Basel III framework adopts a gradual approach, with the requirements to be implemented over time, with full implementation by 2019.

In January 2013 the BCBS revised its original proposal in respect of the liquidity requirements in light of concerns raised by the banking industry, providing for a gradual phasing-in of the Liquidity Coverage Ratio with a full implementation in 2019 as well as expanding the definition of high quality liquid assets to include lower quality corporate securities, equities and residential mortgage backed securities. Regarding the other liquidity requirement, the net stable funding ratio, the BCBS published the final rules in October 2014 which will take effect from 1 January 2018.

The Basel III framework has been implemented in the EU through new banking requirements: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**" and together with the CRD IV, the "**CRD IV Package**"). Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed. Additionally, it is possible that EU Member States could introduce certain provisions at an earlier date than that set out in the CRD IV Package.

National options and discretions under the CRD IV Package that were so far exercised by national competent authorities will be exercised by the SSM (as defined below) in a largely harmonised manner throughout the Banking Union. In this respect, on 14 March 2016, the ECB adopted Regulation (EU) No. 2016/445 on the exercise of options and discretions. Depending on the manner in which these options/discretions were so far exercised by the national competent authorities and on the manner in which the SSM will exercise them in the future, additional/lower capital requirements may result.

In Italy, the Government approved a Legislative Decree on 12 May 2015 ("**Decree 72/2015**") implementing the CRD IV. Decree 72/2015 entered into force on 27 June 2015. The new regulation impacts, *inter alia*, on:

- proposed acquirers of holdings in credit institutions, requirements for shareholders and members of the management body (Articles 23 and 91 of the CRD IV);

- competent authorities' powers to intervene in cases of crisis management (Articles 64, 65, 102 and 104 of the CRD IV);

- reporting of potential or actual breaches of national provisions (so called whistleblowing, Article 71 of the CRD IV); and

- administrative penalties and measures (Article 65 of the CRD IV).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circular No. 285) which came into force on 1 January 2014, implementing the CRD IV Package, and setting out additional local prudential rules. According to Article 92 of the CRR, institutions shall at all times satisfy the following own funds requirements: (i) a CET1 Capital ratio of 4.5 per cent.; (ii) a Tier 1 Capital ratio of 6 per cent.; and (iii) a Total Capital ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital, reported below as applicable with reference to 30 September 2017:

- *Capital conservation buffer*: The Capital conservation buffer has applied to the Issuer since 1 January 2014 pursuant to Article 129 of the CRD IV and Part I, Title II, Chapter I, Section II of Circular No. 285. According to the 18th update[6] to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set for 2017 at 1.25 per cent. of RWAs, increasing to 1.875 per cent. of RWAs in 2018 and 2.5 per cent. of RWAs from 2019;

- *Counter-cyclical capital buffer*: The countercyclical capital buffer applies starting from 1 January 2016. Pursuant to Article 160 of the CRD IV and the transitional regime granted by Bank of Italy for 2017, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital capped to 1.25 per cent. of the total of the risk-weighted exposure amounts of the institution As of 30 September 2017 the specific countercyclical rate of the BMPS Group amounted to 0.002 per cent.;

- *Capital buffers for G-SIIs*: It represents an additional loss absorbency buffer (ranging from 1.0 per cent. to 3.5 per cent. in terms of required level of additional common equity loss absorbency as a percentage of risk-weighted assets), determined according to specific indicators (e.g. size, interconnectedness, complexity). It is subject to phase-in starting from 1 January 2016 (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285) becoming fully effective on 1 January 2019. Based on the most recently updated list of G-SIIs published by the FSB in November 2016 (to be updated annually), the Montepaschi Group is not a G-SIB and does not need to comply with a G-SII capital buffer requirement; and

- *Capital buffers for O-SIIs*: up to 2.0 per cent. as set by the relevant competent authority and must be reviewed at least annually from 1 January 2016, to compensate for the higher risk that such banks represent to the domestic financial system (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285). The O-SII buffer is equal to 0 per cent. for the Montepaschi Group for 2017; identified by the

[6] On 6 October 2016, the Bank of Italy published the 18th update of Circular No. 285 that modifies the capital conservation buffer requirement. In publishing this update, the Bank of Italy reviewed the decision, made at the time the CRD IV was transposed into Italian law in January 2014, where the fully loaded Capital Conservation Buffer at 2.50 per cent. was requested, by aligning national regulation to the transitional regime allowed by CRD IV.

Bank of Italy as an O-SII authorised to operate in Italy, the Montepaschi Group has to maintain a capital buffer of 0.25 per cent. of its total risk exposure, to be achieved according to the following transitional period: 0.06 per cent for 2018, 0.13 per cent. for 2019, 0.19 per cent. for 2020 and 0.25 per cent. from 2021.

For further details on capital requirements and buffers – also in relation to TSCR and OCR – please see "*Risks associated with the investigations of supervisory authorities*", "*Risks associated with capital adequacy*" and "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Montepaschi Group is subject to*" above.

In addition to the above listed capital buffers, under Article 133 of the CRD IV each Member State may introduce a Systemic Risk Buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks not otherwise covered by the CRD IV Package, in the sense of a risk of disruption in the financial system with the potential of having serious negative consequences on the financial system and the real economy in a specific Member State. Currently, no provision is included on the systemic risk buffer under Article 133 of the CRD IV as the Italian level-1 rules for the CRD IV implementation on this point have not yet been enacted.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions (Articles 140 and 141 of the CRD IV).

Following the SREP Decision, it is required that the Bank complies, starting from 1 January 2018, at consolidated level, with a CET1 ratio on a transitional basis equal to 9.44 per cent and a total capital ratio, again on a transitional basis, equal to 12.94 per cent. For more information on the capital adequacy requirements which shall be complied with by the Bank, reference is made to "*Risks associated with capital adequacy*".

In addition, the Issuer is subject to the Pillar 2 requirements for banks imposed under the CRD IV Package, which will be impacted, on an on-going basis, by the SREP. The SREP is aimed at ensuring that institutions have in place adequate arrangements, strategies, processes and mechanisms to maintain the amounts, types and distribution of internal capital commensurate to their risk profile, as well as robust governance and internal control arrangements. The key purpose of the SREP is to ensure that institutions have adequate arrangements as well as capital and liquidity to ensure sound management and coverage of the risks to which they are or might be exposed, including those revealed by stress testing, as well as risks the institution may pose to the financial system. See "*ECB Single Supervisory Mechanism*" below for further details.

The quantum of any Pillar 2 requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar 2 requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar 2 requirements in full before capital can be applied to meeting the capital buffers) or "stacked" above the capital buffers (i.e. the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar 2 requirement) may all impact a bank's ability to comply with the combined buffer requirement.

As set out in the "*Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions*" published on 16

December 2015, in the EBA's opinion competent authorities should ensure that the Common Equity Tier 1 Capital to be taken into account in determining the Common Equity Tier 1 Capital available to meet the combined buffer requirement is limited to the amount not used to meet the Pillar 1 and Pillar 2 own funds requirements of the institution. In effect, this would mean that Pillar 2 capital requirements would be "stacked" below the capital buffers, and thus a firm's CET1 resources would only be applied to meeting capital buffer requirements after Pillar 1 and Pillar 2 capital requirements have been met in full.

However, more recently, the EBA and the ECB appear to have adopted a different approach to Pillar 2. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "Pillar 2 requirements" (stacked below the capital buffers) and "Pillar 2 capital guidance" (stacked above the capital buffers). With respect to Pillar 2 capital guidance, the publication stated that, in response to the stress test results, competent authorities may (among other things) consider "setting capital guidance, above the combined buffer requirement. Competent authorities have remedial tools if an institution refuses to follow such guidance. The ECB published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming this distinction between Pillar 2 requirements and Pillar 2 capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar 2 capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar 2 requirements, and finally Pillar 1 requirements".

The CRD Reform Package (as defined below) proposes to legislate this distinction between "Pillar 2 requirements" and "Pillar 2 capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar 1 and buffer capital requirements, the latter refers to the possibility for competent authorities to communicate to an institution their expectations for such institution to hold capital in excess of its capital requirements (Pillar 1 and Pillar 2) and combined buffer requirements in order to cope with forward-looking and remote situations. Under the CRD Reform Package proposals, (and as described above), only Pillar 2 requirements, and not Pillar 2 capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement.

Non-compliance with Pillar 2 capital guidance does not amount to failure to comply with capital requirements, but should be considered as a "pre-alarm warning" to be used in the Bank's risk management process. If capital levels go below Pillar 2 capital guidance, the relevant supervisory authorities, which should be promptly informed in detail by the Bank of the reasons of the failure to comply with the Pillar 2 capital guidance, will take into consideration appropriate and proportional measures on a case by case basis (including, by way of example, the possibility of implementing a plan aimed at restoring compliance with the capital requirements - including capital strengthening requirements).

As part of the CRD IV Package transitional arrangements, regulatory capital recognition of outstanding instruments which qualified as Tier I and Tier II capital instruments under the framework which the CRD IV Package has replaced that no longer meet the minimum criteria under the CRD IV Package will be gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition is capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year.

The CRD IV Package introduces a new leverage ratio with the aim of restricting the level of leverage that an institution can take on to ensure that an institution's assets are in line with its capital. The Leverage Ratio Delegated Regulation (EU) No. 2015/62, adopted on 10 October

2014, and published in the Official Journal of the European Union in January 2015, amends the calculation of the leverage ratio compared to the current text of the CRR. Institutions have been required to disclose their leverage ratio from 1 January 2015. Full implementation of the leverage ratio as a Pillar 1 measure is currently under consultation as part of the CRD Reform Package, as defined below.

The CRD IV Package contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports related to liquidity coverage ratio and leverage ratio in order to enhance regulatory harmonisation in Europe through the Single Rule Book.

Should the Issuer not be able to implement the approach to capital requirements it considers optimal in order to meet the capital requirements imposed by the CRD IV Package, it may be required to maintain levels of capital which could potentially impact its credit ratings, funding conditions and which could limit the Issuer's growth opportunities.

4.11 ***Forthcoming regulatory changes***

In addition to the substantial changes in capital and liquidity requirements introduced by Basel III and the CRD IV Package, there are several other initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, a revised Markets in Financial Instruments EU Directive and Markets in Financial Instruments EU Regulation which are expected to apply as of 3 January 2018, subject to certain transitional arrangements. The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

On 9 November 2015, the FSB published its final TLAC Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to liabilities excluded from TLAC, such as guaranteed insured deposits, derivatives, etc. and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement for each G-SIB at the greater of (a) 16 per cent. of RWA as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022.

Based on the most recently updated FSB list of G-SIBs published in November 2016 (to be updated annually), the Montepaschi Group is not a G-SIB and it will not be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the Montepaschi Group will still not be included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of proposals amending CRD IV, the CRR, the BRRD and the SRM Regulation, which is expected to become applicable beginning in 2019 (but this will ultimately depend on the procedure and the outcome of the discussions in the European Parliament and the Council). Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible

liabilities) and to transpose the FSB's TLAC termsheet into European law. Once these proposals are finalised, changes to the CRR will become directly applicable to the Montepaschi Group. The CRD IV amendments and the amendments to the BRRD will need to be transposed into Italian law before taking effect. See "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Covered Bonds and/or the rights of Bondholders*" below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

The Basel Committee has embarked on a very significant RWA variability agenda. This includes the Fundamental Review of the Trading Book, revised standardised approaches (credit, counterparty credit, market, operational risk), constraints to the use of internal models as well as the introduction of a capital floor. The regulator's primary aim is to eliminate unwarranted levels of RWA variance, to improve consistency and comparability between banks. The finalisation of the new framework was completed in respect of market risk in 2016, with the new framework for credit risk and operational risk not yet finalised. Due to the wide undergoing revision by global and European regulators and supervisors, the internal models are expected to be subject to either changes or withdrawal in favor of a new standardised approach, which is also under revision. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital (although they will become effective after the time frame covered by the Strategic Plan). In 2016, the ECB began the TRIM, with the objective of ensuring the adequacy and comparability of the models given the highly fragmented nature of Internal Ratings-Based systems used by banks, and the resulting diversity in measurement of capital requirements. The review covers credit, counterparty and market risks. The TRIM will be ongoing through 2018 and is structured in two stages, with an institution-specific review commenced in 2016 and a model specific review in 2017 and 2018.

In March 2015, the EBA undertook the revision of some specific aspects of the RWA internal models, encouraging a major convergence between European banking supervision practices. So far the EBA has finalised the regulatory standards for the Internal Rating Based methodology and the Guidelines on the new Definition of Default. The final Guidelines on Probability of Default and the LGD estimation and treatment of defaulted assets are expected by the end of 2017. Based on the EBA's proposal, the rules for internally estimating the LGD would become significantly tighter. The implementation of all the proposed changes is expected by the end of 2020.

There can be no assurance that the implementation of the new capital requirements, standards and recommendations described above will not require BMPS to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect BMPS's return on equity and other financial performance indicators.

Prospective investors in the Covered Bonds should consult their own advisors as to the consequences for them of the application of the above regulations as implemented by each Member State.

4.12 ***ECB Single Supervisory Mechanism***

In October 2013, the Council of the European Union adopted regulations establishing the SSM for all banks in the euro area, which have, beginning in November 2014, given the ECB, in conjunction with the national competent authorities of the eurozone states, direct supervisory responsibility over "banks of systemic importance" in the Banking Union as well as their subsidiaries in a participating non-euro area Member State. The SSM Regulation setting out the practical arrangements for the SSM was published in April 2014 and entered into force in May 2014. Banks directly supervised by the ECB include, *inter alia*, any eurozone bank that has: (i) assets greater than €30 billion; (ii) assets constituting at least 20 per cent of its home country's gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism.

The ECB is also exclusively responsible for key tasks concerning the prudential supervision of credit institutions, which includes, *inter alia*, the power to: (i) authorise and withdraw the authorisation of all credit institutions in the eurozone; (ii) assess acquisition and disposal of holdings in other banks; (iii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) ensure compliance with robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities. The ECB also has the right to impose pecuniary sanctions.

National competent authorities will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks, besides supporting ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the EU, the EBA is developing a Single Rule Book. The Single Rule Book aims to provide a single set of harmonised prudential rules which institutions throughout the EU must respect.

The ECB has fully assumed its new supervisory responsibilities of the Montepaschi Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the "**EBA SREP Guidelines**"). Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar 2 own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar 2 requirements to cover certain specified risks of at least 56 per cent. CET1 Capital and at least 75 per cent. Tier 1 capital. See "*Risks associated with capital adequacy*" for further information regarding the actual composition of the Bank's TSCR. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, additional capital requirements have been imposed on the Montepaschi Group by the ECB pursuant to the SREP Decision. For more details on risks associated with the SREP requirements, please see "*Risks associated with capital adequacy*" and "*Risks associated with the investigations of supervisory authorities*" above.

4.13 ***The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of***

any such action may occur) could materially adversely affect the value of any Covered Bonds and/or the rights of Bondholders

On 2 July 2014 the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the "**BRRD Reforms**"). The proposal includes an amendment to Article 108 of the BRRD aimed at further harmonising the creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt in resolution and insolvency. A new class of so called "senior non-preferred debt" is proposed to be added that would be eligible to meet the TLAC and MREL requirements. This new class of debt will be senior to all subordinated debt, but junior to ordinary unsecured senior claims. The envisaged amendments to the BRRD should not affect the existing stocks of bank debt and their statutory ranking in insolvency pursuant to the relevant laws of the Member State in which the bank is incorporated.

The BRRD provides resolution authorities with comprehensive arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures.

The BRRD sets out the rules for the resolution of banks and large investment firms in all EU Member States. Banks are required to prepare recovery plans to overcome financial distress. Competent authorities are also granted a set of powers to intervene in the operations of banks to avoid them failing. If banks do face failure, resolution authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a specified hierarchy. Resolution authorities have the powers to implement plans to resolve failing banks in a way that preserves their most critical functions and avoids taxpayer bail outs.

The BRRD contains four resolution tools and powers which may be used alone (except for the asset separation tool) or in combination with other resolution tools where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business - which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims into shares or other instruments of ownership (i.e. other instruments that confer ownership, instruments that are convertible into or give the right to acquire shares or other instruments of ownership, and instruments representing interests in shares or other instruments of ownership) (the "**general bail-in tool**"). Such shares or other instruments of ownership could also be subject to any future application of the BRRD. For more details on the implementation in Italy please refer to the paragraphs below.

An SRF (as defined above) was set up under the control of the SRB. It will ensure the availability of funding support while the bank is resolved. It is funded by contributions from

the banking sector. The SRF can only contribute to resolution if at least 8 per cent. of the total liabilities including own funds of the bank have been bailed-in.

The BRRD requires all Member States to create a national, prefunded resolution fund, reaching a level of at least 1 per cent. of covered deposits by 31 December 2024. The national resolution fund for Italy was created in November 2015 and required both ordinary and extraordinary contributions to be made by Italian banks and investment firms, including the Issuer. In the European banking union, the national resolution funds set up under the BRRD were superseded by the SRF as of 1 January 2016 and those funds will be pooled together gradually. Therefore, as of 2016, the Single Resolution Board calculates, in line with a Council implementing act, the annual contributions of all institutions authorised in the Member States participating in the SSM and the SRM (as defined below). The SRF is financed by the European banking sector. The total target size of the fund is equal to at least 1 per cent. of the covered deposits of all banks in the Member States participating in the European banking union. The SRF is to be built up over eight years, beginning in 2016, to the target level of €55 billion (the basis being 1 per cent. of the covered deposits in the financial institutions of the European banking union). Once this target level is reached, in principle, the banks will have to contribute only if the resources of the SRF are exhausted in order to deal with resolutions of other institutions.

Under the BRRD, the target level of the national resolution funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is European and is the sum of the covered deposits of all institutions established in the participating Member States. This would result in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, when contributions will be paid based on a joint target level as of 2016, contributions of banks established in Member States with high level of covered deposits would have sometimes abruptly decreased, while contributions of those banks established in Member States with fewer covered deposits would have sometimes abruptly increased. In order to prevent such abrupt changes, the Council Implementing Act provides for an adjustment mechanism to remedy these distortions during the transitional period by way of a gradual phasing in of the SRM methodology.

The BRRD also provides for a Member State as a last resort, after having assessed and applied the above resolution tools (including the general bail-in tool) to the maximum extent practicable whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the burden sharing requirements of the EU state aid framework and the BRRD.

As an exemption from these principles, the BRRD allows for three kinds of extraordinary public support to be provided to a solvent institution without triggering resolution: 1) a State guarantee to back liquidity facilities provided by central banks according to the central banks' conditions; 2) a State guarantee of newly issued liabilities; or 3) an injection of own funds in the form of precautionary recapitalisation. In the case of precautionary recapitalization EU state aid rules require that shareholders and junior bond holders contribute to the costs of restructuring (referred to as "burden sharing").

In addition to the general bail-in tool and other resolution tools, the BRRD provides for resolution authorities to have the further power to write-down permanently/convert into equity capital instruments at the point of non-viability and before any other resolution action is taken

with losses taken in accordance with the priority of claims under normal insolvency proceedings ("**Non-Viability Loss Absorption**").

For the purposes of the application of any Non-Viability Loss Absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution (but no resolution action has yet been taken) or that the institution or, in certain circumstances, its group, will no longer be viable unless the relevant capital instruments are written-down/converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution and/or, as appropriate, its group, would no longer be viable.

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments issued by an institution under resolution or amend the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The BRRD has been implemented in Italy through the adoption of the BRRD Decrees, which were published in the Italian Official Gazette (*Gazzetta Ufficiale*) on 16 November 2015. Decree 180 is a stand-alone law which implements the provisions of BRRD relating to resolution actions, while Legislative Decree No. 181/2015 of 16 November 2015 amends the existing Italian Consolidated Banking Act (Legislative Decree No. 385 of 1 September 1993, as amended) and deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on the date of publication on the Italian Official Gazette (i.e. 16 November 2015), save that: (i) the general bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's will apply from 1 January 2019. For further information on the application of Decree 180, please refer to "*Risks associated with the investment in the Issuer shares and the recovery and resolution mechanisms of failing enterprises*" above.

It is important to note that, pursuant to article 49 of Decree 180, resolution authorities may not exercise the write down/conversion powers in relation to secured liabilities, including covered bonds or their related hedging instruments, save to the extent that these powers may be exercised in relation to any part of a secured liability (including covered bonds and their related hedging instruments) that exceeds the value of the assets, pledge, lien or collateral against which it is secured.

In addition, because (i) Article 44(2) of the BRRD excludes certain liabilities from the application of the general bail-in tool and (ii) the BRRD provides, at Article 44(3), that the resolution authority may in specified exceptional circumstances partially or fully exclude certain further liabilities from the application of the general bail-in tool, the BRRD specifically contemplates that *pari passu* ranking liabilities may be treated unequally. Further, although the BRRD provides a safeguard in respect of shareholders and creditors upon application of resolution tools, Article 75 of the BRRD sets out that such protection is limited to the incurrence by shareholders or, as appropriate, creditors, of greater losses as a result of the application of the relevant tool than they would have incurred in a winding up under normal insolvency proceedings. It is therefore possible not only that the claims of other holders of junior or *pari passu* liabilities may have been excluded from the application of the general bail-in tool, but also that the safeguard referred to above does not apply to ensure equal (or better) treatment compared to the holders of such fully or partially excluded claims because the safeguard is not intended to address such possible unequal treatment but rather to ensure that

shareholders or creditors do not incur greater losses in a bail-in (or other application of a resolution tool) than they would have received in a winding up under normal insolvency proceedings.

Also, Article 108 of the BRRD requires that Member States modify their national insolvency regimes such that deposits of natural persons and micro, small and medium sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors. In addition, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors, with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors. Legislative Decree No. 181/2015 of 16 November 2015 has amended the creditor hierarchy in the case of admission of Italian banks and investment firms to liquidation proceedings (and therefore the hierarchy which will apply in order to assess claims pursuant the safeguard provided for in Article 75 of the BRRD as described above), by providing that, as from 1 January 2019, all deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's (which benefit from the super-priority required under Article 108 of the BRRD) will benefit from priority over senior unsecured liabilities, though with a ranking which is lower than that provided for individual/SME deposits exceeding the coverage limit of the deposit guarantee scheme. This means that, as from 1 January 2019, significant amounts of liabilities in the form of large corporate and interbank deposits which under the national insolvency regime currently in force in Italy rank *pari passu* with any unsecured liability owed to the Bondholders, will rank higher than such unsecured liabilities in normal insolvency proceedings. Therefore, the safeguard set out in Article 75 of the BRRD (referred to above) would not provide any protection against this result since, as noted above, Article 75 of the BRRD only seeks to achieve compensation for losses incurred by creditors which are in excess of those which would have been incurred in a winding-up under normal insolvency proceedings.

Legislative Decree No. 181/2015 of 16 November 2015 has also introduced strict limitations on the exercise of the statutory rights of set-off normally available under Italian insolvency laws, in effect prohibiting set-off by any creditor in the absence of an express agreement to the contrary.

Therefore, under the BRRD, the liabilities in relation to the Cover Bonds that exceed the value of the Cover Pool may be subject to write-down or conversion into equity or any application of the general bail-in tool, which may result in Bondholders losing some or all of their investment. In these limited circumstances, the exercise of any power under the BRRD or any suggestion of such exercise could materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any relevant Covered Bonds and/or the ability of the Issuer to satisfy its obligations under any relevant Covered Bonds.

As the BRRD has only recently been implemented in Italy and other Member States, there is uncertainty as to the effects of its application in practice.

In addition to the capital requirements under CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of the MREL. The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding and to ensure adequate capitalisation to continue exercising critical functions post resolution. The final draft regulatory technical

standards published by the EBA in July 2015 set out the assessment criteria that resolution authorities should use to determine the MREL for individual firms.

BRRD does not currently foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the "**SRB**") for banks subject to direct supervision by the ECB. The EBA has issued its final draft regulatory technical standards which further define the way in which national resolution authorities/the SRB shall calculate MREL. As from 1 January 2016, the resolution authority for the Bank is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. The SRB has indicated that it took core features of the TLAC standard into account in its 2016 MREL decisions and also that it may make decisions on the quality (in particular a subordination requirement) for all or part of the MREL. The SRB has targeted the end of 2017 for calculating binding MREL targets (applicable from 2019) at the consolidated level of all banking groups under its remit. MREL decisions for subsidiaries will be made in a second stage, based on, among other things, their individual characteristics and the consolidated level which has been set for the Montepaschi Group. The draft regulatory technical standards published by the EBA contemplate that a maximum transitional period of 48 months may be applied for the purposes of meeting the full MREL requirement.

At the same time as it released the CRD Reform Package, the European Commission released the BRRD Reforms. Among other things, these proposals aim to implement TLAC and to ensure consistency, where appropriate, of MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a "**Pillar 1 MREL requirement**") applicable to G-SIIs only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a "**Pillar 2 MREL requirement**"). Banks will be allowed to use certain additional types of loss absorbent liabilities to comply with their Pillar 2 MREL requirement.

In order to ensure compliance with MREL requirements, and in line with the FSB standard on TLAC, the BRRD Reforms propose that in case a bank does not have sufficient eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 Capital that would otherwise be counted towards meeting the combined capital buffer requirement. However, the BRRD Reforms envisage that a six-month grace period may apply before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a breach of the combined capital buffer requirement.]

4.14 ***As of 2016, the Montepaschi Group is subject to the provisions of the Regulation establishing the Single Resolution Mechanism***

After having reached an agreement with the Council, in April 2014, the European Parliament adopted the Regulation establishing a Single Resolution Mechanism (the "**SRM**"). The SRM became fully operational on 1 January 2016. Certain provisions, including those concerning the preparation of resolution plans and provisions relating to the cooperation of the SRB with national resolution authorities, entered into force on 1 January 2015. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the SRM. In particular the main objective of such proposal is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules by avoiding duplication by applying two parallel requirements.

The SRM, which complements the ECB Single Supervisory Mechanism, applies to all banks supervised by the ECB Single Supervisory Mechanism. It mainly consists of the SRB and a Single Resolution Fund (the "**SRF**", see risk factor "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of the Covered Bonds and/or the rights of Bondholders*" for details).

Decision-making is centralised with the SRB, and involves the European Commission and the Council (which will have the possibility to object to the SRB's decisions) as well as the ECB and national resolution authorities.

The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the ECB Single Supervisory Mechanism.

4.15 ***The Montepaschi Group may be subject to a proposed EU regulation on mandatory separation of certain banking activities***

On 29 January 2014, the European Commission adopted a proposal for a new regulation on structural reform of the European banking sector following the recommendations released on 31 October 2012 by the High Level Expert Group (the "**Liikanen Group**") on the mandatory separation of certain banking activities. The proposed regulation contains new rules which would prohibit the biggest and most complex banks from engaging in the activity of proprietary trading and introduce powers for supervisors to separate certain trading activities from the relevant bank's deposit-taking business if the pursuit of such activities compromises financial stability. This proposal was intended to take effect from 2017. However, legislative progress of the regulation has stalled.

Risks related to Sanctioned Countries

The Issuer and the Group have many customers and partners who are located in various countries around the world. Some of the countries in which such customers and partners are located and/or otherwise operate are, or may become, subject to comprehensive country-wide or territory-wide sanctions issued by the United States of America, the European Union and/or the United Nations ("**Sanctioned Countries**"). Such sanctions may limit the ability of the Issuer and/or the Group to continue operating with such customers and partners moving forward.

In particular, since January 2016, the Bank has undertaken and, as at the date of this Base Prospectus, continues to undertake certain commercial transactions (being commercial payments, the making of documentary credits, and the creation of guarantees) involving a limited number of private and state-owned banks having registered addresses in Iran, Cuba and Syria. Such commercial transactions have all been, and are, carried out in full compliance with all sanctions laws applicable to the Bank and the Bank’s internal sanctions-related policies and procedures for the purpose of supporting the Bank’s selected Italian customers. The relevant revenues generated by the Bank from this business currently represent less than 1% of the Bank's total revenues. Neither the Bank nor the Group maintains any physical presence in Iran, Cuba and/or Syria, and the Bank’s existing activities as described above are undertaken solely through the use of correspondent banking relationships. Nor does the Bank and/or the Group otherwise conduct any other material business in or with any Sanctioned Country. As at the

date of this Base Prospectus, it is also not expected that this position will materially change moving forward.

All of the activities described in the preceding paragraph have been, and are, conducted in compliance with all laws applicable to the Bank, and are not believed to have caused any person to violate any sanctions. Nor are they expected to result in the Bank and/or any member of the Group themselves becoming the subject of sanctions. However, should such sanctions be hardened and/or should new sanctions be issued, there may be prejudicial effects on these operations as well as on the reputation of the Issuer and/or the Group. This, in turn, could result in negative effects on the capital, financial and economic situation of the Issuer and/or the Group. Furthermore, it cannot be excluded that the Issuer and/or the Group may become subject to boycotting or monitoring actions by non-governmental activist groups seeking to terminate the Bank's business relationships with its counterparties in, and its operations connected to, Sanctioned Countries.

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

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

Following service of a Guarantee Enforcement Notice on the Issuer and the Guarantor, under the terms of the Guarantee the Guarantor will only be obliged to pay Guaranteed Amounts as and when the same are Due for Payment, provided that, in the case of any amounts representing the Final Redemption Amount due and remaining unpaid as at the original Maturity Date, the Guarantor may pay such amounts in accordance with the applicable Priority of Payments on any Guarantor Payment Date thereafter, up to (and including) the Extended Maturity Date. Such Guaranteed Amounts will be paid subject to and in accordance with the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. In such circumstances, the Guarantor will not be obliged to pay any other amounts in respect of the Covered Bonds which become payable for any other reason.

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

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

5.2 *Limited resources available to the Guarantor*

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

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

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

5.3 *Reliance of the Guarantor on third parties*

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

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

If a Servicer Termination Event occurs pursuant to the terms of the Master Servicing Agreement, then the Guarantor and/or the Representative of the Bondholders will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. In addition, the Servicer may resign from the Master Servicing Agreement, within 12 months from the relevant Execution Date, by giving not less than a 6 months prior written notice to the

Representative of the Bondholders, the Rating Agencies, the Asset Swap Provider and Joint-Arrangers. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential or commercial properties would be found who would be willing and able to carry out the administration, management, collection and recovery activities relating to the Assets on the terms of the Master Servicing Agreement. The ability of a substitute servicer to perform fully the required services would depend, *inter alia*, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Cover Pool or any part thereof, and/or the ability of the Guarantor to make payments under the Guarantee.

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

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

5.4 ***Reliance on Swap Providers***

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

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

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

If a Swap Agreement terminates, then the Guarantor may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the Guarantor will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the Guarantor will be able to enter into a replacement swap agreement with an adequately rated counterparty, or if one is entered into, that the credit rating of such replacement swap provider will remain sufficiently high to prevent a downgrade by the Rating Agencies of the then current ratings of the Covered Bonds. In addition the Swap Agreements may provide that notwithstanding the downgrading of a Swap Provider and the failure by such Swap Provider to take the remedial action set out in the relevant Swap

Agreement, the Guarantor may not terminate the Swap Agreement until a replacement swap provider has been found.

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

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

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

Due to the mismatch in timing of payments under the Covered Bond Swap Agreements, on many Guarantor Payment Dates, the Guarantor will be required to make a payment to the Covered Bond Swap Provider without receiving a payment in return and therefore there can be no netting of payments except on the date when the Covered Bond Swap Provider is required to make a payment to the Guarantor.

5.6 ***No gross up on withholding tax***

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

5.7 ***Change of counterparties***

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

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

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

5.8 *Limited description of the Cover Pool*

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

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

- the Issuer, or any Additional Seller(s), repurchasing or substituting Assets in accordance with the Master Assets Purchase Agreement.

However, each Eligible Asset Loan will be required to meet the Eligibility Criteria and to conform with the representations and warranties set out in the Warranty and Indemnity Agreement — see "*Description of the Programme Documents — Warranty and Indemnity Agreement*". In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Asset Amount is an amount equal to or in excess of the aggregate outstanding principal amount of the Covered Bonds for so long as Covered Bonds remain outstanding and the Pre-Issuer Default Test Calculation Agent will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

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

5.9 *No due diligence on the Cover Pool*

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

on the Portfolio and in case of breach of a Test due to such exclusion, either the Principal Seller and/or the Additional Seller(s) or, failing the latter to do so, the Issuer are obliged to integrate the Cover Pool.

5.10 ***Maintenance of the Cover Pool***

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

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

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

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

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

Following a Guarantee Enforcement Notice, the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets (selected on a random basis) included in the Cover Pool (the "**Selected Assets**") in order to make payments to the Guarantor's creditors including making payments under the Guarantee, see "*Description of the Programme Documents - Cover Pool Management Agreement*".

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

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

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

If, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior

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

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

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

There is no guarantee that the proceeds of the liquidation of the Cover Pool will be in an amount sufficient to repay all amounts due to creditors (including the Bondholders) under the Covered Bonds and the Programme Documents. If a Guarantor Default Notice is served on the Guarantor then the Covered Bonds may be repaid sooner or later than expected or not at all.

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

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

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

- status of real estate market in the areas of operation of the Issuer.

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

5.14 *Value of the Cover Pool*

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

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

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

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

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

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

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

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

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

5.18 *Insurance coverage*

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

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

Each of the Mortgage Loans originated by the relevant Seller will have been originated in accordance with its lending criteria at the time of origination. Each of the Mortgage Loans sold to the Guarantor by the relevant Seller, but originated by a person other than the relevant Seller (a "**Third Party Originator**"), will have been originated in accordance with the lending criteria

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

5.20 *Legal risks relating to the Mortgage Loans*

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

5.20.1 **Set-off risks**

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

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

5.20.2 **Usury Law**

The interest payments and other remuneration paid by the Borrowers under the Mortgage Loans are subject to Italian law No. 108 of 7 March 1996 (the "**Usury Law**"), which introduced legislation preventing lenders from applying interest rates equal to, or higher than, rates (the "**Usury Rates**") set every three months on the basis of a decree issued by the Italian Treasury (the last such decree having been issued on 25 September 2017). In addition, even where the applicable Usury Rates are not exceeded, interest and other benefits and/or remuneration may be held to be usurious if: (a) they are disproportionate to the amount lent (taking into account the specific situations of the transaction and the average rate usually applied for similar transactions); and (b) the person who paid or agreed to pay them was in financial and economic difficulties. The

provision of usurious interest, benefits or remuneration has the same consequences as non-compliance with the Usury Rates.

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

The Italian Constitutional Court has rejected, with decision No. 29/2002 (deposited on 25 February 2002), a constitutional exception raised by the Court of Benevento (2 January 2001) concerning article 1, paragraph 1, of the Usury Law Decree (now reflected in article 1, paragraph 1 of the above mentioned conversion law No. 24 of 28 February 2001). In so doing, it has confirmed the constitutional validity of the provisions of the Usury Law Decree which hold that interest rates may be deemed to be void due to usury only if they infringe Usury Regulations at the time they are agreed between the borrower and the lender and not at the time such rates are actually paid by the borrower.

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

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

5.20.3 Compounding of interest (*Anatocismo*)

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

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

In this respect, it should be noted that Article 25, paragraph 3, of legislative decree No. 342 of 4 August 1999 ("**Law No. 342**"), enacted by the Italian Government under a delegation granted pursuant to law No. 142 of 19 February 1992, has considered the capitalisation of accrued interest (*anatocismo*) made by banks prior to the date on which it came into force (19 October 1999) to be valid. After such date, the capitalisation of accrued interest is no longer possible upon the terms established by a resolution of the CICR issued on 22 February 2000. Law No. 342 has been challenged and decision No. 425 of 17 October 2000 of the Italian Constitutional Court has declared as unconstitutional under the provisions of Law No. 342 regarding the validity of the capitalisation of accrued interest made by banks prior to the date on which Law No. 342 came into force.

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

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

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

Furthermore there have been two rulings of Italian Courts that have held that the calculations applicable to the instalments under certain mortgage loan agreements that were based upon the amortisation method known as "French amortisation" (i.e. mortgage loans with fixed instalments, made up of an amount of principal (that progressively increases) and an amount of interest (that decreases as repayments are calculated with a specific formula), triggered a violation of the Italian law provisions on the limitations on the compounding of interest (*divieto di anatocismo*). However, it should be pointed out that these were isolated judgements, still under appeal, and more

recently various court rulings on the same matter have declared that the "French amortisation" method does not entail an illegal compounding element. However the Issuer is not able to exclude the risk that in the future other judgments may follow the two isolated decisions described above.

5.20.4 **Consumer Credit Legislation**

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

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

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

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

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

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

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

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

5.20.5 **Law no. 3 of 27 January 2012**

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

The Over Indebtedness Law provides that the relevant debt restructuring agreement, subject to the relevant court approval, shall entail, *inter alia* (i) the renegotiation of the payments' terms with the relevant creditors; (ii) the full payment of the secured creditors; (iii) the full payment of any other creditors which are not part of the debt restructuring agreement (provided that the payments due to any creditors which have not approved the debt restructuring agreement, including any secured creditors, may be suspended for up to one year); and (iv) the possibility to appoint a trustee for the administration and liquidation of the debtor's assets and the distribution to the creditors of the proceeds of the liquidation.

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

5.20.6 **Mortgage Credit Directive**

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

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

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

In Italy, the Government has approved the Legislative Decree No. 72 of 21 April 2016, implementing the Mortgage Credit Directive and published on the Official Gazette of the Republic of Italy on 20 May 2016 (the "**Mortgage Legislative Decree**"), which introduced Article 12 *quinquesdecies* of the Consolidated Banking Act.

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

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

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

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

According to the Mortgage Legislative Decree, the Bank of Italy and the Ministry of Economy and Finance will enact implementing provisions of it.

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

SUPPLEMENTS, FINAL TERMS AND FURTHER PROSPECTUSES

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

In addition, the Issuer and the Guarantor may agree with the Dealer(s) to issue Covered Bonds in a form not contemplated in the section entitled "Form of Final Terms". To the extent that the information relating to that Series or Tranche of Covered Bonds constitutes a significant new factor in relation to the information contained in this Prospectus, a separate prospectus specific to such Series or Tranche ("**Drawdown Prospectus**") will be made available and will contain such information.

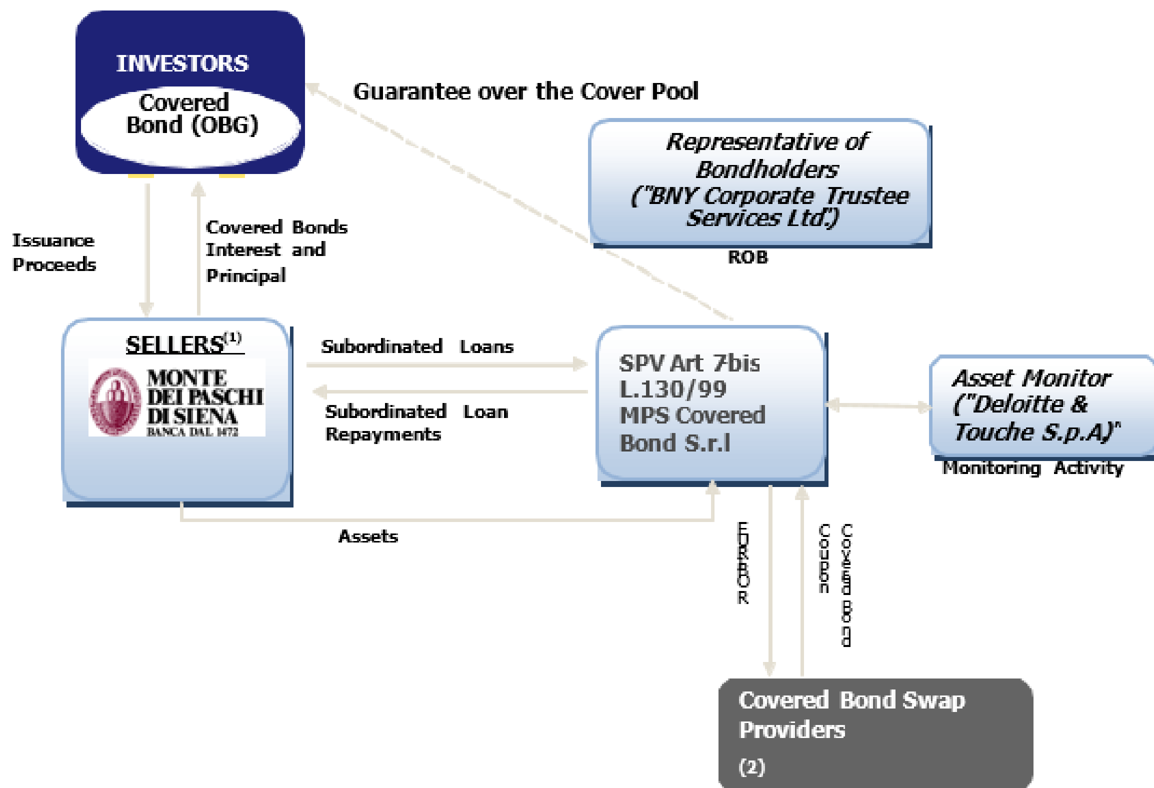
The terms and conditions applicable to any particular Series or Tranche of Covered Bonds will be the conditions set out in the section entitled "Conditions of the Covered Bonds", as completed in the relevant Final Terms or amended and/or replaced to the extent described in the Drawdown Prospectus. In the case of a Series or Tranche of Covered Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being completed in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the Guarantor and the relevant Covered Bonds or (2) by a registration document containing the necessary information relating to the Issuer and/or the Guarantor, a securities note containing the necessary information relating to the relevant Covered Bonds and, if applicable, a summary note.

STRUCTURE OVERVIEW

The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. An index of certain defined terms used in this document is contained at the end of this Prospectus.

Structure Diagram



Notes:

(1) *Banca Monte dei Paschi di Siena S.p.A. acting as Principal Seller. Additional Seller might be any other bank which is a member of Montepaschi Group and wishes to sell Assets to the Guarantor within the scope of the Programme, subject to satisfaction of certain conditions and which, for such purpose, shall enter into, inter alia, the Master Asset purchase Agreement and any other required Programme document.*

(2) *One or more suitably rated entities for the relevant Series or Tranche of Covered Bonds.*

Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer will issue Covered Bonds to Bondholders on each Issue Date. The Covered Bonds will be direct, unsubordinated, unsecured and unconditional obligations of the Issuer guaranteed by the Guarantor under the Guarantee.

- *Guarantor:* the Guarantor is a corporate entity separate and distinct from the Issuer and maintains corporate records and books of account separate from those of the Issuer. The

authorised and issued quota capital of the Guarantor is €10,000.00 and is held by Banca Monte dei Paschi di Siena S.p.A., as to 90 per cent. and SVM Securitisation Vehicles Management S.r.l. as to 10 per cent. The Guarantor has issued no voting securities other than its quotas. For further details, see section "*The Guarantor*" below.

- *Guarantee*: In accordance with the provisions of the Law 130 and Decree No. 310, the Guarantor has provided a first demand, unconditional, autonomous and irrevocable guarantee, for the benefit of the Bondholders in accordance with the Programme Documents, for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders. Under the terms of the Guarantee, the Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the Guaranteed Amounts become Due for Payment. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and limited recourse obligations of the Guarantor, collateralised by the Cover Pool as provided under Law 130. The recourse to the Guarantor under the Guarantee will be limited to the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable (each as defined below).

- *Subordinated Loan Agreements*: Under the terms of the relevant Subordinated Loan Agreements, the Principal Seller and the Additional Seller(s), in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor one or more Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan, for the purposes of funding the payments described in the paragraph headed "*The proceeds of Term Loans*" below. Prior to service of a Breach of Tests Notice or a Guarantee Enforcement Notice, each Term Loan may be repaid by the Guarantor on each Guarantor Payment Date according to the Pre-Issuer Default Principal Priority of Payments within the limits of the then Guarantor Available Funds. Following the service of a Breach of Tests Notice, there shall be no further payments to any Subordinated Lender under any relevant Term Loan(s) as long as a Breach of Tests Cure Notice is delivered in accordance with the Programme Documents (other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations)). Following the service of a Guarantee Enforcement Notice, the Term Loans shall be repaid within the limits of the then Guarantor Available Funds subject to the repayment in full (or, prior to the service of a Guarantor Default Notice, the accumulation of funds sufficient for the purpose of such repayment) of all Covered Bonds. Each Term Loan that has been repaid pursuant to the terms of the Subordinated Loan Agreement will be available for redrawing during the Subordinated Loan Availability Period within the limits of the Total Commitment. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the Guarantor pursuant to the Subordinated Loan Agreement. Amounts owed by the Guarantor under the Subordinated Loan Agreement will be subordinated to amounts owed by the Guarantor under the Guarantee.

- *The proceeds of Term Loans*: Each Programme Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) funding the purchase price of the Eligible Assets and Top-Up Assets to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement for overcollateralization purposes and/or (iv) funding the redemption of a Floating Interest Term Loan or Fixed Interest Term Loan at the Maturity Date (or Extended Maturity Date, if applicable) of the Corresponding Series or Tranche of Covered Bonds.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

- *Cashflows*: Prior to service of a Guarantee Enforcement Notice on the Guarantor and provided that no Breach of Tests Notice has been served and has not been revoked through the delivery of a Breach of Tests Cure Notice, the Guarantor will:

  - apply Interest Available Funds to pay interest and/or Premium on the relevant Term Loans, but only after payment of certain items ranking higher in the Pre-Issuer Default Interest Priority of Payments (including, but not limited to, certain expenses and any amount due and payable under the Swap Agreements). For further details of the Pre-Issuer Default Interest Priority of Payments, see "*Cashflows*" below; and

  - apply Principal Available Funds towards repaying Term Loans but only after payment of certain items ranking higher in the relevant Pre-Issuer Default Principal Priority of Payments. For further details of the Pre-Issuer Default Principal Priority of Payments, see "*Cashflows*" below.

  After the service of a Breach of Tests Notice, payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered, and the Guarantor will make payments in accordance with the Pre-Issuer Default Interest Priority of Payments and the Pre-Issuer Default Principal Priority of Payments, provided that there shall be no further payments (whether of interest or principal) to a Subordinated Lender under any relevant Term Loan and the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid only by using the proceeds of a Term Loan.

  Following service on the Issuer and on the Guarantor of a Guarantee Enforcement Notice (but prior to a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor) the Guarantor will use all Guarantor Available Funds to pay Guaranteed Amounts when the same shall become Due for Payment, subject to paying certain higher ranking obligations of the Guarantor in the Guarantee Priority of Payments. In such circumstances, the Principal Seller and the Additional Seller(s), will only be entitled to receive payment from the Guarantor of interest, Premium (if any) and repayment of principal under the relevant Term Loans after all amounts due under

the Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following the occurrence of a Guarantor Event of Default and service of a Guarantor Default Notice on the Guarantor, the Covered Bonds will become immediately due and repayable at their Early Termination Amount and the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor under the Guarantee for an amount equal to the Early Termination Amounts, together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable as gross up) and any Guarantor Available Funds will be distributed according to the Post-Enforcement Priority of Payments, as to which see section "*Cashflows*" below.

- *Mandatory Tests*: The Assets of the Guarantor have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Covered Bonds. The Programme provides that the Assets of the Guarantor are subject to certain tests intended to ensure that the Guarantor can meet its obligations under the Guarantee as set out under article 3 of Decree No. 310 and to demonstrate their capacity to produce funds to service any payments due and payable under the Covered Bonds upon enforcement of the Guarantee. Accordingly, until the delivery of a Guarantee Enforcement Notice, the Issuer, the Principal Seller, the Additional Seller(s), and in any case the Issuer, must always ensure that the following tests are satisfied on each Quarterly Test Calculation Date:

  - *Nominal Value Test*: the aggregate Outstanding Principal Balance of the Cover Pool shall be higher than or equal to the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Test Calculation Date, provided that, prior to the delivery of a Guarantee Enforcement Notice, such test will always be deemed met to the extent that the Asset Coverage Test (as defined below) is met as of the relevant Quarterly Test Calculation Date;

  - *Net Present Value Test*: the Net Present Value Test is intended to ensure that the net present value of the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of the transaction costs to be borne by the Guarantor (including the payments of any nature expected to be borne or due with respect to any Swap Agreement) shall be higher than or equal to the net present value of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Quarterly Test Calculation Date;

  - *Interest Coverage Test*: the Interest Coverage Test is intended to ensure that the amount of interest and other revenues generated by the assets included in the Cover Pool, (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement) net of the costs borne by the Guarantor (including the payments of any nature expected to be borne or due with respect to any Swap Agreement), shall be higher than the amount of interest due on all Series or Tranche of Covered Bonds issued under the

Programme and not cancelled or redeemed in full in accordance with their Conditions as at the relevant Quarterly Test Calculation Date.

For a more detailed description, see section "*Credit structure - Tests*" below.

- *Asset Coverage Test*: In addition to the Mandatory Tests, the Programme provides that until the delivery of a Guarantee Enforcement Notice, the Issuer, the Principal Seller, any Additional Seller(s), and in any case the Issuer, must always ensure the Asset Coverage Test is satisfied on each Test Calculation Date. The Asset Coverage Test is intended to ensure that on the relevant Test Calculation Date, the Adjusted Aggregate Asset Amount (as defined in section "*Credit Structure*" below) is at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds. The Adjusted Aggregate Asset Amount is the amount calculated pursuant to the formula set out in the Cover Pool Management Agreement. For a more detailed description, see section "*Credit structure - Tests*" below.

- *Amortisation Test*: Following the delivery of a Guarantee Enforcement Notice, the Amortisation Test is intended to ensure that, on each Test Calculation Date, the outstanding principal balance of the Cover Pool (which for such purpose is considered as an amount equal to the Amortisation Test Aggregate Asset Amount (as defined in section "*Credit structure - Tests*" below)) is higher than or equal to the Euro Equivalent of the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Conditions at the relevant Test Calculation Date. Failure to satisfy the Amortisation Test on any Test Calculation Date following the delivery of a Guarantee Enforcement Notice will cause all Covered Bonds becoming immediately Pass Through Series. For a more detailed description, see section "*Credit structure - Tests*" below.

- *Extendable obligations under the Guarantee*: If (i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; or (ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, then the relevant Series or Tranche of Covered Bonds shall become a Pass Through Series.

  Furthermore, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, then all Series of Covered Bonds shall become Pass Through Series.

  However, any amount representing the Guaranteed Amounts (as defined below) due and remaining unpaid on the Extension Determination Date or the Maturity Date (as

the case may be) may be paid by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended Maturity Date in accordance with the applicable Priority of Payments. Interest will continue to accrue on any unpaid amount during such extended period and be payable on each Guarantor Payment Date up to the Extended Maturity Date in accordance with Condition 8 (*Redemption and Purchase*).

- *Servicing*: Banca Monte dei Paschi di Siena S.p.A. (in its capacity as Principal Servicer) has entered into the Master Servicing Agreement with the Guarantor, pursuant to which (i) the Principal Servicer has agreed to provide administrative services in respect of the Mortgage Loans and to act as the *soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e di pagamento* pursuant to article 2, sub-paragraph 3, of Law 130, (ii) the parties thereto agreed that, should any Additional Seller(s) enter into the Programme, such Additional Seller will be appointed as Additional Servicer for the administration, management, collection and recovery activities relating to the Assets from time to time assigned by it to the Guarantor; and (iii) the Guarantor has appointed a Back-up Servicer Facilitator who used its best effort to identify an entity suitable to act as Back-Up Servicer upon the rating of the Principal Servicer's long term unguaranteed, unsubordinated and unsecured obligation fell below Baa3 by Moody's. For further details, see sections "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender" and "Credit and Collection Policy*" below.

- *Asset Monitor Engagement Letter*: Pursuant to an engagement letter entered into on 18 June 2010, the Issuer has appointed the Asset Monitor in order to perform, subject to receipt of the relevant information from the Issuer, specific monitoring activities concerning, *inter alia*, the control of (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the calculation performed by the Issuer in respect of the Mandatory Tests; (iii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iv) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

- *Asset Monitor Agreement*: Pursuant to the Asset Monitor Agreement, (i) the Issuer has appointed the Asset Monitor to perform, prior to the delivery of a Guarantee Enforcement Notice, certain verification activities with respect to the Mandatory Tests and the Asset Coverage Test and (ii) the Guarantor has appointed the Asset Monitor to perform, following the delivery of a Guarantee Enforcement Notice, certain verification activities with respect to the Amortisation Test and carry out certain monitoring and reporting services with respect to the Cover Pool in accordance with the terms provided in the Asset Monitor Agreement.

- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds, see, amongst other relevant sections of this Prospectus, "*Overview of the Programme*", "*Conditions of the Covered Bonds*", "*Description of the Programme Documents*", "*Credit Structure*", and "*Cashflows*", below.

GENERAL DESCRIPTION OF THE PROGRAMME

This section constitutes a general description of the Programme for the purposes of Article 22(5) of Commission Regulation (EC) No. 809/2004. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meaning in this overview.

PARTIES

Issuer	**Banca Monte dei Paschi di Siena S.p.A.** a bank operating in Italy as a joint stock company (*società per azioni*), having its registered office at Piazza Salimbeni, 3, 53100 Siena, Italy, fiscal code and enrolment with the companies register of Siena number 00884060526 and enrolled under number 5274 in the register of banks held by the Bank of Italy pursuant to article 13 of the Consolidated Banking Act ("**BMPS**" or the "**Issuer**"). For a more detailed description of the Issuer, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".
Guarantor	**MPS Covered Bond S.r.l.**, a special purpose entity incorporated as limited liability company (*società a responsabilità limitata*) under the laws of Italy pursuant to article 7-*bis* of Law 130, having its registered office at Via V. Alfieri 1, 31015, Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso No. 04323680266, enrolled under number 41746 in the general register held by the Bank of Italy pursuant to article 106 of the Consolidated Banking Act and part of the Montepaschi Group and subject to guidance and coordination of Banca Monte dei Paschi di Siena S.p.A, having as its sole purpose the ownership of the Cover Pool and the granting to holders of the Covered bonds of the Guarantee (the "**Guarantor**"). For a more detailed description of the Guarantor, see section "*The Guarantor*".
Principal Seller	BMPS, pursuant to the terms of the Master Assets Purchase Agreement. For a more detailed description of BMPS, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".
Additional Seller(s)	Any other bank which is a member of the Montepaschi Group and wishes to sell Assets to the Guarantor within

the scope of the Programme, subject to satisfaction of certain conditions and which, for such purpose, shall enter into, *inter alia*, the Master Assets Purchase Agreement with the Guarantor and any other Programme Document.

On 27 May 2011, Banca Antonveneta S.p.A. ("**BAV**") acceded to the Master Assets Purchase Agreement and to the Programme in the capacity as Additional Seller. Following the merger by way of incorporation of BAV in BMPS with effect as of 28 April 2013 (the "**Merger**"), BMPS assumed all rights and obligations of BAV in the capacity as Additional Seller under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Principal Servicer

Pursuant to the terms of the Master Servicing Agreement, BMPS will act as Principal Servicer.

For a more detailed description of the Principal Servicer, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".

Additional Servicer(s)

Any Additional Seller that, subject to satisfaction of certain conditions, wishes to act as Additional Servicer for the administration, management and collection activities relating to the Eligible Assets from time to time assigned by it to the Guarantor and, for such purpose, has acceded to the Master Servicing Agreement.

On 27 May 2011, BAV acceded to the Master Servicing Agreement and to the Programme in the capacity as Additional Servicer. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Back-Up Servicer Facilitator

Securitisation Services S.p.A., a company incorporated under the laws of the Republic of Italy as *società per azioni*, having its registered office at Via Vittorio Alfieri 1, 31015 Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso number 03546510268, enrolled under number 31816 in the *elenco generale* held by the Bank of Italy pursuant to article 106 of the Consolidated Banking Act, subject to direction and coordination activities (*soggetta all'attività di direzione e coordinamento*) of Banca Finanziaria Internazionale

S.p.A., further to its accession to the Master Servicing Agreement and to the Programme on 3 April 2012.

Back-up Servicer

Securitisation Services S.p.A. or any eligible counterparty appointed upon downgrading of the Servicer below "Baa3" by Moody's, "BBB-" Fitch and BBB(low) by DBRS, pursuant to the Servicing Agreement.

Principal Subordinated Lender

BMPS, pursuant to the Subordinated Loan Agreement.

For a more detailed description of the Principal Subordinated Lender, see section "*Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender*".

Additional Subordinated Lender(s)

Each Additional Seller will act as Subordinated Lender in respect of the Assets transferred by itself to the Guarantor.

On 27 May 2011, BAV became a Subordinated Lender following the execution of a Subordinated Loan Agreement with the Guarantor. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Cash Manager

Pursuant to the Cash Allocation, Management and Payments Agreement, Banca Monte dei Paschi di Siena S.p.A., acting through its London branch.

Principal Paying Agent

The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, a bank incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at Vertigo Building - Polaris – 2-4 rue Eugène Ruppert - L-2453, Luxembourg, Grand Duchy of Luxembourg, acting through its Milan branch with offices at Diamantino Building – 5th Floor - via Mike Bongiorno 13, 20124 Milan, Italy, fiscal code and enrolment with the companies register of Milan number 05694250969 and registered with the register held by the Bank of Italy pursuant to article 13 of the Consolidated Banking Act as a "*filiale di banca estera*" under number 5662 and with ABI code 3351.4.

Guarantor Calculation Agent

Securitisation Services S.p.A.

Test Calculation Agent

Prior to an Issuer Event of Default, Banca Monte dei Paschi di Siena S.p.A., in its capacity as Pre-Issuer

Default Test Calculation Agent and, after an Issuer Event of Default, the Guarantor Calculation Agent, which will act in its capacity as Post-Issuer Default Test Calculation Agent.

Pre-Issuer Default Test Calculation Agent	Banca Monte dei Paschi di Siena S.p.A.
Post-Issuer Default Test Calculation Agent	Securitisation Services S.p.A.
Italian Account Bank	Banca Monte dei Paschi di Siena S.p.A. subject to it being an Eligible Institution. As at the date of this Prospectus, the Italian Back-Up Account Bank has succeeded to Banca Monte dei Paschi di Siena S.p.A., and is acting in the capacity of Italian Account Bank pursuant to the provisions of the Cash Allocation Management and Payments Agreement.
Payments Account Bank	The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, subject to it being an Eligible Institution.
Italian Back-Up Account Bank	The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, subject to it being an Eligible Institution.
English Back-Up Account Bank	The Bank of New York Mellon S.A./N.V., London Branch, a public limited liability credit institution incorporated under the laws of Belgium with company number 0806.743.159, having its registered office at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, acting through its London branch with offices at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom, subject to it being an Eligible Institution.
English Account Bank	Banca Monte dei Paschi di Siena S.p.A., acting through its London branch, with offices at 6th floor, Capital House 85, King William Street, London EC4N 7BL, United Kingdom, subject to it being an Eligible Institution. As at the date of this Prospectus, the English Back-Up Account Bank has succeeded to Banca Monte dei Paschi di Siena S.p.A., London branch, and is acting in the capacity of English Account Bank pursuant to the provisions of the English Account Bank Agreement.
Asset Monitor	Deloitte & Touche S.p.A. a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and with the special register of accounting firms held by the CONSOB

	pursuant to the Consolidated Finance Act, having its registered office at via Tortona 25, 20144 Milan, Italy.
Asset Swap Provider(s)	No Asset Swap Provider has been appointed as of the date of this Prospectus.
Covered Bond Swap Providers	One or more suitably rated entities as may be appointed for each Series or Tranche of Covered Bonds.
Guarantor Corporate Servicer	Securitisation Services S.p.A.
Guarantor Quotaholders	Banca Monte dei Paschi di Siena S.p.A. and SVM Securitisation Vehicles Management S.r.l. a company incorporated under the laws of Italy as *società per azioni con socio unico*, having its registered office at Via Vittorio Alfieri 1, 31015, Conegliano (TV), Italy, fiscal code and enrolment with the companies register of Treviso No. 03546510268 and subject to guidance and coordination of Finanziaria Internazionale Holding S.p.A..
Representative of the Bondholders	BNY Mellon Corporate Trustee Services Limited, a limited liability company incorporated under the laws of England and Wales, having its registered office at One Canada Square, London E14 5AL, United Kingdom.
Luxembourg Listing and Paying Agent	The Bank of New York Mellon (Luxembourg) S.A., a bank incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at Vertigo Building - Polaris – 2-4 rue Eugène Ruppert - L-2453, Luxembourg.
Joint-Arrangers	BMPS Morgan Stanley & Co. International plc, a public limited company incorporated under the laws of England, acting through its branch at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; and The Royal Bank of Scotland plc (trading as NatWest Markets), a public limited company incorporated under the laws of England, acting through its office at 250 Bishopsgate, London EC2M 4AA, United Kingdom.
Dealer(s)	Morgan Stanley & Co. International plc, a public limited company incorporated under the laws of England, acting through its branch at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom; MPS Capital Services Banca per l'Impresa S.p.A., a joint stock company (*società per azioni*) incorporated under the laws

of the Republic of Italy, having its registered office at Via Pancaldo, 4, 50127 Firenze, Italy, fiscal code and enrolment with the companies register of Firenze number 00816350482;

The Royal Bank of Scotland plc (trading as NatWest Markets), a public limited company incorporated under the laws of England, acting through its office at 250 Bishopsgate, London EC2M 4AA, United Kingdom;

and any other Dealer(s) appointed in accordance with the Programme Agreement.

THE PROGRAMME

Programme description

Under the terms of the Programme, the Issuer has issued and will issue Covered Bonds (*Obbligazioni Bancarie Garantite*) to Bondholders on each Issue Date. The Covered Bonds will be direct, unsubordinated, unsecured and unconditional obligations of the Issuer guaranteed by the Guarantor under the Guarantee.

Programme Limit

The aggregate nominal amount of the Covered Bonds at any time outstanding will not exceed Euro 20,000,000,000 (or its equivalent in other currencies to be calculated as described in the Programme Agreement subject to any increase thereof). The Issuer may however increase the aggregate nominal amount of the Programme in accordance with the Programme Documents.

THE COVERED BONDS

Form of Covered Bonds

Unless otherwise specified in the relevant Terms and Conditions and Final Terms, the Covered Bonds will be issued in bearer and dematerialised form and held on behalf of their ultimate owners by Monte Titoli for the account of Monte Titoli Account Holders and title thereto will be evidenced by book entries. Monte Titoli will act as depository for Euroclear and Clearstream. No physical document of title will be issued in respect of any such bearer and dematerialised Covered Bonds.

Denomination of Covered Bonds

The Covered Bonds will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements and save that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the

Prospectus Directive will be €100,000 (or where the relevant Series or Tranche is denominated in a currency other than euro, the equivalent amount in such other currency).

Status of the Covered Bonds	The Covered Bonds will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Specified Currency	Subject to any applicable legal or regulatory restrictions, each Series or Tranche of Covered Bonds will be issued in such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders, subject to prior notice to the Rating Agencies (as set out in the applicable Final Terms) subject to compliance with all applicable legal, regulatory and/or central bank requirements.
Maturities	The Covered Bonds will have such Maturity Date as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by any relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Redemption	The applicable Final Terms relating to each Series or Tranche of Covered Bonds will indicate either that the Covered Bonds of such Series or Tranche of Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments if applicable, or for taxation reasons or if it becomes unlawful for any Covered Bond to remain outstanding or following a Guarantor Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Bondholders on a date or dates specified prior to the specified Maturity Date and at a price and on other terms as may be agreed between the Issuer and the Dealer(s) as set out in the applicable Final Terms. The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on the dates indicated in the Final Terms. For further details, see Condition 8 (*Redemption and purchase*).

Redemption at the option of Bondholders

If the relevant Final Terms of the Covered Bonds provide for a put option to be exercised by the Bondholders prior to an Issuer Event of Default, the Issuer shall, at the option of any Bondholder, redeem such Covered Bonds held by it on the date which is specified in the relevant put option notice at a price (including any interest (if any) accrued to such date) and on other terms as may specified in, and determined in accordance with, the relevant Final Terms.

Extended Maturity Date and Pass Through Series

The applicable Final Terms relating to each Series or Tranche of Covered Bonds issued will indicate, in the interest of the Guarantor, that the Guarantor's obligations under the Guarantee to pay Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series or Tranche of Covered Bonds on their Maturity Date may be deferred until the Extended Maturity Date.

Such deferral will occur automatically: (A) in respect of a Series of Covered Bonds (each such Series, a "**Pass Through Series**") if (i) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds, or (ii) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (i) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; and (B) in respect of all Series of Covered Bonds, which all become Pass Through Series, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met.

Payment of all unpaid amounts shall be deferred automatically until the applicable Extended Maturity Date, provided that any amount representing the Final

Redemption Amount due and remaining unpaid on the Extension Determination Date or the Maturity Date (as the case may be) may be paid, in accordance with the Guarantee Priority of Payments, by the Guarantor on any Guarantor Payment Date thereafter, up to (and including) the relevant Extended Maturity Date for such Pass Through Series.

The Guarantor will be obliged to (A) apply on each Guarantor Payment Date any Guarantor Available Funds towards redemption in full of all Pass Through Series in accordance with the Guarantee Priority of Payments; and (B) prior to a breach of the Amortisation Test, use its best efforts to sell, in accordance with the provisions of the Cover Pool Management Agreement, Selected Assets, on a semi-annual basis, for an amount as close as possible to the amount necessary (i) to redeem in full (a) the Pass Through Series and/or (b) only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds, net of any amounts standing to the credit of the Programme Accounts, provided that, prior to and following the sale of such Selected Assets, the Amortisation Test is complied with.

If, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met, the Guarantor shall use its best effort (but shall not be obliged) to sell all Eligible Assets and Top-Up Assets included in the Cover Pool, on a semi-annual basis starting from the date falling 30 calendar days after the date of the relevant Test Performance Report, provided that the proceeds of the sale (net of any costs connected thereto), together with any amount standing to the credit of the Accounts, are sufficient to redeem in full the Pass Through Series. For further details, see section headed "*Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice and the breach of the Amortisation Test*".

For the avoidance of doubt, failure by the Guarantor to sell Selected Assets (or, following the breach of the Amortisation Test, all Eligible Assets and Top-Up Assets included in the Cover Pool) in accordance with the Cover

Pool Management Agreement shall not constitute a Guarantor Event of Default.

Interest will continue to accrue and be payable on the unpaid amount (to the extent permitted by Italian law) on each Guarantor Payment Date up to the Extended Maturity Date, subject to and in accordance with the provisions of the relevant Final Terms.

For further details, see Condition 8 (*Redemption and Purchase*).

Issue Price

Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid or partly-paid basis (as set out in the relevant Final Terms).

Interest

Covered Bonds may be interest bearing or non interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the Issue Date and the Maturity Date of the relevant Series or Tranche. Covered Bonds may also have a maximum rate of interest, a minimum rate of interest or both (as indicated in the applicable Final Terms). Interest on Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s).

Any series of Covered Bonds becoming a Pass Through Series will accrue the interest rate provided under the relevant Final Terms for the period from the Maturity Date to the Extended Maturity Date.

Fixed Rate Covered Bonds

Fixed Rate Covered Bonds will bear interest at a fixed rate, which will be payable on the date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such day count fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds

Floating Rate Covered Bonds will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

in each case, as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Zero Coupon Covered Bonds

Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount, as specified in the applicable Final Terms.

Amortising Covered Bonds

Covered Bonds may be issued with a predefined, prescheduled amortisation schedule where, in addition to interest, the Issuer will pay, on each relevant Interest Payment Date, a portion of principal up to the relevant Maturity Date (as set out in the applicable Final Terms) in instalments.

Taxation

All payments in relation to Covered Bonds will be made without tax deduction or withholding except where required by law. If any tax deduction is made, the Issuer shall be required to pay additional amounts in respect of the amounts so deducted or withheld, subject to a number of exceptions including deductions on account of Italian substitute tax pursuant to Decree No. 239.

Under the Guarantee, the Guarantor will not be liable to pay any such additional amounts to any Bondholders in respect of the amount of such withholding or deduction.

For further details, see Condition 10 (*Taxation*).

Cross default provisions

Each Series or Tranche of Covered Bonds will cross accelerate as against each other Series or Tranches, but will not otherwise contain a cross default provision. Accordingly, neither an event of default under any other indebtedness of the Issuer (including other debt securities of the Issuer) nor any acceleration of such indebtedness will of itself give rise to an Issuer Event of Default (except where such events constitute an Insolvency Event in respect of the Issuer).

In addition, an Issuer Event of Default will not automatically give rise to a Guarantor Event of Default, provided however that, where a Guarantor Event of Default occurs and the Representative of the Bondholders serves a Guarantor Default Notice upon the Guarantor,

such Guarantor Default Notice will accelerate each Series or Tranche of outstanding Covered Bonds issued under the Programme.

For further details, see Condition 11 (*Segregation Event and Events of Default*).

Notice to the Rating Agencies

The issue of any Series or Tranche of Covered Bond (including, for the avoidance of doubt, Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds and Amortisation Covered Bonds) in each case as specified in the applicable Final Terms shall be subject to prior notice to the Rating Agencies.

Listing and admission to trading

Application has been made for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Covered Bonds to be issued on the basis that (i) they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer or (ii) they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system.

Issue Ratings

Each Series or Tranche of Covered Bonds may or may not be assigned a rating by one or more Rating Agencies. Each Series or Tranche of Covered Bonds, if rated, is expected to be assigned the following ratings on the relevant Issue Date unless otherwise stated in the applicable Final Terms:

Moody's	Fitch	DBRS
A2	BBB	A (high) UR with Negative Implication

The issuance of any Series or Tranche of Covered Bonds (including any unrated Covered Bonds) shall be subject to prior notice to the Rating Agencies.

Governing Law

The Covered Bonds and the related Programme Documents will be governed by Italian law, except for the Swap Agreements, the Deed of Charge and the English Account Bank Agreement which will be governed by English law.

SEGREGATION EVENTS, ISSUER EVENTS OF DEFAULT AND GUARANTOR EVENTS OF DEFAULT

Segregation Events

A Segregation Event will occur upon the notification by the relevant Test Calculation Agent that:

(i) a breach of one of the Mandatory Tests on the relevant Quarterly Test Calculation Date; and/or

(ii) prior to the delivery of a Guarantee Enforcement Notice, a breach of the Asset Coverage Test on the relevant Test Calculation Date,

has not been remedied within the applicable Test Grace Period.

Upon the occurrence of a Segregation Event, the Representative of the Bondholders will serve notice (the "**Breach of Tests Notice**") on the Issuer and the Guarantor that a Segregation Event has occurred.

In such case:

(a) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(b) there shall be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations);

(c) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and

(d) payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

If the relevant Mandatory Tests and Asset Coverage Test is/are met within the Test Remedy Period, the Representative of the Bondholders will promptly deliver to the Issuer, the Guarantor and the Asset Monitor a notice informing such parties that the Breach of Tests Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

For further details, see section "*Description of the Programme Documents - Cover Pool Management Agreement*".

Issuer Events of Default

An Issuer Event of Default will occur if:

(i) *Non-payment (also as a result of claw-back)*: the Issuer fails to pay any amount of interest and/or principal due and payable on any Series or Tranche of Covered Bonds and such breach is not remedied within 15 calendar days, in case of amounts of interest, or 7 calendar days (other than in case of non-payment as at the Maturity Date), in case of amounts of principal, as the case may be;

(ii) *Breach of obligation (other than non-payment)*: a material breach by the Issuer of any obligation under the Programme Documents occurs and such breach is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Issuer; or

(iii) *Insolvency*: an Insolvency Event occurs in respect of the Issuer;

(iv) *Article 74 Event*: a resolution pursuant to Article 74 of the Consolidated Banking Act is issued in respect of the Issuer;

(v) *Cessation of business*: a Cessation of Business occurs in respect of the Issuer; or

(vi) *Breach of Tests*: following the delivery of a Breach of Tests Notice, one of the relevant Mandatory Tests and Asset Coverage Test is/are not met on, or prior to, the Test Calculation Date falling at the end of the Test Remedy Period unless a resolution of the Bondholders is passed resolving to extend the Test Remedy Period.

If any of the events set out in points (i), (iii) - to the extent that it is an Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, - (iv) or

(vi) above occurs and is continuing, then the Representative of the Bondholders shall serve to the Issuer and the Guarantor a notice to demand payments under the Guarantee (a "**Guarantee Enforcement Notice**"), specifying in case of the Issuer Event of Default referred to under item (iv) above, that the Issuer Event of Default may be temporary and the relevant Guarantee Enforcement Notice may be revoked accordingly.

Upon the service of a Guarantee Enforcement Notice:

(a) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(b) there shall be no further payments to the Subordinated Lender under any relevant Term Loan;

(c) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan;

(d) *Guarantee*: (i) interest and principal falling due on the Covered Bonds will be payable by the Guarantor at the time and in the manner provided under the Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds, subject to and in accordance with the terms of the Guarantee and the Guarantee Priority of Payments; then (ii) the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall be entitled to request from the Issuer an amount up to the Guaranteed Amounts and any sum so received or recovered from the Issuer will be used to make payments in accordance with the Guarantee;

(e) *Pass Through Series*: to the extent that the Guarantor does not have sufficient funds to pay the Final Redemption Amount on a Series of Covered Bonds (also taking into account amounts referred under letter (ii) of paragraph (b) above (if any)), such Series shall become a Pass Through Series in accordance with Condition 8(b);

(f) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement,

provided that, in case of the Issuer Event of Default determined by a resolution issued in respect of the Issuer pursuant to article 74 of the Consolidated Banking Act (referred to under item (iv) (Article 74 Event) above) (the "**Article 74 Event**"), the effects listed in items (a) (*Application of the Segregation Event provisions*), (b) (*Guarantee*) and (d) (*Disposal of Assets*) above will only apply for as long as the suspension of payments pursuant to Article 74 of the Consolidated Banking Act will be in force and effect (the "**Suspension Period**"). Accordingly (A) the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds during the Suspension Period and (B) at the end of the Suspension Period, the Issuer shall be again responsible for meeting the payment obligations under the Covered Bonds).

For the avoidance of doubt (i) in case of delivery of a Guarantee Enforcement Notice further to a non- payment of interest on a Series of Covered Bonds the relevant Series becomes a Pass-Though Series on the relevant Maturity Date if and only to the extent that, on the Extension Determination Date, the Guarantor does not have sufficient funds to redeem the Final Redemption Amount of such Series and (ii) in case of delivery of a Guarantee Enforcement Notice further to an Insolvency Event of the Issuer - consisting in a procedure of *liquidazione coatta amministrativa* - or further to an Article 74 Event, if the Guarantor does not have sufficient funds pay the Final Redemption Amount due on a Series of Covered Bond on the relevant Maturity Date, such Series becomes a Pass-Though Series on such Maturity Date.

If any of the events set out in points (ii), (iii) other than in case of Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, (v) or (vi) above occurs and is continuing, then the Representative of the Bondholders shall serve a notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Rating Agencies, the Guarantor Calculation Agent, the Swap Counterparties, the Post-Issuer Default Test Calculation Agent and the Rating Agencies (an "**Issuer Default Notice**").

Upon the service of an Issuer Default Notice the provisions governing the Segregation Event from item (a) to (d) shall apply.

Please also see Condition 11.2 (*Issuer Events of Default*).

Guarantor Event of Default

Following the occurrence of an Issuer Event of Default and delivery of the relevant Guarantee Enforcement Notice (to the extent not revoked), a Guarantor Event of Default will occur if:

(i) *Non-payment*: the Guarantor fails to pay any interest and/or principal due and payable under the Guarantee and such breach is not remedied within the next following 7 Business Days; or

(ii) *Insolvency*: an Insolvency Event occurs in respect of the Guarantor; or

(iii) *Breach of other obligation*: a material breach of any obligation under the Programme Documents by the Guarantor occurs (other than payment obligations referred to in item (i) (*Non-payment*) above) which is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Guarantor.

If any of the events set out in points from (i) to (iii) above (each, a "**Guarantor Event of Default**") occurs and is continuing then the Representative of the Bondholders shall serve a Guarantor Default Notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Guarantor Calculation Agent, the Italian Account Bank, the English Account Bank, the Back-up English Account Bank, the Principal Paying Agent and the Guarantor Corporate Servicer and the Rating Agencies, unless the Representative of the Bondholders, having exercised its discretion, resolves otherwise or a resolution of the Bondholders is passed resolving otherwise.

Upon the delivery of a Guarantor Default Notice:

(i) *Acceleration of Covered Bonds*: the Covered Bonds shall become immediately due and payable at their Early Termination Amount together, if appropriate, with any accrued interest and will rank *pari passu* among themselves in accordance with the Post-enforcement Priority of Payments;

(ii) *Guarantee*: subject to and in accordance with the terms of the Guarantee, the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor for an amount equal to the Early Termination Amount, together with accrued interest and any other amount due

under the Covered Bonds (other than additional amounts payable as gross up) in accordance with the Priority of Payments;

(iii) *Disposal of Assets*: the Guarantor shall immediately sell all Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement; and

(iv) *Enforcement*: the Representative of the Bondholders may, at its discretion and without further notice, take such steps and/or institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce such payments, but it shall not be bound to take any such proceedings or steps unless requested or authorised by a resolution of the Bondholders.

Please also see Condition 11.3 (*Guarantor Events of Default*).

Breach of Mandatory Tests and /or Asset Coverage Test

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller and/or any Additional Seller(s), (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report or (iii) take any other action deemed appropriate to allow the relevant Tests to be cured on the next Test Calculation Date.

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice.

	If, after the delivery of a Breach of Test Notice, the relevant breach of the Tests is not remedied, within the Test Remedy Period, in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Guarantee Enforcement Notice.
Breach of the Amortisation Test	If, after the delivery of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), a breach of the Amortisation Test occurs: • *Pass Through Series*: any and all Series of Covered Bonds will become immediately Pass Through Series in accordance with Condition 8(b); and • *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement.
15% Limit	The aggregate amount of Top-Up Assets included in the Cover Pool may not be in excess of 15 per cent. of the aggregate outstanding principal amount of the Cover Pool, other than as otherwise permitted by law or applicable regulation.
THE TESTS	For an overview of the Tests, see paragraphs "*Mandatory Tests*" and "*Asset Coverage Test*", "*Amortisation Test*" of section "*Structure Overview*" below. For a detailed description of the Tests, see paragraph "*Tests*" of section "*Credit Structure*" below.

THE GUARANTOR AND THE GUARANTEE

Guarantee	Payments of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor to make payments in respect of such Guaranteed Amounts when Due for Payment are subject to the conditions that an Issuer Event of Default has occurred, and a Guarantee Enforcement Notice has been served on the Issuer and on the Guarantor. The obligations of the Guarantor will accelerate once a Guarantor Default Notice has been delivered to the Guarantor. The obligations of the Guarantor under the Guarantee constitute direct, unconditional and

unsubordinated obligations collateralised by the Cover Pool and recourse against the Guarantor is limited to such assets.

For further details, see "*Description of the Programme Documents - Guarantee*".

Cover Pool

The Guarantee will be collateralised by the Cover Pool constituted by (i) the Portfolio comprised of (a) Mortgage Loans and the related collateral and (b) Asset Backed Securities, assigned to the Guarantor by the Principal Seller and/or the Additional Seller(s) in accordance with the terms of the Master Assets Purchase Agreement (ii) any proceeds arising from the Swap Agreements and (iii) any other Eligible Assets and Top-Up Assets held by the Guarantor with respect to the Covered Bonds and the proceeds thereof which will, *inter alia*, comprise the funds generated by the Portfolio, the other Eligible Assets and the Top-Up Assets including, without limitation, funds generated by the sale of assets from the Cover Pool and funds paid in the context of a liquidation of the Issuer.

The Asset Backed Securities to be comprised in the Cover Pool will comply with the relevant eligibility criteria set out under the ECB Guidelines.

For further details, see "*Description of the Cover Pool*".

Limited recourse

The obligations of the Guarantor to the Bondholders and, in general, to the Seller and/or any Additional Seller(s) and other creditors will be limited recourse obligations of the Guarantor. The Bondholders, the Seller and /or any Additional Seller(s) and such other creditors will have a claim against the Guarantor only to the extent of the Guarantor Available Funds subject to the relevant Priorities of Payments, in each case subject to, and as provided for in, the Guarantee and the other Programme Documents.

Term Loans

Under the terms of the Subordinated Loan Agreements, the Principal Seller and the Additional Seller(s), in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan.

The Programme Term Loan will be granted for the purpose of, *inter alia* (i) funding the purchase price of the Eligible Assets and Top Up Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the

Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) repayment of any other Floating Interest Term Loan or Fixed Interest Term Loan as necessary.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia* (i) funding the purchase price of the Eligible Assets and Top-Up Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

Amounts owed to each Subordinated Lender by the Guarantor under the Subordinated Loan Agreements will be subordinated to amounts owed by the Guarantor under the Guarantee.

For further details, see "*Description of the Programme Documents - Subordinated Loan Agreements*".

Excess Assets and support for further issues

Any Eligible Assets and Top-Up Assets forming part of the Cover Pool which are in excess of the value of the Eligible Assets and Top-Up Assets required to satisfy the Tests may be (i) purchased by the Seller in accordance with the provisions of the Cover Pool Management Agreement and the Master Assets Purchase Agreement or (ii) retained in the Cover Pool, also to be applied to support the issue of new Series or Tranche of Covered Bonds or ensure compliance with the Tests, provided that in each case any such disposal or retention shall occur in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310 and no disposal under item (i) above may occur if it would cause the Tests to be breached.

For further details, see "*Description of the Programme Documents - The Cover Pool Management Agreement*".

Segregation of Guarantor's rights and collateral

The Covered Bonds benefit from the provisions of Article 7-*bis* of Law 130, pursuant to which the Cover Pool is segregated by operation of law from the Guarantor's other assets.

In accordance with Article 7-*bis* of Law 130, prior to and following a winding up of the Guarantor and an Issuer Event of Default or Guarantor Event of Default causing the Guarantee to be called, proceeds of the Cover Pool paid to the Guarantor and amounts standing to the credit of the accounts opened in the name of the Guarantor will be exclusively available for the purpose of satisfying the obligations owed to the Bondholders, to the Swap Providers under the Swap Agreements and to any other creditors exclusively in satisfaction of the transaction costs of the Programme.

The Cover Pool may not be seized or attached in any form by creditors of the Guarantor other than the entities referred to above, until full discharge by the Guarantor of its payment obligations under the Guarantee or cancellation thereof.

Cross-collateralisation

All Eligible Assets and Top-Up Assets transferred from the Seller(s) to the Guarantor from time to time or otherwise acquired by the Guarantor and the proceeds thereof, any proceeds arising from the Swap Agreements and any funds generated by the sale of assets included in the Cover Pool form the collateral supporting the Guarantee in respect of all Series or Tranche of Covered Bonds.

Claims under Covered Bonds

The Representative of the Bondholders, for and on behalf of the Bondholders, may submit a claim to the Guarantor and make a demand under the Guarantee in case of an Issuer Event of Default or Guarantor Event of Default.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice

After the service of a Guarantee Enforcement Notice, the Guarantor (or the Principal Servicer on behalf of the Guarantor) shall use its best effort to sell the Eligible Assets and/or Top-Up Assets in the Cover Pool (any such Eligible Assets and Top-Up Assets, the "**Selected Assets**") in accordance with the provisions of the Cover Pool Management Agreement.

The Guarantor shall use its best effort to sell the Selected Assets, on a semi-annual basis, at least within (provided that the Guarantor may commence before) the date falling (i) 30 calendar days after the service of a Guarantee Enforcement Notice following a non-payment referred under Condition 11.2(a) or (ii) in any other case of Guarantee Enforcement Notice delivered other than for a non payment on a Series of Covered Bonds, six months prior to the Maturity Date of the Earliest Maturing Covered Bonds (the "**Earliest Maturing Sale Date**") <u>and up to</u> the earlier of (a) the date on which a breach of the Amortisation Test occurred, (b) the date on which the Pass Through

Series of Covered Bonds have been redeemed in full and (c) the date on which a Guarantor Default Notice is delivered.

The Guarantor shall use its best effort to sell the Selected Assets, in accordance with the provisions of the Cover Pool Management Agreement, in an amount as close as possible to the amount necessary (i) to redeem in full (a) the Pass Through Series and/or (b) only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds, net of any amounts standing to the credit of the Programme Accounts, provided that, prior to and following the sale of such Selected Assets, the Amortisation Test is complied with.

Any such sale shall be subject to the right of pre-emption in favour of the Issuer (other than in case of *liquidazione coatta amministrativa* of the Issuer), as Principal Seller, or any Additional Seller(s) in respect of such Selected Assets.

The proceeds from any such sale will be credited (net of the cost connected to the sale of such Selected Assets) to the Main Programme Account and applied as set out in the Guarantee Priority of Payments to (i) pay interest on the relevant Series of Covered Bonds and (ii) redeem any relevant Pass Through Series.

The Selected Assets to be sold will be selected from the Cover Pool on a random basis by the Principal Servicer on behalf of the Guarantor.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantee Enforcement Notice and the breach of the Amortisation Test

Following the delivery of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), in case a Test Performance Report specifies that a breach of the Amortisation Test occurred, the Guarantor shall use its best effort to sell all Eligible Assets and/or Top-Up Assets included in the Cover Pool, on a semi-annual basis starting from the date falling 30 calendar days after the date of the relevant Test Performance Report.

The Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts.

Disposal of the Assets included in the Cover Pool following the delivery of a Guarantor Default Notice	After the service of a Guarantor Default Notice, the Guarantor shall immediately sell all Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the procedures described in the Cover Pool Management Agreement, subject to the right of pre-emption in favour of the Issuer (other than in case of *liquidazione coatta amministrativa* of the Issuer), as Principal Seller, or the Additional Seller provided that the Guarantor will instruct the Portfolio Manager to use all reasonable endeavours to procure that such sale is carried out as quickly as reasonably practicable taking into account the market conditions at that time. For further details, see Condition 11.3 (*Guarantor Events of Default*).

SALE AND DISTRIBUTION

Distribution	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non syndicated basis, subject to the restrictions set forth in the Programme Agreement.
Purchase of Covered Bonds by the Issuer	The Issuer or any such subsidiary may at any time purchase any Covered Bonds in the open market or otherwise and at any price.
Certain restrictions	Each Series or Tranche of Covered Bonds issued will be denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply and will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. There are restrictions on the offer, sale and transfer of Covered Bonds in the United States, the European Economic Area (including the Republic of Italy), the United Kingdom and Japan. Other restrictions may apply in connection with the offering and sale of a particular Series or Tranche of Covered Bonds. For further details, see section "*Subscription and Sale*" below.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which have been previously published, or are published simultaneously with this Prospectus or filed with the CSSF, together, in each case, with the audit reports (if any) thereon:

(a) the press release issued by the Issuer on 18 December 2017 and entitled "*Shareholders' meeting 18 December 2017*" announging the (i) approval of certain amendments to the by-laws; (ii) appointment of board of directors and board of statutory auditors (subject to the issue of the assessment letter by the Authorities of Vigilance) (the "**18 December 2017 Press Release**");

(b) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2015 and 31 December 2016 including the relevant auditors' reports;

(c) the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2016 and 30 June 2017 including the relevant auditors' review report;

(d) the consolidated unaudited interim financial report of BMPS as at 30 September 2016 and 30 September 2017;

(e) the financial statements of the Guarantor as at and for the years ended 31 December 2015 and 31 December 2016;

(f) the auditors' report for the Guarantor for financial statements as at and for the years ended 31 December 2015 and 31 December 2016.

Such documents shall be incorporated by reference into, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference into this Prospectus may be obtained from the registered office of the Issuer or, for the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2015 and 31 December 2016, the auditor's report for the Issuer for the financial year ended 31 December 2015 and 31 December 2016, the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2016 and 30 June 2017 and the consolidated unaudited interim financial report of the Issuer as at 30 September 2016 and 30 September 2017, on the Issuer's website (http://www.mps.it). In addition, copy of the 18 December 2017 Press Release may be obtained on the Issuer's website (https://www.gruppomps.it/en/media-and-news/press-releases/shareholders-meeting-181217.html). This Prospectus and the documents incorporated by reference will also be available on the Luxembourg Stock Exchange's web site (http://www.bourse.lu).

The Issuer declares that only the English language versions, which represent a direct translation from the Italian language documents (including the audit reports), are incorporated by reference in this Prospectus.

Cross-reference List

The following table shows where the information incorporated by reference into this Prospectus, including the information required under Annex IX of Commission Regulation (EC) No. 809/2004, can be found in the above-mentioned financial statements incorporated by reference into this Prospectus.

18 December 2017 Press Release

Press Release	**Page number(s)**
Entire document	All pages

Annual and Semiannual consolidated financial statements of the Issuer and the Guarantor

Commission Regulation (EC) No. 809/2004, Annex IX, paragraph 11.1.

Audited annual financial statements of the Issuer	**2015**	**2016**
Balance Sheet	Pages 97-98	Pages 99 - 100
Income Statement	Pages 99-100	Pages 101 – 102
Cash flow statement	Pages 106-107	Pages 108- 109
Notes to Financial Statements	Pages 109-477	Pages 111 - 465
Audit report	Pages 479-482	Pages 469 - 472

Unaudited consolidated half-yearly financial report of the Issuer	**30 June 2016**	**30 June 2017**
Balance Sheet	Pages 15-16	Pages 21- 22
Income Statement	Page 17	Page 23
Statement of comprehensive income	Page 18	Page 24
Statement of changes in equity	Pages 19 – 22	Pages 25 - 28
Cash flow statement	Pages 23-24	Pages 29 - 30
Explanatory Notes	Pages 25-92	Pages 31 - 107
Auditors' review report	Page 95	Pages 110 - 112

Unaudited consolidated interim financial report of the Issuer	**30 September 2016**	**30 September 2017**
Consolidated Balance Sheet	Pages 15-16	Pages 23- 24
Consolidated Income Statement	Page 17	Page 25
Consolidated Statement of comprehensive income	Page 18	Page 26
Consolidated Statement of changes in equity	Pages 19 - 22	Pages 27 – 30
Consolidated Cash flow statement	Pages 23 - 24	Pages 31 – 32
Consolidated Reports on Operations	Pages 3 - 24	Pages 3 – 20
Notes to the interim reports of operations	Pages 25 - 102	Pages 33 – 119

Independent Auditor's Report	Pages 104 - 105	Pages 121 - 123

Financial statements of the Guarantor	**2015**	**2016**
Balance Sheet	Page 10	Page 11
Income Statement	Page 10	Page 11
Cash flow statement	Pages 13-14	Pages 14 - 15
Statements of changes in the Shareholders' Equity accounts	Page 12	Page 13
Notes to the Financial Statements	Pages 15-75	Page 16 - 82
Audit report	Separate document	Separate document

The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Prospectus Regulation.

TERMS AND CONDITIONS OF THE COVERED BONDS

*The following is the text of the terms and conditions of the Covered Bonds (the "**Conditions**" and, each of them, a "**Condition**"). In these Conditions, references to the "holder" of Covered Bonds and to the "Bondholders" are to the ultimate owners of the Covered Bonds, bearer and dematerialised and evidenced by book entries with Monte Titoli in accordance with the provisions of (i) Article 83-bis of the Financial Laws Consolidation Act and (ii) the joint regulation of CONSOB and the Bank of Italy dated 22 February 2008 and published in the Official Gazette No. 54 of 4 March 2008, as subsequently amended and supplemented from time to time.*

The Bondholders are deemed to have notice of and are bound by, and shall have the benefit of, inter alia, the terms of the Rules of the Organisation of the Bondholders attached to, and forming part of, these Conditions. In addition, the applicable Final Terms in relation to any Series or Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, complete the Conditions for the purpose of such Series or Tranche.

1. INTRODUCTION

(a) *Programme*: Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**") has established a covered bond programme (the "**Programme**") for the issuance of up to € 20,000,000,000 in aggregate principal amount of covered bonds (*Obbligazioni Bancarie Garantite*) (the "**Covered Bonds**") guaranteed by MPS Covered Bond S.r.l. (the "**Guarantor**"). Covered Bonds are issued pursuant to Article 7-*bis* of Law No. 130 of 30 April 1999 (as amended, the "**Law 130**"), Ministerial Decree No. 310 of the Ministry for the Economy and Finance of 14 December 2006 (the "**Decree No. 310**") and the regulation of the Bank of Italy of 17 May 2007 (the "**Bank of Italy Regulations**").

(b) *Final Terms*: Covered Bonds are issued in series or tranches (each, respectively, a "**Series**" or "**Tranche**"). Each Series or Tranche is the subject of final terms (the "**Final Terms**") which complete these Conditions. The terms and conditions applicable to any particular Series or Tranche of Covered Bonds are these Conditions as completed by the relevant Final Terms.

(c) *Guarantee*: Each Series or Tranche of Covered Bonds is the subject of a guarantee dated 18 June 2010 (the "**Guarantee**") entered into between the Guarantor and the Representative of the Bondholders for the purpose of guaranteeing the payments due from the Issuer in respect of the Covered Bonds of all Series or Tranches issued under the Programme. The Guarantee will be backed by the Cover Pool (as defined below). The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments.

(d) *Programme Agreement and Subscription Agreements*: The Issuer and the Dealer(s) have agreed that any Covered Bonds of any Series or Tranche which may from time to time be agreed between the Issuer and the Dealer(s) to be issued by the Issuer and subscribed for by such Dealer(s) shall be issued and subscribed for on the basis of, and in reliance upon, the representations,

warranties, undertakings and indemnities made or given or provided to be made or given pursuant to the terms of a programme agreement (the "**Programme Agreement**") entered into, on 18 June 2010, between the Issuer, the Guarantor, the Representative of the Bondholders and the Dealer(s). In addition, in relation to each Series or Tranche of Covered Bonds the Issuer, and the relevant Dealer(s) will enter into a subscription agreement on or about the date of the relevant Final Terms (the "**Subscription Agreement**"). According to the terms of the Programme Agreement, the Issuer has the faculty to nominate any institution as a new Dealer in respect of the Programme or nominate any institution as a new Dealer only in relation to a particular Series or Tranche of Covered Bonds upon satisfaction of certain conditions set out in the Programme Agreement.

(e) *Monte Titoli Mandate Agreement*: In a mandate agreement with Monte Titoli S.p.A. ("**Monte Titoli**") (the "**Monte Titoli Mandate Agreement**"), Monte Titoli has agreed to provide the Issuer with certain depository and administration services in relation to the Covered Bonds issued in bearer and dematerialised form.

(f) *Master Definitions Agreement*: In a master definitions agreement (the "**Master Definitions Agreement**") between, *inter alios*, the Issuer, the Guarantor, the Representative of the Bondholders and the Other Guarantor Creditors (as defined below), the definitions of certain terms used in the Programme Documents have been agreed.

(g) *The Covered Bonds*: Except where stated otherwise, all subsequent references in these Conditions to "**Covered Bonds**" are to the Covered Bonds which are the subject of the relevant Final Terms, but all references to "**each Series or Tranche of Covered Bonds**" are to (i) the Covered Bonds which are the subject of the relevant Final Terms and (ii) each other Series or Tranche of Covered Bonds issued under the Programme which remains outstanding from time to time.

(h) *Rules of the Organisation of the Bondholders*: The rules of the organisation of bondholders (the "**Rules**") are attached to, and form an integral part of, these Conditions. References in these Conditions to the Rules include such rules as from time to time modified in accordance with the provisions contained therein and any agreement or other document expressed to be supplemental thereto.

(i) *Summaries*: Certain provisions of these Conditions are summaries of the Programme Documents and are subject to their detailed provisions. Bondholders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Programme Documents applicable to them. Copies of the Programme Documents are available for inspection by Bondholders during normal business hours at the registered office of the Representative of the Bondholders from time to time and, where applicable, at the Specified Office(s) of the Paying Agents.

2. INTERPRETATION

(a) *Definitions:*

In these Conditions the following expressions have the following meanings:

"**15% Limit**" means the limit of 15 per cent. (of the aggregate outstanding principal amount of the Cover Pool) of Top-Up Assets that may be included in the Cover Pool unless otherwise permitted by law or applicable regulation.

"**Accrual Yield**" has the meaning given in the relevant Final Terms.

"**Accrued Interest**" means, as of any Valuation Date and in relation to any Eligible Asset to be assigned as at that date, the portion of the Interest Instalment accrued, but not yet due, as at such date.

"**Additional Seller**" means any entity being part of the Montepaschi Group that may transfer one or more New Portfolios to the Guarantor following the accession to the Programme pursuant to the Programme Documents.

"**Additional Servicer**" means each Additional Seller which has been appointed as servicer in relation to the Assets transferred to the Guarantor, following the accession to the Programme and to the Master Servicing Agreement, pursuant to the Programme Documents.

"**Additional Subordinated Lender**" means each Additional Seller in its capacity as additional subordinated lender, pursuant to the relevant Subordinated Loan Agreement.

"**Adjustment Purchase Price**" means the purchase price adjusted on the basis of calculations carried out pursuant to clause 7 of the Master Assets Purchase Agreement.

"**Amortisation Test**" means the Test as indicated in clause 4 of the Cover Pool Management Agreement.

"**Assets**" means, collectively, the Eligible Assets and the Top-Up Assets.

"**Asset Backed Securities**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 the asset backed securities for which a risk weight not exceeding 20 per cent. is applicable in accordance with the Bank of Italy's prudential regulations for banks - standardised approach - provided that at least 95 per cent. of the relevant securitised assets are:

(i) Residential Mortgage Loans;

(ii) Commercial Mortgage Loans;

(iii) Public Entity Receivables or Public Entity Securities,

and, in any case, complying with the requirements of the ECB Guidelines.

"**Asset Coverage Test**" has the meaning as indicated pursuant to clause 3 of the Cover Pool Management Agreement.

"**Asset Monitor**" means Deloitte & Touche S.p.A. in its capacity as asset monitor pursuant to the Asset Monitor Engagement Letter and the Asset Monitor Agreement.

"**Asset Monitor Agreement**" means the agreement entered on 18 June 2010 between, *inter alios*, the Asset Monitor, the Issuer and the Guarantor, as amended from time to time.

"**Asset Monitor Engagement Letter**" means the engagement letter entered into, on 18 June 2010, between the Issuer and the Asset Monitor in order to perform specific agreed upon procedures concerning, *inter alia*, (i) the fulfillment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iii) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

"**Asset Swap Agreement**" means any asset swap agreement which may be entered into between an Asset Swap Provider and the Guarantor.

"**Asset Swap Provider**" means any entity acting as swap counterparty under an Asset Swap Agreement.

"**Back-Up Account Bank**" means any of the Italian Back-Up Account Bank and the English Back-Up Account Bank.

"**Back-Up Servicer**" means Securitisation Services S.p.A. or any other entity that will be appointed in such capacity by the Guarantor, together with the Representative of the Bondholders, pursuant to clause 10.1 of the Master Servicing Agreement.

"**Bank of Italy Regulations**" means the regulations No. 285 issued by the Bank of Italy on 17 December 2013, as supplemented from time to time.

"**Bankruptcy Law**" means Royal Decree No. 267 of 16 March 1942, as subsequently amended and supplemented.

"**Base Interest**" has the meaning given to the term "*Interesse Base*" pursuant to the Subordinated Loan Agreement.

"**English Back-Up Account Bank**" means The Bank of New York Mellon S.A.\N.V., London Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**BMPS**" means Banca Monte dei Paschi di Siena S.p.A..

"**Bondholders**" means the holders from time to time of the Covered Bonds included in each Series or Tranche of Covered Bonds.

"**Breach of Tests Cure Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement.

"**Breach of Test Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement following the infringement of one of the Tests prior to an Issuer Event of Default and/or a Guarantor Event of Default.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks are generally open for business in Milan, Luxembourg and London and on which the Trans-European Automated Real Time Gross Settlement Express Transfer System (TARGET 2) (or any successor thereto) is open.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"**Calculation Amount**" is the amount used for the calculation of interest amounts and redemption amounts for the relevant covered bonds as specified in the relevant Final Terms.

"**Calculation Period**" means the period from one Guarantor Calculation Date (included) to the next Guarantor Calculation Date (excluded).

"**Call Option**" has the meaning given in the relevant Final Terms.

"**Cash Allocation, Management and Payments Agreement**" means the cash allocation, management and payments agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Representative of the Bondholders, the Paying Agent(s), the Italian Account Bank and the English Account Bank, as amended from time to time.

"**Cash Manager**" means BMPS acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cash Manager Report**" means the report produced by the Cash Manager pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cessation of Business**" means, with respect to the Issuer, the loss of the banking licence.

"**Civil Code**" means the Italian civil code, enacted by Royal Decree No. 262 of 16 March 1942, as subsequently amended and supplemented.

"**Clearstream**" means Clearstream Banking société anonyme, Luxembourg with offices at 42 avenue JF Kennedy, L-1855 Luxembourg.

"**Collateral Account(s)**" means any other cash and/or securities account (different from the Guarantor's Accounts) opened by the Guarantor pursuant to clause 7.4 of the Intercreditor Agreement.

"**Collateral Security**" means any security (including any loan mortgage insurance and excluding Mortgages) granted to the Principal Seller (or any Additional Seller(s), if any) by any Debtor in order to guarantee the payment and/or redemption of any amounts due under the relevant Mortgages Loan Agreement.

"**Collection Date**" means (i) prior to the service of a Guarantor Default Notice, the first calendar day of each month; and (ii) following the service of a Guarantor Default Notice, each date determined by the Representative of the Bondholders as such.

"**Collection Period**" means the Monthly Collection Period and/or the Quarterly Collection Period, as applicable.

"**Collections**" means all amounts received or recovered by the Servicer in respect of the Assets included in the Cover Pool.

"**Commercial Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 a commercial mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage

loans secured by the same property does not exceed 60 per cent. and for which the hardening period with respect to the perfection of the relevant mortgage has elapsed.

"**CONSOB**" means Commissione Nazionale per le Società e la Borsa.

"**Consolidated Banking Act**" means Legislative Decree No. 385 of 1 September 1993, as subsequently amended and supplemented.

"**Corporate Services Agreement**" means the corporate services agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Guarantor Corporate Servicer.

"**Corresponding Interest**" has the meaning given to the term "Interesse Collegato" in the Subordinated Loan Agreement.

"**Corresponding Series or Tranche of Covered Bonds**" means, in respect of a Fixed Interest Term Loan or a Floating Interest Term Loan, the Series or Tranche of Covered Bonds issued or to be issued pursuant to the Programme and notified by the Subordinated Lender to the Guarantor in the relevant Term Loan Proposal.

"**Cover Pool**" means the cover pool constituted by (i) Receivables; (ii) any other Eligible Assets; and (iii) any Top-Up Assets.

"**Cover Pool Management Agreement**" means the Cover Pool management agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Principal Seller, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Guarantor Calculation Agent and the Representative of the Bondholders, as amended from time to time.

"**Covered Bond Swap Agreement**" means each International Swaps and Derivatives Association ("**ISDA**") 1992 Master Agreement (Multicurrency Cross Border) (together with the Schedule and credit support annex thereto and the confirmations evidencing interest rate swap transactions thereunder) entered into from time to time between the Guarantor and a Covered Bond Swap Provider, as amended from time to time.

"**Covered Bond Swap Provider**" means any entity acting as covered bond swap provider under a Covered Bond Swap Agreement to the Guarantor and "Covered Bond Swap Providers" means more than one of them.

"**Covered Bonds**" means the Covered Bonds (*Obbligazioni Bancarie Garantite*) of each Series or Tranche issued or to be issued by the Issuer in the context of the Programme.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in the Terms and Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

 (A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(vi) if "**30E/360**" or "Eurobond Basis" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**DBRS**" means DBRS Ratings Limited.

"**DBRS Equivalent Rating**" means the DBRS rating equivalent of any of the below ratings by Moody's, Fitch or S&P:

DBRS	**Moody's**	**S&P**	**Fitch**
AAA	Aaa	AAA	AAA
AA(high)	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA(low)	Aa3	AA-	AA-
A(high)	A1	A+	A+
A	A2	A	A
A(low)	A3	A-	A-
BBB(high)	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB(low)	Baa3	BBB-	BBB-
BB(high)	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB(low)	Ba3	BB-	BB-
B(high)	B1	B+	B+
B	B2	B	B
B(low)	B3	B-	B-
CCC(high)	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC(low)	Caa3	CCC-	CCC-
CC	Ca	CC	CC
C	C	D	D

"**DBRS Rating**" is any of the following:

- Public rating
- Private rating
- Internal assessment

(a) if a Fitch public rating, a Moody's public rating and an S&P public rating in respect of the Eligible Investment or the Eligible Institution (each, a "**Public Long Term Rating**") are all available at such date, the DBRS Rating will be the DBRS Equivalent Rating of such Public Long Term Rating remaining after disregarding the highest and lowest of such Public Long Term Ratings from such rating agencies (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below). For this purpose, if more than one Public Long Term Rating has the same highest DBRS Equivalent Rating or the same lowest DBRS Equivalent Rating, then in each case one of such Public Long Term Ratings shall be so disregarded;

(b) if the DBRS Rating cannot be determined under (a) above, but Public Long Term Ratings of the Eligible Investment by any two of Fitch, Moody's and S&P are available at such date, the DBRS Equivalent Rating of the lower such Public Long Term Rating (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below); and

(c) if the DBRS Rating cannot be determined under (a) and (b) above, but Public Long Term Ratings by any one of Fitch, Moody's and S&P are available at such date, then the DBRS Equivalent Rating will be such Public Long Term Rating (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below).

If at any time the DBRS Rating cannot be determined under subparagraphs (a) to (c) above, the DBRS Rating will be deemed to be of "C" at such time.

"**Dealers**" means The Royal Bank of Scotland plc (trading as NatWest Markets), Morgan Stanley & Co. International plc, MPS Capital Services Banca per l'Impresa S.p.A. and any other entity that will be appointed as such by the Issuer by means of the subscription of a letter under the terms or substantially under the terms provided in schedule 6 of the Programme Agreement.

"**Debtor**" means (i) with reference to the Mortgage Loans, any borrower and any other person, other than a Mortgagor, who entered into a Mortgage Loan Agreement as principal debtor or guarantor or who is liable for the payment or repayment of amounts due in respect of a Mortgage Loan, as a consequence, *inter alia*, of having granted any Collateral Security or having assumed the borrower's obligation under an accollo, or otherwise; and (ii) with reference to the Asset Backed Securities, the relevant Issuer.

"**Decree No. 213**" means Italian Legislative Decree number 213 of 24 June 1998, as amended and supplemented from time to time.

"**Decree No. 239**" means the Italian Legislative Decree number 239 of 1 April 1996, as subsequently amended and supplemented.

"**Decree No. 310**" means the ministerial decree No. 310 of 14 December 2006 issued by the Ministry of the Economy and Finance, as subsequently amended and supplemented.

"**Deed of Pledge**" means the Italian law deed of pledge entered on 18 June 2010.

"**Drawdown Date**" means the date indicated in each Term Loan Proposal on which a Term Loan is granted pursuant to the Subordinated Loan Agreement (or, in respect of any Additional Subordinated Lenders, pursuant to the relevant Subordinated Loan Agreement) during the Subordinated Loan Availability Period.

"**Due for Payment**" means the requirement for the Guarantor to pay any Guaranteed Amounts following the delivery of a Guarantee Enforcement Notice after the occurrence of certain Issuer Events of Default, such requirement arising: (i) prior to the occurrence of a Guarantor Event of Default, on the date on which the Guaranteed Amounts are due and payable in accordance with the Terms and Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds (being the relevant Maturity Date or Extended Maturity Date, as the case may be); and (ii) following the occurrence of a Guarantor Event of Default, the date on which the Guarantor Default Notice is served on the Guarantor.

"**Earliest Maturing Covered Bonds**" means, at any time, the Series or Tranche of Covered Bonds that has or have the earliest Maturity Date (if the relevant Series or Tranche of Covered Bonds is not subject to an Extended Maturity Date) or Extended Maturity Date (if the relevant Series or Tranche of Covered Bonds is subject to an Extended Maturity Date) as specified in the relevant Final Terms.

"**Early Redemption Amount (Tax)**" means, in respect of any Series of Covered Bonds, the principal amount of such Series or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms.

"**Early Termination Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series or Tranche or such other amount as may be specified in, or determined in accordance with, the Terms and Conditions or the relevant Final Terms.

"**ECB Guidelines**" means the Guideline of the European Central Bank of 20 September 2011 (ECB/2011/14), published on the Official Gazette of the European Union no. 331 of 14 December 2011, as amended by the Guideline of the European Central Bank on 26 November 2012 (ECB/2012/25) published on the Official Gazette of the European Union no. 348 on 18 December 2012, both relating to monetary policy instruments and procedures of the Eurosystem, and the decisions of the European Central Bank dated, respectively, 20 March 2013 (ECB/2013/6), on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, and 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/35), as subsequently amended and supplemented.

"**Eligible Assets**" means the following assets contemplated under article 2, sub-paragraph 1, of Decree No. 310:

(i) Residential Mortgage Loans;

(ii) Asset Backed Securities.

"**Eligible Institution**" means any credit institution incorporated under the laws of any state which is a member of the EEA or of the United States, whose short-term unsecured and unsubordinated debt obligations with respect to DBRS have a DBRS Rating or DBRS Equivalent Rating equal to the Minimum DBRS Rating, at least "F-1" by Fitch, and at least "P-1" by Moody's and whose long-term unsecured and unsubordinated debt obligations are rated at least "A" by Fitch and at least "P-1" by Moody's no long term Moody's rating, (provided that, if any of the above credit institutions is on rating watch negative, it shall be treated as one notch below its current Fitch rating) or any other rating level from time to time provided for in the Rating Agencies' criteria.

"**Eligible Investment**" means any investment denominated in Euro (unless a suitable hedging is in place) that has a maturity date falling, and which is redeemable at par together with accrued unpaid interest, no later than the next following Eligible Investment Liquidation Date and that is an obligation of a company incorporated in, or a sovereign issuer of, a Qualifying Country (as defined below), provided that in case of downgrade below such rating level the securities will be sold, if it could be achieved without a loss, otherwise the securities shall be allowed to mature, and is one or more of the following obligations or securities (including, without limitation, any obligations or securities for which the Cash Manager or the Representative of the Bondholders or an affiliate of any of them provides services):

(i) direct obligations of any agency or instrumentality of a sovereign of a Qualifying Country, the obligations of which agency or instrumentality are unconditionally and irrevocably guaranteed in full by a Qualifying Country, a "Qualifying Country" being a country rated at the time of such investment or contractual commitment providing for such investment in such obligations, at least "AA-" or "F1+" by Fitch "Aa3" and "P-1" by Moody's and AA (low) or R-1 (middle) by DBRS;

(ii) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company (including, without limitation, the English Account Bank and the Italian Account Bank) incorporated under the laws of a Qualifying Country with, in each case, a maturity of no more than 30 days (and in any case falling prior to the immediately following Eligible Investment Liquidation Date) and subject to supervision and examination by governmental banking authorities, provided that the commercial paper and/or the debt obligations of such depositary institution or trust company (or, in the case of the principal depositary institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of at least "A" and "F1" by Fitch, "A2" and "P-1" by Moody's and with respect to DBRS rated according to the "DBRS A" table;

(iii) any security rated at least (A) "P-1" by Moody's, "A" and "F1" by Fitch and with respect to DBRS according to the DBRS A, if the relevant maturity is up to 30 calendar days, (B) "P-1" by Moody's "AA-" or "F1+" by Fitch and with respect to DBRS according DBRS B table, if the relevant maturity is up to 365 calendar days provided that, in all cases, the maximum aggregate total exposures in general to classes of assets with certain ratings by the Ratings

Agencies will, if requested by any Rating Agencies, be limited to the maximum percentages specified by any such Rating Agencies;

(iv) any Top-Up Asset and/or Public Entity Securities and/or Asset Backed Securities, provided that, in all cases, such investments shall from time to time comply with Rating Agencies' criteria;

(v) subject to the rating of the Covered Bonds not being affected, unleveraged repurchase obligations with respect to: (1) commercial paper or other short-term obligations having, at the time of such investment, a credit rating of at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and a maturity of not more than 180 days from their date of issuance and with respect to DBRS, a credit rating of the counterparty according to the DBRS A and DBRS B tables; (2) off-shore money market funds rated, at all times, "AAA/V-1" by Fitch and "Aaa/MR1+" by Moody's and with respect to DBRS, a credit rating of the counterparty according to the tables DBRS A and DBRS B; and (3) any other investment similar to those described in paragraphs (1) and (2) above: (a) provided that any such other investment will not affect the rating of the Covered Bonds; and (b) which has the same rating as the investment described in paragraphs (1) and (2) above, provided that, (x) in any event, none of the Eligible Investments set out above may consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives nor may any amount available to the Guarantor in the context of the Programme otherwise be invested in any such instruments at any time and (y) title to the securities underlying such repurchase transactions (in the period between the execution of the relevant repurchase transactions and their respective maturity) effectively passes (as confirmed by a non qualified legal opinion by a primary standing law firm) to the Issuer and the obligations of the relevant counterparty are not related to the performance of the underlying securities.

DBRS A Table:

Eligible Investments with a maturity up to 30 days: CB Rating	Eligible Investment Rating
AAA	A or R-1(middle)
AA (high)	A or R-1(middle)
AA	A or R-1(middle)
AA (low)	A or R-1(middle)
A (high)	BBB (high) or R-2 (high)
A	BBB or R-2 (middle)
A (low)	BBB (low) or R-2 (low)
BBB (high)	BBB (low) or R-2 (low)
BBB	BBB (low) or R-2 (low)
BBB (low)	BBB (low) or R-2 (low)
BB (high)	BB (high) or R-3
BB	BB or R-4
BB (low)	BB (low) or R-4

DBRS B Table

Maximum maturity	CB rated at least AA (low)	CB rated between A (high) and A (low)	CB rated BBB (high) and below
90 days	AA (low) or R-1 (middle)	A (low) or R-1 (low)	BBB (low) or R-2 (middle)
180 days	AA or R-1 (high)	A or R-1 (low)	BBB or R-2 (high)
365 days	AAA or R-1 (high)	A (high) or R-1 (middle)	BBB or R-2 (high)

"**Eligible Investment Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, any Business Day immediately after a Guarantor Payment Date.

"**Eligible Investment Liquidation Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, two Business Days before the Guarantor Calculation Date immediately following the relevant Eligible Investment Date.

"**Eligible Investments Securities Account**" means the securities account number 284175,31 opened in the name of the Guarantor with the Italian Account Bank or any other substitutive account that may be opened in accordance with the Cash Allocation, Management and Payments Agreement.

"**English Account Bank**" means Banca Monte dei Paschi di Siena S.p.A., acting through its London branch with offices at 6th Floor, Capital House 85, King William Street, London EC4N 7BL, United Kingdom.

"**English Account**" means each of the Main Programme Account and the Reserve Account, and "English Accounts" means all of them.

"**English Account Bank Agreement**" means the English Account Bank agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Italian Account Bank, the English Account Bank and the Representative of the Bondholders, as amended from time to time.

"**EONIA**" means the weighted average of overnight Euro Interbank Offer Rates for inter-bank loans and for Euro currency deposits.

"**EU Insolvency Regulation**" means Council Regulation (EC) No. 1346/2000 of 29 May 2000.

"**EU Directive on the Reorganisation and Winding up of Credit Institutions**" means Directive 2001/2/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions.

"**EURIBOR**" (1) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms; and (2) with reference to each Loan Interest Period, means the rate denominated "Euro Interbank Offered Rate" (i) at 3 (three) months (provided that for the First Loan Interest Period, such rate will be calculated on the basis of the

linear interpolation of 3-month Euribor and 4-month Euribor), published on Reuters' page "Euribor01" on the menu "Euribor" or (A) in the different page which may substitute the Reuters' page "Euribor01" on the menu "Euribor", or (B) in the event such page or such system is not available, on the page of a different system containing the same information that can substitute Reuters' page "Euribor01" on the menu "Euribor" (or, in the event such page is available from more than one system, in the one selected by the Representative of the Bondholders) (hereinafter, the "**Screen Rate**") at 11.00 a.m. (Brussels time) of the date of determination of Interest falling immediately before the beginning of such Loan Interest Period; or (ii) in the event that on any date of determination of Interest the Screen Rate is not published, the reference rate will be the arithmetic average (rounded off to three decimals) of the rates communicated to the Guarantor Calculation Agent, following request of such Guarantor Calculation Agent, by the Reference Banks at 11.00 a.m. (Brussels time) on the relevant date of determination of Interest and offered to other financial institutions of similar standing for a reference period similar to such Loan Interest Period; or (ii) in the event the Screen Rate is not available and only two or three Reference Banks communicate the relevant rate quotations to the Guarantor Calculation Agent, the relevant rate shall be determined, as described above, on the basis of the rate quotations provided by the Reference Banks; or (iv) in the event that the Screen Rate is not available and only one or no Reference Banks communicate such quotation to the Guarantor Calculation Agent, the relevant rate shall be the rate applicable to the immediately preceding period under sub-paragraphs (i) or (ii) above, provided that if the definition of Euribor is agreed differently in the context of the Asset Swap Agreement entered into by and between the Guarantor and an Asset Swap Provider in the context of the Programme, such definition will replace this definition.

"**Euro**", "**€**" and "**EUR**" refer to the single currency of member states of the EEA which adopt the single currency introduced in accordance with the Treaty.

"**Euro Equivalent**" means, in case of an issuance of Covered Bonds denominated in currency other than the Euro, an equivalent amount expressed in Euro calculated at the prevailing exchange rate.

"**Euroclear**" means Euroclear Bank S.A./N.V., with offices at 1 boulevard du Roi Albert II, B-1210 Brussels.

"**European Economic Area**" means the region comprised of member states of the EEA which adopt the Euro currency in accordance with the Treaty.

"**Excess Assets**" means, collectively, any Eligible Asset and Top-Up Asset forming part of the Cover Pool which are in excess for the purpose of satisfying the Tests.

"**Execution Date**" means (i) with respect to the assignment of the Initial Portfolio, the date falling on the date on which the Principal Seller receives from the Guarantor the letter of acceptance of the Master Assets Purchase Agreement, Master Servicing Agreement, Warranty and Indemnity Agreement and Subordinated Loan Agreement, and (ii) with respect to the assignment of each New Portfolio, the date on which each of the Principal Seller or Additional Seller (if any) receives from the Guarantor the letter of acceptance of the relevant Transfer Proposal.

"**Expenses**" means any documented fees, costs, expenses and taxes required to be paid to any third party creditors (other than the Bondholders and the Other Guarantor Creditors) arising in connection with the Programme, and required to be paid in order to preserve the existence of the Guarantor or to maintain it in good standing, or to comply with applicable laws and legislation.

"**Expenses Account**" means the account denominated in Euro and opened on behalf of the Guarantor with the Italian Account Bank, IBAN IT 81 J 01030 12000 000000736131, or any other substitutive account that may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Extended Maturity Date**" means, in relation to a specific Series or Tranche of Covered Bonds, the date falling 38 years after the relevant Maturity Date.

"**Extension Determination Date**" means, with respect to each Series or Tranche of Covered Bonds, the date falling 4 calendar days after the Maturity Date of the relevant Series.

"**Final Redemption Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series.

"**Final Terms**" means, in relation to any issue of any Series or Tranche of Covered Bonds, the relevant terms contained in the applicable Programme Documents and, in case of any Series or Tranche of Covered Bonds to be admitted to listing, the final terms submitted to the appropriate listing authority on or before the Issue Date of the applicable Series or Tranche of Covered Bonds.

"**Financial Laws Consolidation Act**" means Italian Legislative Decree number 58 of 24 February 1998, as amended and supplemented from time to time.

"**First Interest Payment Date**" means the date specified in the relevant Final Terms.

"**First Issue Date**" means the Issue Date of the first Covered Bonds issued under the Programme.

"**First Loan Interest Period**" means, in relation to any Term Loan, the period starting on the relevant Drawdown Date (exclusive) and ending on the first following Guarantor Payment Date (inclusive).

"**First Series of Covered Bonds**" means the first Series of Covered Bonds issued by the Issuer in the context of the Programme.

"**First Tranche of Covered Bonds**" means if applicable the first Tranche of Covered Bonds issued by the Issuer in the context of the issuance of the First Series of Covered Bonds.

"**Fitch**" means Fitch Ratings Limited.

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms.

"**Fixed Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a fixed rate Corresponding Interest applies as

indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Fixed Rate Provisions**" has the meaning set out in Condition 5 (*Fixed Rate Provisions*).

"**Floating Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a floating rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Floating Rate Provisions**" has the meaning given in the relevant Final Terms.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time.

"**Guarantee**" means the guarantee granted by the Guarantor for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders and to the Other Guarantor Creditors pursuant to Law 130, Decree No. 310 and the Bank of Italy Regulations.

"**Guarantee Enforcement Notice**" means the notice to be served by the Representative of the Bondholders upon occurrence of certain Issuer Events of Default as better specified in Condition 11.2 (*Issuer Events of Default*).

"**Guaranteed Amounts**" means the Redemption Amount, the Interest Amount and any other amounts due from time to time by the Issuer to the Bondholders with respect to each Series or Tranche of Covered Bonds, including, for avoidance of doubt and without double counting, any amount that have been already paid timely by (or on behalf of) the Issuer to the Bondholders, to the extent it was clawed-back thereafter by a bankruptcy receiver, liquidator or other duly appointed officer upon opening of any bankruptcy proceedings or other similar insolvency proceedings of the Issuer.

"**Guaranteed Obligations**" means the payment obligations with respect to the Guaranteed Amounts.

"**Guarantee Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantee Enforcement Notice and prior to the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Guarantor**" means MPS Covered Bond S.r.l. acting in its capacity as guarantor pursuant to the Guarantee.

"**Guarantor's Accounts**" means, collectively, the Italian Collection Account, the Italian Securities Collection Account, the Main Programme Account, the Expenses Account, the Eligible Investments Securities Account and any other account opened in the context of the Programme with the exception of any Collateral Account(s) as defined pursuant to clause 7.4 of the Intercreditor Agreement.

"**Guarantor Available Funds**" means, collectively, the Interest Available Funds and the Principal Available Funds.

"**Guarantor Calculation Agent**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Cover Pool Management Agreement.

"**Guarantor Calculation Date**" means the date falling on the 22th calendar day of March, June, September and December, or, if such day is not a Business Day, the immediately succeeding Business Day.

"**Guarantor Corporate Servicer**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Corporate Services Agreement.

"**Guarantor Default Notice**" means the notice to be served by the Representative of the Bondholders in case of a Guarantor Event of Default.

"**Guarantor Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Guarantor Payment Date**" means (a) prior to the delivery of a Guarantor Default Notice, the date falling 5 Business Days after the Guarantor Calculation Date of March, June, September and December or, if such day is not a Business Day, the immediately following Business Day; and (b) following the delivery of a Guarantor Default Notice, any day on which any payment is required to be made by the Representative of the Bondholders in accordance with the Post-Enforcement Priority of Payments, the relevant Terms and Conditions and the Intercreditor Agreement.

"**IFRS**" means international financial reporting and accounting standards issued by the International Accounting Standards Board (IASB).

"**Individual Purchase Price**" means:

(i) with respect to each Receivable transferred pursuant to the Master Assets Purchase Agreements, the most recent book value (*ultimo valore di iscrizione in bilancio*) of the relevant Receivable:

  (A) *minus* the aggregate amount of (1) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (2) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and

  (B) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date;

(ii) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller, if any) in the relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Initial Portfolio Purchase Price**" means the consideration paid by the Guarantor to the Principal Seller for the transfer of the Initial Portfolio, calculated in accordance with clause 5.1 of the Master Assets Purchase Agreement.

"**Insolvency Event**" means in respect of any company, entity or corporation that:

(i) such company, entity or corporation has become subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (including, without limitation, "*fallimento*", "*liquidazione coatta amministrativa*", "*concordato preventivo*" and "*amministrazione straordinaria*", each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including the seeking of liquidation, winding-up, reorganisation, dissolution, administration) or similar proceedings or the whole or any substantial part of the undertaking or assets of such company, entity or corporation are subject to a *pignoramento* or any procedure having a similar effect (other than in the case of the Guarantor, any portfolio of assets purchased by the Guarantor for the purposes of further programme of issuance of Covered Bonds), unless in the opinion of the Representative of the Bondholders, (who may in this respect rely on the advice of a legal adviser selected by it), such proceedings are being disputed in good faith with a reasonable prospect of success; or

(ii) an application for the commencement of any of the proceedings under (i) above is made in respect of or by such company, entity or corporation or such proceedings are otherwise initiated against such company, entity or corporation and, in the opinion of the Representative of the Bondholders (who may in this respect rely on the advice of a legal adviser selected by it), the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success; or

(iii) such company, entity or corporation takes any action for a re-adjustment of deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than, in case of the Guarantor, the creditors under the Programme Documents) or is granted by a competent court a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments (other than, in respect of the Issuer, the issuance of a resolution pursuant to Article 74 of the Consolidated Banking Act); or

(iv) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of such company, entity or corporation or any of the events under article 2448 of the Civil Code occurs with respect to such company, entity or corporation (except in any such case a winding-up or other proceeding for the purposes of or pursuant to a solvent amalgamation or reconstruction, the terms of which have been previously approved in writing by the Representative of the Bondholders); or

(v) such company, entity or corporation becomes subject to any proceedings equivalent or analogous to those above under the law of any jurisdiction in which such company or corporation is deemed to carry on business; or

(vi) such company, entity or corporation becomes subject to any proceedings resulting from the implementation of directive 2014/59/UE of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**").

"**Instalment**" means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Debtor thereunder and which consists of an Interest Instalment and a Principal Instalment.

"**Instalment Amount**" has the meaning set out in Condition 8(h).

"**Insurance Policies**" means (i) each insurance policy taken out with the insurance companies in relation to each Real Estate Asset and each Mortgage Loan or (ii) any possible "umbrella" insurance policy in relation to the Real Estate Assets which have lost their previous relevant insurance coverage.

"**Intercreditor Agreement**" means the intercreditor agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Other Guarantor Creditors, as amended from time to time.

"**Interest Amount**" means, in relation to any Series or Tranche of Covered Bonds and an Interest Period, the amount of interest payable in respect of that Series or Tranche for that Interest Period.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(viii) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ix) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(x) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(xi) any amounts paid as Interest Shortfall Amount out of item (First) of the Pre-Issuer Default Principal Priority of Payments; and

(xii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Interest Commencement Date**" means the Issue Date of the relevant Series or Tranche of Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms.

"**Interest Coverage Test**" has the meaning as indicated pursuant to clause 2.4 of the Cover Pool Management Agreement.

"**Interest Determination Date**" has the meaning given in the relevant Final Terms.

"**Interest Instalment**" means the interest component of each Instalment.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Interest Shortfall Amount**" means, on any Guarantor Payment Date, an amount equal to the difference, if positive, between (a) the aggregate amounts payable (but for the operation of clause 13 (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement) under items First to Fifth of the Pre-Issuer Default Interest Priority of Payments; and (b) the Interest Available Funds (net of such Interest Shortfall Amount) on such Guarantor Payment Date.

"**ISDA Definitions**" has the meaning given in the relevant Final Terms.

"**ISDA Determination**" has the meaning given in the relevant Final Terms.

"**Issue Date**" means each date on which a Series or Tranche of Covered Bonds is issued.

"**Issuer**" means BMPS.

"**Issuer Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Issuer Default Notice**" means the notice to be served by the Representative of the Bondholders to upon occurrence of certain Issuer Event of Default as better specified in Condition 11.2 (*Issuer Events of Default*).

"**Istruzioni di Vigilanza**" means the regulations for banks issued by the Bank of Italy on 21 April 1999 with Circular No. 229, as subsequently amended and supplemented.

"**Istruzioni di Vigilanza per gli Intermediari Finanziari**" means the regulations for financial intermediaries issued by the Bank of Italy on 5 August 1996 with circular number 216, as subsequently amended and supplemented.

"**Italian Account Bank**" means BMPS in its capacity as Italian account bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account Bank Report**" means the report produced by the Italian Account Bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account**" means each of the Italian Collection Account, the Italian Securities Collection Account, the Payments Account, the Expenses Account and the Eligible Investments Securities Account, and "Italian Accounts" means all of them.

"**Italian Back-Up Account Bank**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Collection Account**" means any of the account denominated in Euro opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of any amount of the Collections of the Portfolios number 000008417530 (IBAN: IT 27 S 01030 14200 000008417530) and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the collections of the Portfolios transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Securities Collection Account**" means any of the securities account opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of the Asset Backed Securities number 184175,79 and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the Asset Backed Securities transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Joint-Arrangers**" means, collectively, Morgan Stanley & Co. International plc BMPS, and The Royal Bank of Scotland plc (trading as NatWest Markets).

"**Joint Regulation**" means the joint regulation of CONSOB and the Bank of Italy dated 22 February 2008 and published in the Official Gazette No. 54 of 4 March 2008, as subsequently amended and supplemented from time to time.

"**Law 130**" means Italian Law No. 130 of 30 April 1999 as the same may be amended, modified or supplemented from time to time.

"**Loan Interest**" means any of the Base Interest or the Corresponding Interest, as calculated in the Subordinated Loan Agreement.

"**Loan Interest Period**" means, in relation to any Term Loan: (i) the relevant First Loan Interest Period; and thereafter (ii) each period starting on a Guarantor Payment Date (excluded) and ending on the following Guarantor Payment Date (included).

"**Main Programme Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456002 (IBAN GB58 PASC 4051 6850 4560 02), or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Mandate Agreement**" means the mandate agreement entered on 18 June 2010 between the Guarantor and the Representative of the Bondholders.

"**Mandatory Tests**" means the tests provided for under article 3 of Decree No. 310 as calculated pursuant to the Cover Pool Management Agreement.

"**Margin**" has the meaning set out to the term "**Margine**" in the Subordinated Loan Agreement.

"**Master Assets Purchase Agreement**" means the master assets purchase agreement entered on 25 May 2010 between the Guarantor, the Principal Seller and, following accession to the Programme, each Additional Seller, as amended from time to time.

"**Master Definitions Agreement**" means the master definitions agreement entered into on or about 18 June 2010 between the parties of the Programme Documents, as amended from time to time.

"**Master Servicing Agreement**" means the master servicing agreement entered on 25 May 2010 between the Guarantor, the Principal Servicer and, following accession to the Programme, each Additional Servicer, as amended from time to time.

"**Maturity Date**" means each date on which final redemption payments for a Series or Tranche of Covered Bonds become due in accordance with the Final Terms but subject to it being extended to the Extended Maturity Date.

"**Maximum Rate of Interest**" means has the meaning given in the relevant Final Terms.

"**Maximum Redemption Amount**" means has the meaning given in the relevant Final Terms.

"**Meetings**" has the meaning ascribed to such term in the Rules of the Organisation of the Bondholders.

"**Minimum DBRS Rating**":

Highest Rating Assigned to Rated Securities	Minimum Instruction Rating
AAA (sf)	"A"
AA (high) (sf)	"A"
AA (sf)	"A"
AA (low) (sf)	"A"
A (high) (sf)	BBB (high)
A (sf)	BBB
A (low) (sf)	BBB (low)
BBB (high) (sf)	BBB (low)
BBB (sf)	BBB (low)
BBB (low) (sf)	BBB (low)

"**Minimum Rate of Interest**" has the meaning given in the relevant Final Terms.

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms.

"**Montepaschi Group**" means, together, the banks and other companies belonging from time to time to the banking group "Gruppo Montepaschi", enrolled with the register of banking groups held by the Bank of Italy pursuant to article 64 of the Consolidated Banking Act.

"**Monte Titoli**" means Monte Titoli S.p.A..

"**Monte Titoli Account Holders**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as *intermediari aderenti*) in accordance with article 30 of Decree No. 213 and includes any depositary banks approved by Clearstream and Euroclear.

"**Monthly Collection Period**" means (a) each period commencing on (and including) a Collection Date and ending on (but excluding) the following Collection Date; and (b) in the case of the first Monthly Collection Period, the period commencing on (and including) the Valuation Date and ending on (and including) the last calendar day of the month immediately preceding the first Guarantor Payment Date.

"**Monthly Servicer's Report**" means, with reference to the Principal Servicer the monthly report prepared by the Principal Servicer and with reference to any Additional Servicer, the monthly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Monthly Servicer's Report Date**" means (i) prior to the delivery of a Guarantor Default Notice, the date falling on the 15th calendar day of each month or, if such day is not a Business Day, the immediately preceding Business Day and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Moody's**" means Moody's Investors Service Limited.

"**Mortgage**" means the mortgage security interests (*ipoteche*) created on the Real Estate Assets pursuant to Italian law in order to secure claims in respect of the Receivables.

"**Mortgage Loan**" means a Residential Mortgage Loan, the claims in respect of which have been and/or will be transferred by the Seller to the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Mortgage Loan Agreement**" means any residential mortgage loan agreement out of which the Receivables arise.

"**Mortgagor**" means any person, either a borrower or a third party, who has granted a Mortgage in favour of the relevant Seller to secure the payment or repayment of any amounts payable in respect of a Mortgage Loan, and/or his/her successor in interest.

"**Negative Carry Factor**" is a percentage calculated by reference to the weighted average margin of the Covered Bonds and will, in any event, be not less than 0.5 per cent.

"**Net Present Value Test**" has the meaning as indicated pursuant to clause 2.3 of the Cover Pool Management Agreement.

"**New Portfolio**" means any portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio Purchase Price**" means the consideration which the Guarantor shall pay to the relevant Seller for the transfer of each New Portfolio in accordance with the Master Assets Purchase Agreement and equal to the aggregate amount of the Individual Purchase Price of all the relevant Assets included in the relevant New Portfolio.

"**Nominal Value Test**" has the meaning as indicated pursuant to clause 2.2 of the Cover Pool Management Agreement.

"**Non-Performing Asset**" means, collectively, the Defaulted Receivables, the Delinquent Receivables and any Defaulted Asset Backed Securities.

"**Notice**" means any notice delivered under or in connection with any Programme Document.

"**Obligations**" means all the obligations of the Guarantor created by or arising under the Programme Documents.

"**Optional Redemption Amount (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Amount (Put)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms.

"**Organisation of the Bondholders**" means the association of the Bondholders, organised pursuant to the Rules of the Organisation of the Bondholders.

"**Other Guarantor Creditors**" means the Principal Seller and each Additional Seller, if any, the Principal Servicer and each Additional Servicer, if any, the Back-up Servicer, the Principal Subordinated Lender and each Additional Subordinated Lender, if any, the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders, the Asset Monitor, the Asset Swap Provider, the Covered Bond Swap Providers, the Italian Account Bank, the Back-Up Account Bank, the English Account Bank, the Principal Paying Agent, the Paying Agent(s), the Luxembourg Listing and Paying Agent, the Guarantor Corporate Servicer and the Portfolio Manager (if any).

"**Outstanding Principal Balance**" means any Principal Balance outstanding in respect of any asset included in the Cover Pool.

"**Pass Through Series**" means:

(a) any Series of Covered Bonds in respect of which:

  (i) the Issuer has failed to repay in whole or in part the relevant Final Redemption Amount on the applicable Maturity Date and a Guarantee Enforcement Notice has been served on the Guarantor; and

  (ii) the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of Covered Bonds on the relevant Extension Determination Date;

(b) all Series of Covered Bonds if a Guarantee Enforcement Notice has been delivered (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice) and a breach of the Amortisation Test has occurred.

"**Paying Agent**" means the Principal Paying Agent and each other paying agent appointed from time to time under the terms of the Cash Allocation, Management and Payments Agreement.

"**Payment Business Day**" means a day on which banks in the relevant Place of Payment are open for payment of amounts due in respect of debt securities and for dealings in foreign currencies and any day which is:

(i) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

"**Payments Account**" means the account denominated in Euro that will be opened in the name of the Guarantor and held with the Payments Account Bank or any other substitutive account which may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Payments Report**" means the report to be prepared and delivered by the Guarantor Calculation Agent pursuant to the Cash Allocation, Management and Payments Agreement.

"**Place of Payment**" means, in respect of any Bondholders, the place at which such Bondholder receives payment of interest or principal on the Covered Bonds.

"**Portfolio**" means collectively the Initial Portfolio and any other New Portfolios which has been purchased and which will be purchased by the Guarantor in accordance with the terms of the Master Assets Purchase Agreement.

"**Portfolio Manager**" means the subject appointed as portfolio manager pursuant to the Cover Pool Management Agreement or any other entity acting in such capacity pursuant to the Cover Pool Management Agreement.

"**Post-enforcement Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"Post-Issuer Default Test Calculation Agent" means Securitisation Services S.p.A..

"**Post-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date during the period after the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"Pre-Issuer Default Test Calculation Agent" means BMPS.

"**Pre-Issuer Default Interest Priority of Payments**" means the order of priority pursuant to which the Interest Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Principal Priority of Payments**" means the order of priority pursuant to which the Principal Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date prior to the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Premium**" means, on each Guarantor Payment Date, an amount payable by the Guarantor on each Programme Term Loan in accordance with the relevant Priority of Payments and equal to the Guarantor Available Funds as at such date, after all amounts payable in priority thereto have been made in accordance with the relevant Priority of Payments.

"**Principal Amount Outstanding**" means, on any day: (a) in relation to a Covered Bond, the principal amount of that Covered Bond upon issue less the aggregate amount of any principal payments in respect of that Covered Bond which have become due and payable (and been paid) on or prior to that day; and (b) in relation to the Covered Bonds outstanding at any time, the aggregate of the amount in (a) in respect of all Covered Bonds outstanding.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item Ninth of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

"**Principal Balance**" means:

(i) for any Mortgage Loan as at any given date, the aggregate of: (a) the original principal amount advanced to the relevant Debtor and any further amount advanced on or before the given date to the relevant Debtor secured or intended to be secured by the related Security Interest; and (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Loan or with the relevant Debtor's consent and added to the amounts secured or intended to be secured by that Mortgage Loan; and (c) any other amount (including, for the avoidance of doubt, Accrued Interest and interest in arrears) which is due or accrued (whether or not due) and which has not been paid by the relevant Debtor and has not been capitalised, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date;

(ii) for any Asset Backed Security as at any given date, the principal amount outstanding of that Asset Backed Security (plus any accrued but unpaid interest thereon).

"**Principal Instalment**" means the principal component of each Instalment.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that in relation to Euro, it means

the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee.

"**Principal Paying Agent**" means The Bank of New York Mellon in its capacity as Paying Agent pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Principal Seller**" means BMPS.

"**Principal Servicer**" means BMPS.

"**Principal Subordinated Lender**" means BMPS in its capacity as Subordinated Lender pursuant to the relevant Subordinated Loan Agreement.

"**Priority of Payments**" means each of the orders in which the Guarantor Available Funds shall be applied on each Guarantor Payment Date in accordance with the Intercreditor Agreement.

"**Privacy Law**" means Italia Law number 675 of 1996, as subsequently amended and supplemented.

"**Programme**" means the programme for the issuance of each series of Covered Bonds (*Obbligazioni Bancarie Garantite*) by the Issuer in accordance with article 7-*bis* of Law 130.

"**Programme Accounts**" means, collectively, the Italian Accounts and the English Accounts and any other account opened from time to time in connection with the Programme.

"**Programme Agreement**" means the programme agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Principal Seller, the Issuer, the Representative of the Bondholders and the Dealers, as amended from time to time.

"**Programme Documents**" means the Master Assets Purchase Agreement, the Master Servicing Agreement, the Warranty and Indemnity Agreement, the Cash Allocation, Management and Payments Agreement, the Cover Pool Management Agreement, the Programme Agreement, the Intercreditor Agreement, each Subordinated Loan Agreement, the Asset Monitor Agreement, the Guarantee, the Corporate Services Agreement, the Swap Agreements, the Mandate Agreement, the English Account Bank Agreement, the Quotaholders' Agreement, the Prospectus, the Terms and Conditions, the Deed of Pledge, the Master Definitions Agreement, any Final Terms agreed in the context of the issuance of each Series or Tranche of Covered Bonds and any other agreement entered into in connection with the Programme.

"**Programme Limit**" means € 20,000,000,000.

"**Programme Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which the Base Interest applies pursuant to terms of the relevant Subordinated Loan Agreement.

"**Prospectus**" means the base prospectus prepared in the context of the issuance of the Covered Bonds.

"**Prospectus Directive**" means Directive 2003/71/EC of 4 November 2003, as subsequently amended and supplemented.

"**Prudential Regulations**" means the prudential regulations for banks issued by the Bank of Italy on 27 December 2006 with Circular No. 263, as subsequently amended and supplemented.

"**Public Entity Receivables**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, any receivables owned by or receivables which have been benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Public Entity Securities**" means pursuant to article 2, sub-paragraph 1, of Decree No. 310, any securities issued by or which have benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Purchase Price**" means, as applicable, the consideration for the Initial Portfolio Purchase Price or the consideration for the New Portfolio Purchase Price pursuant to the Master Assets Purchase Agreement.

"**Put Option**" has the meaning given in the relevant Final Terms.

"**Put Option Notice**" means a notice in the form obtainable from the Principal Paying Agent which must be delivered to the Principal Paying Agent by any Bondholder wanting to exercise a right to redeem Covered Bonds at the option of the Bondholders.

"**Put Option Receipt**" means a receipt issued by the Principal Paying Agent to a Bondholder having deposited a Put Option Notice.

"**Quarterly Collection Period**" means (a) prior to the service of a Guarantor Default Notice, each period commencing on (and including) the Collection Dates in December, March, June and September and ending on (but excluding), respectively, the Collection Dates in March, June, September and December; (b) following the service of a Guarantor Default Notice, each period commencing on (and including) the last day of the preceding Quarterly Collection Period and ending on (but excluding) the date falling 10 calendar days prior to the next following quarterly Collection Date.

"**Quarterly Servicer's Report**" with reference to the Principal Servicer the quarterly report prepared by the Principal Servicer and with reference to any Additional Servicer, the quarterly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Quarterly Servicer's Report Date**" means (a) prior to the delivery of a Guarantor Default Notice, the Monthly Servicer's Report Date falling in March, June, September and December of each year or, if such day is not a Business Day, the immediately preceding Business Day; and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Quarterly Test Calculation Date**" means the Test Calculation Date falling in March, June, September and December, of each year or, if such day is not a Business Day, the immediately preceding Business Day.

"**Quota Capital**" means the quota capital of the Guarantor.

"**Quota Capital Account**" means the account denominated in Euro opened in the name of the Guarantor with Banca Antonveneta, Conegliano, Agenzia 1, IBAN IT 32 I 05040 61621 000001228269 for the deposit of the Quota Capital.

"**Quotaholder**" means BMPS and any other quotaholder of the Guarantor.

"**Quotaholders' Agreement**" means the Quotaholders' agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Quotaholders.

"**Rate of Exchange**" has the meaning set out in the relevant Final Terms.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Series or Tranche of Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms.

"**Rating Agencies**" means Fitch, Moody's and DBRS.

"**Real Estate Assets**" means the real estate properties which have been mortgaged in order to secure the Receivables.

"**Receivables**" means specifically each and every right arising under the Mortgage Loans pursuant to the law and the Mortgage Loan Agreements, including but not limited to:

(i) all rights and claims in respect of the repayment of the Principal Instalments due and not paid at the Valuation Date (excluded);

(ii) all rights and claims in respect of the payment of interest (including the default interest) accruing on the Mortgage Loans, which are due from (but excluding) the Valuation Date;

(iii) the Accrued Interest;

(iv) all rights and claims in respect of each Mortgage and any Collateral Security relating to the relevant Mortgage Loan Agreement;

(v) all rights and claims under and in respect of the Insurance Policies; and

(vi) any privileges and priority rights (*diritti di prelazione*) transferable pursuant to the law, as well as any other right, claim or action (including any legal proceeding for the recovery of suffered damages, the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors) and any substantial and procedural action and defence, including the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration

of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors, inherent in or ancillary to the aforesaid rights and claims;

excluding any expenses for the correspondence and any expenses connected to the ancillary services requested by the relevant Debtor.

"**Recoveries**" means any amounts received or recovered by the Servicer in relation to any Defaulted Receivables and any Delinquent Receivables.

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount (as any such terms are defined in the Conditions) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms.

"**Reference Banks**" (A) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms or, if none, four major banks selected by the Principal Paying Agent in the market that is most closely connected with the Reference Rate; and, (B) with respect to the Subordinated Loan Agreement, means four financial institutions of the greatest importance, acting on the interbank market of the member states of the EEA, as selected by the Principal Subordinated Lender and communicated to the Guarantor Calculation Agent.

"**Reference Price**" has the meaning given in the relevant Final Terms.

"**Reference Rate**" has the meaning ascribed to it in the relevant Final Terms.

"**Regular Period**" means:

(i) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Clearing System**" means Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than Monte Titoli) specified in the relevant

Final Terms as a clearing system through which payments under the Covered Bonds may be made.

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms.

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning given in the relevant Final Terms.

"**Representative of the Bondholders**" means BNY Mellon Corporate Trustee Services Limited or any other entity acting in such capacity pursuant to the Programme Documents.

"**Required Redemption Amount**" means (i) to the extent that no Series of Covered Bonds have become Pass Through Series, the Euro Equivalent of the Principal Amount Outstanding in respect of the Earliest Maturing Covered Bonds, multiplied by (1 + Negative Carry Factor x (days to maturity of the relevant Series or Tranche of Covered Bonds/365)) and thereafter (ii) zero.

"**Required Reserve Amount**" means the aggregate of the amounts calculated by the Guarantor Calculation Agent on each Guarantor Calculation Date, in accordance with the following formula:

- **A plus B**, if BMPS is the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, or if no Covered Bond Swap Agreement has been entered into with respect to the relevant Series of Covered Bonds; and

- **A plus C**, if BMPS is not the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, where

  "**A**" is the sum of all the amounts to be paid by the Guarantor on the next following Guarantor Payment Date (i) under item First of the Pre-Issuer Default Interest Priority of Payments and (ii) as compensation for the activity of any of the Principal Servicer or the Additional Servicer under the terms of the Master Servicing Agreement."

  "**B**" is the aggregate amount of all interest payable with respect of each Series of Covered Bonds during the six months period following the relevant Guarantor Calculation Date; and

  "**C**" the sum of the Floating Amount (as defined in the Swap Agreement related to the relevant Series of Covered Bond) due by the Guarantor during the six months period following the relevant Guarantor Calculation Date.

"**Reserve Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456001 (IBAN: GB85

PASC 4051 6850 4560 01) or any other substitutive account which may be opened pursuant to the English Account Bank Agreement.

"**Reserve Amount**" means the funds standing to the credit of the Reserve Account from time to time.

"**Residential Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, a residential mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same property, does not exceed 80 per cent. of the value of the property.

"**Residential Real Estate Assets**" means the Real Estate Assets relating to Residential Mortgage Loans.

"**Retention Amount**" means an amount equal to €50,000.00.

"**Rules of the Organisation of the Bondholders**" means the rules of the organisation of the Bondholders attached as Exhibit 1 to this Conditions, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

"**Screen Rate Determination**" has the meaning given in the relevant Final Terms.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**Security**" means the security created pursuant to the Deed of Pledge.

"**Security Interest**" means:

(i) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;

(ii) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(iii) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Segregation Event**" has the meaning given to the definition "Segregation Event" pursuant to the Terms and Conditions.

"**Selected Assets**" means the Eligible Assets and Top-Up Assets from time to time sold by the Guarantor in accordance with the provisions of the Cover Pool Management Agreement.

"**Seller**" means the Principal Seller pursuant to the Master Assets Purchase Agreement and each Additional Seller (if any).

"**Series**" or "**Series of Covered Bonds**" means each series of Covered Bonds issued in the context of the Programme.

"**Servicer**" means any of BMPS in its capacity as Principal Servicer pursuant to the Master Servicing Agreement and any Additional Servicer pursuant to the terms and conditions provided therein.

"**Servicer's Report Date**" means any of the Monthly Servicer's Report Date or any of the Quarterly Servicer's Report Date.

"**Servicer's Reports**" means any of the Monthly Servicer's Report and the Quarterly Servicer's Report.

"**Servicer Termination Event**" means any event as indicated in clause 11.1 of the Master Servicing Agreement.

"**Specified Currency**" means the currency as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders (as set out in the applicable Final Terms).

"**Specified Denomination**" has the meaning given in the relevant Final Terms.

"**Specified Office(s)**" means, in relation to any Paying Agent, the office currently specified in the Cash Management Payments and Allocation Agreement or as further specified by notice to the Issuer and the other parties to the Cash Management Payments and Allocation Agreement in the manner provided therein or in the relevant Final Terms, as the case may be.

"**Specified Period**" has the meaning set out in the relevant Final Terms.

"**Stock Exchange**" means the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

"**Subordinated Lender**" means any of the Principal Subordinated Lender and any Additional Subordinated Lender(s), if any.

"**Subordinated Loan Agreement**" means each subordinated loan agreement entered between a Subordinated Lender and the Guarantor, as amended from time to time.

"**Subordinated Loan Availability Period**" means the period starting from the date of execution of the Subordinated Loan Agreement (or, in respect of any Additional Seller, the relevant Subordinated Loan Agreement) and ending on the date on which all the Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full pursuant to the relevant Final Terms, in which the Subordinated Lender has the right to grant to the Guarantor, on each Drawdown Date, a Term Loan.

"**Subscription Agreement**" means any subscription agreement entered on or about the Issue Date of each Series or Tranche of Covered Bonds between, *inter alios*, each Dealer and the Guarantor

"**Substitute Servicer**" means the substitute of the Servicer which will take over the servicing activities in the event of a Servicer Termination Event pursuant to clause 12 of the Master Servicing Agreement.

"**Swap Agreements**" means, collectively, the Covered Bond Swap Agreement(s), the Asset Swap Agreement and any other swap agreement which may be entered into by the Guarantor in the context of the Programme.

"**Swap Collateral Excluded Amounts**" means at any time, the amounts of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor or, as the case may be, the Issuer including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

"**Swap Providers**" means, as applicable, the Asset Swap Provider(s), the Covered Bond Swap Providers and any other entity which may act as swap counterparty to the Guarantor by entering into a Swap Agreement.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in Euro.

"**Tax**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein.

"**Term Loan**" means any term loan in the form of a Programme Term Loan or Fixed Interest Term Loan or Floating Interest Term Loan, made or to be made available to the Guarantor on each Drawdown Date under the Subordinated Loan Agreement or the principal amount outstanding for the time being of that loan.

"**Term Loan Proposal**" means an "*Offerta di Finanziamento Subordinato*" as such term is defined in the relevant Subordinated Loan Agreement.

"**Terms and Conditions**" means the Terms and Conditions of the Covered Bonds.

"**Test Calculation Agent**" means any of the Pre-Issuer Default Test Calculation Agent and the Post-Issuer Default Test Calculation Agent.

"**Test Calculation Date**" means the date on which the calculation of the Tests are performed, being a date falling on or before the Test Performance Report Date, provided that following the delivery of a Guarantee Enforcement Notice the first Test Calculation Date will fall 7 Business Days after the delivery of such Guarantee Enforcement Notice.

"**Test Grace Period**" means the period starting on the date on which the breach of any of the Mandatory Tests or of the Asset Coverage Test is notified by the Pre-Issuer

Default Test Calculation Agent and ending on the immediately following Test Performance Report Date.

"**Test Performance Report**" means, respectively (i) the Pre-Issuer Default Test Performance Report to be issued by the Pre-Issuer Default Test Calculation Agent and (ii) the Post-Issuer Default Test Performance Report to be issued by the Post-Issuer Default Test Calculation Agent, each setting out the calculations carried out by it with respect to the relevant Tests.

"**Test Performance Report Date**" means the date falling the 22nd calendar day of each month.

"**Test Remedy Period**" means the period starting from the date on which a Breach of Test Notice is delivered and ending on the Test Performance Report Date falling 5 months thereafter.

"**Tests**" means, as appropriate, the Mandatory Tests, the Asset Coverage Test, the Amortisation Test.

"**Top-Up Assets**" means, in accordance with article 2, sub-paragraph 3.2 and 3.3 of Decree No. 310, each of the following assets:

(i) deposits held with banks which have their registered office in the European Economic Area or Switzerland or in a country for which a 0 per cent. risk weight is applicable in accordance with the Bank of Italy's Prudential Regulations for banks - standardised approach; and

(ii) securities issued by the banks indicated in item (i) above, which have a residual maturity not exceeding one year.

"**Total Commitment**" means, in respect of each Subordinated Lender, the commitment specified in the relevant Subordinated Loan Agreement.

"**Tranche**" or "**Tranches of Covered Bonds**" means each tranche of Covered Bonds which may be comprised in a Series of Covered Bonds.

"**Transfer Proposal**" means, in respect to each New Portfolio, the transfer proposal which will be sent by the relevant Seller and addressed to the Guarantor substantially in the form set out in schedule 7 to the Master Assets Purchase Agreement.

"**Treaty**" means the treaty establishing the European Community.

"**Usury Law**" means Italian Law number 108 of 7 March 1996, together with Decree number 349 of 29 December 2000 as converted into Law number 24 of 28 February 2001.

"**Valuation Date**" means, with respect to the Initial Portfolio, the 21 of May 2010 and with respect to any New Portfolios, the date that will be established jointly by the Principal Seller or any Additional Seller and the Guarantor.

"**Warranty and Indemnity Agreement**" means the warranty and indemnity agreement entered on 25 May 2010 between the Principal Seller and the Guarantor, as amended from time to time.

"**Zero Coupon Provisions**" has the meaning set out in Condition 7 (*Zero Coupon Provisions*).

(b) *Interpretation:*

In these Conditions:

(i) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 10 (*Taxation*), any premium payable in respect of a Series or Tranche of Covered Bonds and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 10 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) if an expression is stated in Condition 2 (a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms give no such meaning or specify that such expression is "not applicable" then such expression is not applicable to the relevant Covered Bonds;

(iv) any reference to a Programme Document shall be construed as a reference to such Programme Document, as amended and/or supplemented up to and including the Issue Date of the relevant Covered Bonds;

(v) any reference to a party to a Programme Document (other than the Issuer and the Guarantor) shall, where the context permits, include any Person who, in accordance with the terms of such Programme Document, becomes a party thereto subsequent to the date thereof, whether by appointment as a successor to an existing party or by appointment or otherwise as an additional party to such document and whether in respect of the Programme generally or in respect of a single Series or Tranche only; and

(vi) any reference in any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

3. DENOMINATION, FORM AND TITLE

The Covered Bonds are in the Specified Denomination or Specified Denominations which may include a minimum denomination of €100,000 (or, where the Specified Currency is a currency other than euro, the equivalent amount in such Specified Currency) and higher integral multiples of a smaller amount, all as specified in the relevant Final Terms and save that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in

circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency). The Covered Bonds will be issued in bearer and dematerialised form or in any other form as set out in the relevant Final Terms. The Covered Bonds issued in bearer and dematerialised form will be held on behalf of their ultimate owners by Monte Titoli for the account of Monte Titoli Account Holders and title thereto will be evidenced by book entries in accordance with the provisions of the Financial Laws Consolidation Act and the Joint Regulation, as amended and supplemented from time to time. The Covered Bonds issued in bearer and dematerialised form will be held by Monte Titoli on behalf of the Bondholders until redemption or cancellation thereof for the account of the relevant Monte Titoli Account Holder. No physical document of title will be issued in respect of the Covered Bonds issued in bearer and dematerialised form. The rights and powers of the Bondholders may only be exercised in accordance with these Conditions and the Rules.

4. STATUS AND GUARANTEE

(a) *Status of the Covered Bonds*: The Covered Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. In the event of a compulsory winding-up (liquidazione coatta amministrativa) of the Issuer, any funds realised and payable to the Bondholders will be collected by the Guarantor on their behalf.

(b) *Status of the Guarantee*: The payment of Guaranteed Amounts in respect of each Series or Tranche of Covered Bonds when Due for Payment will be unconditionally and irrevocably guaranteed by the Guarantor in the Guarantee. The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments pursuant to which specified payments will be made to other parties prior to payments to the Bondholders.

5. FIXED RATE PROVISIONS

(a) *Application*: This Condition 5 is applicable to the Covered Bonds only if the Fixed Rate Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 9 (*Payments*). Each Covered Bond will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all

sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment). If payment of the Final Redemption Amount on the Maturity Date is deferred in whole or in part pursuant to Condition 8(b) (*Extension of maturity*), the Floating Rate Provision will apply (as specified in the Final Terms).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Covered Bond for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Covered Bonds are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Covered Bond for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

6. FLOATING RATE PROVISIONS

(a) *Application*: This Condition 6 is applicable to the Covered Bonds only if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*: The Covered Bonds bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 9 (*Payments*). Each Covered Bond will cease to bear interest from the due date for final redemption unless payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be determined by the Principal Paying Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Principal Paying Agent will determine the Reference

Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Principal Paying Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Principal Paying Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Principal Paying Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Principal Paying Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Principal Paying Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Principal Paying Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Covered Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Covered Bonds in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Principal Paying Agent for that interest rate swap

transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option (as defined in the ISDA Definitions is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount*: The Principal Paying Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Covered Bond for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Covered Bond divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Publication*: The Principal Paying Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agent(s) and each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Bondholders. The Principal Paying Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination, the Principal Paying Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Covered Bond having the minimum Specified Denomination.

(h) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Principal Paying Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agent(s), the Bondholders and (subject as aforesaid) no liability to any such Person will attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

7. ZERO COUPON PROVISIONS

(a) *Application*: This Condition 7 is applicable to the Covered Bonds only if the Zero Coupon Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Covered Bonds*: If the Redemption Amount payable in respect of any Zero Coupon Covered Bond is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Covered Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Covered Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

8. REDEMPTION AND PURCHASE

(a) *Scheduled redemption*: Unless previously redeemed or cancelled, the Covered Bonds will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 8(b) (*Extension of maturity*) and Condition 9 (*Payments*).

(b) *Extension of maturity*: Without prejudice to Condition 11 (*Segregation Event and Events of Default*), the Guarantor's obligations under the Guarantee to pay the Guaranteed Amounts of the relevant Series of Covered Bonds on their Maturity Date may be deferred pursuant to the Conditions until the Extended Maturity Date. Such deferral will occur automatically:

(i) in respect of a Series of Covered Bonds (each such Series, a Pass Through Series) if (A) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor as a result of the Issuer having failed to pay, in whole or in part, the Guaranteed Amounts on the Maturity Date for such Series of Covered Bonds and, on the relevant Extension Determination Date, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of

such Series of Covered Bonds, or (B) a Guarantee Enforcement Notice has been served on the Issuer and the Guarantor following the occurrence of an Issuer Event of Default (other than the Issuer Event of Default referred to in paragraph (A) above) and, on the Maturity Date for such Series of Covered Bonds, the Guarantor has insufficient funds to pay, in accordance with the Guarantee Priority of Payments, the Guaranteed Amounts in respect of such Series of Covered Bonds; and

(ii) in respect of all Series of Covered Bonds, which all become Pass Through Series, if, on any Test Calculation Date following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as a result of an Article 74 Event, prior to the service of an Article 74 Event Cure Notice), the Calculation Agent notifies, through the Test Performance Report, the Issuer, the Sellers, any Additional Seller and the Guarantor that the Amortisation Test is not met.

The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Maturity Date as to whether payment will or will not be made in full of the Final Redemption Amount in respect of the Covered Bonds on that Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The Guarantor shall notify the relevant holders of the Covered Bonds (in accordance with Condition 17 (*Notices*), any relevant Swap Provider(s), the Rating Agencies, the Representative of the Bondholders and the Principal Paying Agent immediately after the Extension Determination Date or the Maturity Date (as the case may be) of any inability of the Guarantor to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the Covered Bonds pursuant to the Guarantee. Any failure by the Guarantor to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the Guarantor shall on the Extension Determination Date or the Maturity Date (as the case may be), pursuant to the Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the relevant Priority of Payments) *pro rata* as payment of an amount equal to the Final Redemption Amount in respect of the Covered Bonds which become due and payable and shall pay Guaranteed Amounts constituting interest in respect of each such Covered Bond on such date. The obligation of the Guarantor to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above.

Interest will continue to accrue on any unpaid amount during such extended period and be payable on each Guarantor Payment Date up to (and including) the Extended Maturity Date.

(c) *Redemption for tax reasons*: The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Provisions are specified in the relevant Final Terms as being applicable),

(iii) on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their Early Termination Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Series of the Covered Bonds; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(C) where the Covered Bonds may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due; or

(D) where the Covered Bonds may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Covered Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Principal Paying Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 8(c) (*Redemption for tax reason*), the Issuer shall be bound to redeem the Covered Bonds in accordance with this Condition 8(c) (*Redemption for tax reason*).

(d) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Covered Bonds may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 15 nor more than 30 days' notice to the Bondholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Covered Bonds on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(e) *Redemption at the option of Bondholders*: If the Put Option is specified in the relevant Final Terms as being applicable, prior to an Issuer Event of Default, the Issuer shall, at the option of any Bondholder redeem such Covered Bonds held by it on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 8(e) (*Redemption at the option of the Bondholders*), the Bondholder must, not less than 30 nor more than 45 days before the relevant Optional Redemption Date (Put), deposit with the Principal Paying Agent a duly completed Put Option Notice in the form obtainable from the Principal Paying Agent. The Principal Paying Agent with which a Put Option Notice is so deposited shall deliver a duly completed Put Option Receipt to the deposit in Bondholder. Once deposited in accordance with this Condition 8(e) (*Redemption at the option of the Bondholders*), no duly completed Put Option Notice may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any Covered Bonds become immediately due and payable or, upon due presentation of any such Covered Bonds on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the Principal Paying Agent shall mail notification thereof to the Bondholder at such address as may have been given by such Bondholder in the relevant Put Option Notice and shall hold such Covered Bond against surrender of the relevant Put Option Receipt. For so long as any outstanding Covered Bonds are held by the Principal Paying Agent in accordance with this Condition 8(e) (*Redemption at the option of the Bondholders*), the Bondholder and not the Principal Paying Agent shall be deemed to be the holder of such Covered Bonds for all purposes.

(f) *Partial redemption*: If the Covered Bonds are to be redeemed in part only, on any date in accordance with Condition 8(d) (*Redemption at the option of the Issuer*), the Covered Bonds to be redeemed in part shall be redeemed in the principal amount specified by the Issuer and will be so redeemed in accordance with the rules and procedures of Monte Titoli and/or any other Relevant Clearing System (to be reflected in the records of such clearing systems as a pool factor or a reduction in principal amount, at their discretion), subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Covered Bonds have then been admitted to listing, trading and/or quotation. The notice to Bondholders referred to in Condition 8(d) (*Redemption at the option of the Issuer*) shall specify the proportion of the Covered Bonds so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is

specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Early redemption of Zero Coupon Covered Bonds*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Covered Bonds at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Covered Bonds become due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 8(g) (*Early redemption of Zero Coupon Covered Bonds*) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Redemption by instalments*: If the Covered Bonds are specified in the relevant Final Terms as being amortising and redeemable in instalments they will be redeemed in such number of instalments, in such amounts ("**Instalment Amounts**") and on such dates as may be specified in or determined in accordance with the relevant Final Terms and upon each partial redemption as provided by this Condition 8(h) (*Redemption by instalments*) the outstanding principal amount of each such Covered Bonds shall be reduced by the relevant Instalment Amount for all purposes.

(i) *No other redemption*: The Issuer shall not be entitled to redeem the Covered Bonds otherwise than as provided in Conditions 8(a) (*Scheduled redemption*) to (h) (*Redemption by instalments*) above.

(j) *Purchase*: The Issuer or any of its Subsidiaries (other than the Guarantor) may at any time purchase Covered Bonds in the open market or otherwise and at any price. The Guarantor shall not purchase any Covered Bonds at any time.

(k) *Cancellation*: All Covered Bonds so redeemed shall be cancelled (or may be cancelled in case of Covered Bonds repurchase by the Issuer) and thereafter may not be reissued.

9. PAYMENTS

(a) *Payments through clearing systems*: Payment of interest and repayment of principal in respect of the Covered Bonds will be credited, in accordance with the instructions of Monte Titoli, by the Principal Paying Agent on behalf of the Issuer or the Guarantor (as the case may be) to the accounts of those banks and authorised brokers whose accounts with Monte Titoli are credited with those

Covered Bonds and thereafter credited by such banks and authorised brokers from such aforementioned accounts to the accounts of the beneficial owners of those Covered Bonds or through the Relevant Clearing Systems to the accounts with the Relevant Clearing Systems of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Monte Titoli and of the Relevant Clearing Systems, as the case may be.

(b) *Payments subject to fiscal laws*: All payments in respect of the Covered Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to Bondholders in respect of such payments.

(c) *Payments on Business Days*: If the due date for payment of any amount in respect of any Covered Bond is not a Payment Business Day in the Place of Payment, the Bondholder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

10. TAXATION

(a) *Gross up by Issuer*: All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond:

(i) in respect of any payment or deduction on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Decree No. 239 with respect to any Covered Bonds and in all circumstances in which the procedures set forth in Decree No. 239 have not been met or complied with, except where such procedures have not been met or complied with, due to the actions or omissions of the Issuer or its agents; or

(ii) held by or on behalf of a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bonds by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Covered Bonds; or

(iii) held by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond to another Paying Agent in a Member State of the EU.

(b) *Taxing jurisdiction*: If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to the Republic of Italy and/or such other jurisdiction.

11. SEGREGATION EVENT AND EVENTS OF DEFAULT

11.1 Segregation Event

The occurrence of any of the following events:

(a) a breach of one of the Mandatory Tests on the relevant Quarterly Test Calculation Date and/or

(b) prior to the delivery of a Guarantee Enforcement Notice, a breach of the Asset Coverage Test on the relevant Test Calculation Date,

which the Pre-Issuer Default Test Calculation Agent notifies has not been remedied within the applicable Test Grace Period, constitutes a "**Segregation Event**".

Upon the occurrence of a Segregation Event the Representative of the Bondholders will promptly serve notice and in any case within 5 calendar days (the "**Breach of Tests Notice**") on, *inter alios*, the Issuer and the Guarantor and the Rating Agencies that a Segregation Event has occurred.

In such case:

(i) no *further* Series or Tranche of Covered Bonds may be issued by the Issuer;

(ii) there *shall* be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations);

(iii) the *purchase price* for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and

(iv) *payments* due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

If the relevant Mandatory Tests and Asset Coverage Test is/are met within the Test Remedy Period, the Representative of the Bondholders will promptly and in any case within 5 calendar days deliver to the Issuer, the Guarantor, the Asset Monitor and the Rating Agencies a notice informing such parties that the Breach of Tests Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

11.2 **Issuer Events of Default**

The occurrence of any of the following events constitutes an "Issuer Event of Default":

(a) *Non-payment (also as a result of claw-back)*: the Issuer fails to pay any amount of interest and/or principal due and payable on any Series or Tranche of Covered Bonds and such breach is not remedied within 15 calendar days, in case of amounts of interest, or 7 calendar days (other than in case of non-payment as at the Maturity Date), in case of amounts of principal, as the case may be; or

(b) *Breach of obligation (other than non-payment)*: a material breach by the Issuer of any obligation under the Programme Documents occurs and such breach is not remedied within 30 calendar days after the Representative of the Bondholders has given written notice thereof to the Issuer; or

(c) *Insolvency*: an Insolvency Event occurs with respect to the Issuer; or

(d) *Article 74 Event*: a resolution pursuant to article 74 of the Consolidated Banking Act is issued in respect of the Issuer; or

(e) *Cessation of business*: a Cessation of Business occurs in respect of the Issuer; or

(f) *Breach of Tests*: following the delivery of a Breach of Tests Notice, one of the relevant Mandatory Tests and Asset Coverage Test is/are not met on, or prior to, the Test Calculation Date falling at the end of the relevant Test Remedy Period unless a resolution of the Bondholders is passed resolving to extend that Test Remedy Period.

If any of the events set out in points (a), (c) - to the extent that it is an Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer –, (d) or (f) above occurs and is continuing, then the Representative of the Bondholders shall serve to the Issuer and the Guarantor a notice to demand payments under the Guarantee (a "**Guarantee Enforcement Notice**"), specifying in case of the Issuer Event of Default referred to under item (d) above, that the Issuer Event of Default may be temporary and the relevant Guarantee Enforcement Notice may be revoked accordingly.

Upon the service of a Guarantee Enforcement Notice:

(i) no further Series or Tranche of Covered Bonds may be issued by the Issuer;

(ii) there shall be no further payments to the Subordinated Lender under any relevant Term Loan;

(iii) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan;

(iv) *Guarantee*: (a) interest and principal falling due on the Covered Bonds will be payable by the Guarantor at the time and in the manner provided under the Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds, subject to and in accordance with the terms of the Guarantee and the Guarantee Priority of Payments; then (b) the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall be entitled to request from the Issuer an amount up to the Guaranteed Amounts and any sum so received or recovered from the Issuer will be used to make payments in accordance with the Guarantee;

(v) *Pass Through Series*: to the extent that the Guarantor does not have sufficient funds to pay the Final Redemption Amount on a Series of Covered Bonds (also taking into account amounts referred under letter (b) of paragraph (iv) above (if any)), such Series shall become a Pass Through Series in accordance with Condition 8(b).

(vi) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement,

provided that, in case of the Issuer Event of Default determined by a resolution issued in respect of the Issuer pursuant to article 74 of the Consolidated Banking Act (referred to under item (d) (*Article 74 Event*) above) (the "**Article 74 Event**"), the effects listed in items (i) (*Application of the Segregation Event provisions*), (ii) (*Guarantee*) and (iv) (*Disposal of Assets*) above will only apply for as long as the suspension of payments pursuant to Article 74 of the Consolidated Banking Act will be in force and effect (the "**Suspension Period**"). Accordingly (A) the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds during the Suspension Period and (B) at the end of the Suspension Period, the Issuer shall be again responsible for meeting the payment obligations under the Covered Bonds).

For the avoidance of doubt, (i) in case of delivery of a Guarantee Enforcement Notice further to a non- payment of interest on a Series of Covered Bonds the relevant Series becomes a Pass-Though Series if and only to the extent that, on the relevant Extension Determination Date, the Guarantor does not have sufficient funds to redeem the Final Redemption Amount of such Series and (ii) in case of delivery of a Guarantee Enforcement Notice further to an Insolvency Event of the Issuer - consisting in a procedure of *liquidazione coatta amministrativa* - or further to an Article 74 Event, if the Guarantor does not have sufficient funds pay the Final Redemption Amount due on a Series of Covered Bond on the relevant Maturity Date, such Series becomes a Pass-Though Series on such Maturity Date.

If any of the events set out in points from (b), (c) other than in case of Insolvency Event consisting in a procedure of *liquidazione coatta amministrativa* of the Issuer, or (e) above occurs and is continuing, then the Representative of the Bondholders shall serve a notice to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Rating Agencies, the Guarantor

Calculation Agent, the Swap Counterparties, the Post-Issuer Default Test Calculation Agent and the Rating Agencies (an "**Issuer Default Notice**").

Upon the service of an Issuer Default Notice the provisions governing the Segregation Event from item (i) to (iv) shall apply.

11.3 **Guarantor Events of Default**

Following the occurrence of an Issuer Event of Default and delivery of the relevant Guarantee Enforcement Notice (to the extent not revoked), the occurrence of any of the following events constitutes a "**Guarantor Event of Default**":

(a) *Non-payment*: the Guarantor fails to pay any interest and/or principal due and payable under the Guarantee and such breach is not remedied within the next following 7 Business Days; or

(b) *Insolvency*: an Insolvency Event occurs with respect to the Guarantor; or

(c) *Breach of other obligation*: a material breach of any obligation under the Programme Documents by the Guarantor occurs (other than payment obligations referred to in item (a) (*Non-payment*) above) which is not remedied within 30 days after the Representative of the Bondholders has given written notice thereof to the Guarantor.

If any of the events set out in points from (a) to (c) above occurs and is continuing then the Representative of the Bondholders shall serve to the Issuer, the Guarantor, the Principal Seller and any Additional Seller (if any), the Principal Servicer and any Additional Servicer (if any), the Asset Monitor, the Guarantor Calculation Agent, the Principal Paying Agent, the Guarantor Corporate Servicer, the Italian Account Bank, the Italian Back-Up Account Bank, the English Account Bank, the English Back-up Account Bank and the Rating Agencies a Guarantor Default Notice, unless the Representative of the Bondholders, having exercised its discretion, resolves otherwise or a resolution of the Bondholders is passed resolving otherwise.

Upon the delivery of a Guarantor Default Notice, unless a Programme Resolution is passed resolving otherwise:

(i) *Acceleration of Covered Bonds*: the Covered Bonds shall become immediately due and payable at their Early Termination Amount together, if appropriate, with any accrued interest and will rank *pari passu* among themselves in accordance with the Post-enforcement Priority of Payments;

(ii) subject to and in accordance with the terms of the Guarantee, the Representative of the Bondholders, on behalf of the Bondholders, shall have a claim against the Guarantor for an amount equal to the Early Termination Amount, together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 10(a) (*Gross up by Issuer*) in accordance with the Priority of Payments;

(iii) *Disposal of Assets*: the Guarantor shall immediately sell all Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement; and

(iv) *Enforcement*: the Representative of the Bondholders may, at its discretion and without further notice, subject to adequate satisfaction before doing so, take such steps and/or institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce such payments, but it shall not be bound to take any such proceedings or steps unless requested or authorised by a resolution of the Bondholders.

11.4 Amortisation Test and relevant breach

Starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantor Default Notice is delivered,

the Guarantor shall procure that on any Test Calculation Date, the Amortisation Test is met with respect to the Cover Pool, provided that, in case the Issuer Event of Default consists of an Article 74 Event, no Article 74 Event Cure Notice has been served.

If a breach of the Amortisation Test occurs:

(i) *Pass Through Series*: any and all Series of Covered Bonds will become immediately Pass Through Series in accordance with Condition 8(b); and

(ii) *Disposal of Assets*: the Guarantor shall use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool in accordance with the provisions of the Cover Pool Management Agreement.

11.5 Determinations, etc: all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 11 by the Representative of the Bondholders shall (in the absence of wilful default (*dolo*), gross negligence (*colpa grave*) or manifest error) be binding on the Issuer, the Guarantor and all Bondholders and (in such absence as aforesaid) no liability to the Bondholders, the Issuer or the Guarantor shall attach to the Representative of the Bondholders in connection with the exercise or non-exercise by it of its powers, duties and discretions hereunder.

12. LIMITED RECOURSE AND NON PETITION

12.1 Limited recourse

The obligations of the Guarantor under the Guarantee constitute direct and unconditional, unsubordinated and limited recourse obligations of the Guarantor, collateralised by the Cover Pool as provided under Law 130, Decree No. 310 and the Bank of Italy Regulations. The recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool subject to, and in accordance with, the relevant Priority of Payments pursuant to which specified payments will be made to other parties prior to payments to the Bondholders.

12.2 **Non petition**

Only the Representative of the Bondholders may pursue the remedies available under the general law or under the Programme Documents to obtain payment of the Guaranteed Obligations or enforce the Guarantee and/or the Security and no Bondholder shall be entitled to proceed directly against the Guarantor to obtain payment of the Guaranteed Obligations or to enforce the Guarantee and/or the Security. In particular:

(a) no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) is entitled, otherwise than as permitted by the Programme Documents, to direct the Representative of the Bondholders to enforce the Guarantee and/or Security or take any proceedings against the Guarantor to enforce the Guarantee and/or the Security;

(b) no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) shall have the right to take or join any person in taking any steps against the Guarantor for the purpose of obtaining payment of any amount due from the Guarantor;

(c) until the date falling two years and one day after the date on which all Series and Tranches of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their Conditions and the relevant final Terms no Bondholder (nor any person on its behalf, except the Representative of the Bondholders) shall initiate or join any person in initiating an Insolvency Event in relation to the Guarantor; and

(d) no Bondholder shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priority of Payments not being complied with.

13. PRESCRIPTION

Claims for payment under the Covered Bonds shall become void unless made within ten years (in respect of principal) or five years (in respect of interest) from the due date thereof.

14. REPRESENTATIVE OF THE BONDHOLDERS

(a) *Organisation of the Bondholders*: The Organisation of the Bondholders shall be established upon, and by virtue of, the issue of the first Series of Covered Bonds under the Programme and shall remain in force and in effect until repayment in full or cancellation of all the Covered Bonds of whatever Series or Tranche. Pursuant to the Rules, for as long as any Covered Bonds of any Series or Tranche are outstanding, there shall at all times be a Representative of the Bondholders. The appointment of the Representative of the Bondholders as legal representative of the Organisation of the Bondholders is made by the Bondholders subject to and in accordance with the Rules.

(b) *Initial appointment*: In the Programme Agreement, the Dealers have appointed the Representative of the Bondholders to perform the activities described in the

Mandate Agreement, in the Programme Agreement, in these Conditions (including the Rules), and in the other Programme Documents and the Representative of the Bondholders has accepted such appointment for the period commencing on the Issue Date and ending (subject to early termination of its appointment) on the date on which all of the Covered Bonds of whatever Series and Tranche have been cancelled or redeemed in accordance with their respective terms and conditions.

(c) *Acknowledgment by Bondholders*: Each Bondholder, by reason of holding Covered Bonds:

(i) recognises the Representative of the Bondholders as its representative and (to the fullest extent permitted by law) agrees to be bound by the Programme Documents; and

(ii) acknowledges and accepts that the Dealers shall not be liable in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Bondholders as a result of the performance by the Representative of the Bondholders of its duties or the exercise of any of its rights under the Programme Documents.

15. AGENTS

In acting under the Cash Allocation, Management and Payments Agreement and in connection with the Covered Bonds, the Paying Agents act solely as agents of the Issuer and, following service of a Guarantee Enforcement Notice or a Guarantor Default Notice, as agents of the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The Principal Paying Agent and its initial Specified Office is set out in these Conditions. Any additional Paying Agents and their Specified Offices are specified in the relevant Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that**:

(a) the Issuer and the Guarantor shall at all times maintain a principal paying agent; and

(b) the Issuer and the Guarantor shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; and

(c) if and for so long as the Covered Bonds are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Bondholders.

16. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Bondholders, create and issue further Covered Bonds, as set out in the relevant Final Terms, having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Covered Bonds.

17. NOTICES

(a) *Notices given through Monte Titoli*: Any notice regarding the Covered Bonds issued in bearer and dematerialised form, as long as the Covered Bonds are held through Monte Titoli, shall be deemed to have been duly given if given through the systems of Monte Titoli.

(b) *Notices in Luxembourg*: As long as the Covered Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, any notice to Bondholders shall also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(c) *Other publication*: The Representative of the Bondholders shall be at liberty to sanction any other method of giving notice to Bondholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the rules of the competent authority, stock exchange and/or quotation system by which the Covered Bonds are then admitted to listing, trading and/or quotation and provided that notice of such other method is given to the holders of the Covered Bonds in such manner as the Representative of the Bondholders shall require.

18. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

19. GOVERNING LAW AND JURISDICTION

(a) *Governing law*: The Covered Bonds will be governed by Italian law. These Conditions and the related Programme Documents will be governed by Italian law, except for the Swap Agreements and the English Account Bank Agreement, which will be governed by English law.

(b) *Jurisdiction*: The courts of Milan have exclusive competence for the resolution of any dispute that may arise in relation to the Covered Bonds or their validity, interpretation or performance.

(c) *Relevant legislation*: Anything not expressly provided for in these Conditions will be governed by the provisions of Law 130 and, if applicable, Article 58 of the Consolidated Banking Act, the Bank of Italy Regulations and Decree No. 310.

RULES OF THE ORGANISATION OF THE BONDHOLDERS

TITLE I
GENERAL PROVISIONS

1. **GENERAL**

1.1 The Organisation of the Bondholders in respect of all Covered Bonds of whatever Series or Tranche issued under the Programme by Banca Monte dei Paschi di Siena S.p.A. is created concurrently with the issue and subscription of the Covered Bonds of the first Series to be issued and is governed by these Rules of the Organisation of the Bondholders ("**Rules**").

1.2 These Rules shall remain in force and effect until full repayment or cancellation of all the Covered Bonds of whatever Series or Tranche.

1.3 The contents of these Rules are deemed to be an integral part of the Conditions of the Covered Bonds of each Series or Tranche issued by the Issuer.

2. **DEFINITIONS AND INTERPRETATION**

2.1 **Definitions**

In these Rules, the terms below shall have the following meanings:

"**Block Voting Instruction**" means, in relation to a Meeting, a document issued by a Paying Agent:

(a) certifying that specified Covered Bonds are held to the order of a Paying Agent or under its control or have been blocked in an account with a clearing system and will not be released until a the earlier of:

(i) a specified date which falls after the conclusion of the Meeting; and

(ii) the surrender to the Paying Agent which issued the same not less than 48 hours before the time fixed for the Meeting (or, if the meeting has been adjourned, the time fixed for its resumption) of confirmation that the Covered Bonds are Blocked Covered Bonds and notification of the release thereof by such Paying Agent to the Issuer and Representative of the Bondholders;

(b) certifying that the Holder of the relevant Blocked Covered Bonds or a duly authorised person on its behalf has notified the relevant Paying Agent that the votes attributable to such Covered Bonds are to be cast in a particular way on each resolution to be put to the Meeting and that during the period of 48 hours before the time fixed for the Meeting such instructions may not be amended or revoked;

(c) listing the aggregate principal amount of such specified Blocked Covered Bonds, distinguishing between those in respect of which instructions have been given to vote for, and against, each resolution; and

(d) authorising a named individual to vote in accordance with such instructions;

"**Blocked Covered Bonds**" means Covered Bonds which have been blocked in an account with a clearing system or otherwise are held to the order of or under the control of a Paying Agent for the purpose of obtaining from that Paying Agent a Block Voting Instruction or a Voting Certificate on terms that they will not be released until after the conclusion of the Meeting in respect of which the Block Voting Instruction or Voting Certificate is required;

"**Chairman**" means, in relation to any Meeting, the person who takes the chair in accordance with Article 8 (*Chairman of the Meeting*).

"**Event of Default**" means an Issuer Event of Default or a Guarantor Event of Default;

"**Extraordinary Resolution**" means a resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules by a majority of not less than three quarters of the votes cast;

"**Fitch**" means Fitch Ratings Ltd;

"**Holder**" or "**holder**" means in respect of Covered Bonds, the ultimate owner of such Covered Bonds;

"**Liabilities**": means all costs, charges, damages, expenses, liabilities and losses;

"**Meeting**" means a meeting of Bondholders (whether originally convened or resumed following an adjournment);

"**Monte Titoli Account Holder**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as intermediari aderenti) in accordance with Article 30 of Italian Legislative Decree No. 213 and includes any depository banks appointed by the Relevant Clearing System;

"**Moody's**" means Moody's Investors Service Limited;

"**Ordinary Resolution**" means any resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules by a majority of more than 50 per cent. of the votes cast;

"**Programme Resolution**" means an Extraordinary Resolution passed at a single meeting of the Bondholders of all Series and or Tranches, duly convened and held in accordance with the provisions contained in these Rules (i) to direct the Representative of the Bondholders to take any action pursuant to Condition 11.2 (*Issuer Event of Default*), Condition 11.3 (*Guarantor Event of Default*) or to appoint or remove the Representative of the Bondholders pursuant to Article 26 (*Appointment, Removal and Remuneration*); or (iii) to take any other action stipulated in the Conditions or Programme Documents as requiring a Programme Resolution;

"**Proxy**" means a person appointed to vote under a Voting Certificate as a proxy or a person appointed to vote under a Block Voting Instruction, in each case other than:

(a) any person whose appointment has been revoked and in relation to whom the relevant Paying Agent, or in the case of a proxy appointed under a Voting Certificate, the Issuer has been notified in writing of such revocation by the time which is 48 hours before the time fixed for the relevant Meeting; and

(b) any person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been reappointed to vote at the Meeting when it is resumed;

"**Rating Agencies**" means Fitch and Moody's and each of them is a "Rating Agency";

"**Resolutions**" means the Ordinary Resolutions, the Extraordinary Resolutions and the Programme Resolutions, collectively;

"**Swap Rate**" means, in relation to a Covered Bond, Series or Tranche of Covered Bonds, the exchange rate specified in any Swap Agreement relating to such Covered Bond, Series or Tranche of Covered Bonds or, if there is not exchange rate specified or if the Swap Agreements have terminated, the applicable spot rate;

"**Transaction Party**" means any person who is a party to a Programme Document;

"**Voter**" means, in relation to a Meeting, the Holder or a Proxy named in a Voting Certificate, the bearer of a Voting Certificate issued by a Paying Agent or a Proxy named in a Block Voting Instruction;

"**Voting Certificate**" means, in relation to any Meeting:

(a) a certificate issued by a Monte Titoli Account Holder in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 22 February 2008, as amended from time to time; or

(b) a certificate issued by a Paying Agent stating:

(i) that Blocked Covered Bonds will not be released until the earlier of:

(A) a specified date which falls after the conclusion of the Meeting; and

(B) the surrender of such certificate to such Paying Agent; and

(ii) the bearer of the certificate is entitled to attend and vote at such Meeting in respect of such Blocked Covered Bonds.

"**Written Resolution**" means a resolution in writing signed by or on behalf of one or more persons being or representing at least 75 per cent. of all the Bondholders who at any relevant time are entitled to participate in a Meeting in accordance with the provisions of these Rules, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more of such Bondholders;

"**24 hours**" means a period of 24 hours including all or part of a day on which banks are open for business both in the place where any relevant Meeting is to be held and in each of the places where the Paying Agents have their Specified Offices; and

"**48 hours**" means two consecutive periods of 24 hours.

Unless otherwise provided in these Rules, or unless the context requires otherwise, words and expressions used in these Rules shall have the meanings and the construction ascribed to them in the Conditions to which there Rules are attached.

2.2 Interpretation

In these Rules:

2.2.1 any reference herein to an "**Article**" shall, except where expressly provided to the contrary, be a reference to an article of these Rules of the Organisation of the Bondholders;

2.2.2 a "**successor**" of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Programme Document or to which, under such laws, such rights and obligations have been transferred; and

2.2.3 any reference to any Transaction Party shall be construed so as to include its and any subsequent successors and transferees in accordance with their respective interests.

2.3 Separate Series or Tranches

Subject to the provisions of the next sentence, the Covered Bonds of each Series or Tranche shall form a separate Series or Tranche of Covered Bonds and accordingly, unless for any purpose the Representative of the Bondholders in its absolute discretion shall otherwise determine, the provisions of this sentence and of Articles 3 (*Purpose of the Organisation*) to 25 (*Meetings and Separate Series or Tranches*) and 28 (*Duties and Powers of the Representative of the Bondholders*) to 36 (*Powers to Act on behalf of the Guarantor*) shall apply mutatis mutandis separately and independently to the Covered Bonds of each Series or Tranche. However, for the purposes of this Article 2.3:

2.3.1 Articles 26 (*Appointment, removal and remuneration*) and 27 *(Resignation of the Representative of the Bondholders*); and

2.3.2 insofar as they relate to a Programme Resolution, Articles 3 (*Purpose of the Organisation*) to 24 (*Meetings and Separate Series or Tranches*) and 28 (*Duties and Powers of the Representative of the Bondholders*) to 36 (*Powers to Act on behalf of the Guarantor*),

the Covered Bonds shall be deemed to constitute a single Series or Tranche and the provisions of such Articles shall apply to all the Covered Bonds together as if they constituted a single Series or Tranche and, in such Articles, the expressions "Covered Bonds" and "Bondholders" shall be construed accordingly.

3. **PURPOSE OF THE ORGANISATION**

3.1 Each Bondholder, whatever Series or Tranche of Covered Bonds he holds, is a member of the Organisation of the Bondholders.

3.2 The purpose of the Organisation of the Bondholders is to co-ordinate the exercise of the rights of the Bondholders and, more generally, to take any action necessary or desirable to protect the interest of the Bondholders.

TITLE II
MEETINGS OF THE BONDHOLDERS

4. **VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS**

4.1 A Bondholder may obtain a Voting Certificate in respect of a Meeting by requesting its Monte Titoli Account Holder to issue a certificate in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 22 February 2008, as amended from time to time.

4.2 A Bondholder may also obtain a Voting Certificate from a Paying Agent or require a Paying Agent to issue a Block Voting Instruction by arranging for Covered Bonds to be (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account in a clearing system (other than Monte Titoli) not later than 48 hours before the time fixed for the relevant Meeting.

4.3 A Voting Certificate or Block Voting Instruction shall be valid until the release of the Blocked Covered Bonds to which it relates.

4.4 So long as a Voting Certificate or Block Voting Instruction is valid, the person named therein as Holder or Proxy (in the case of a Voting Certificate issued by a Monte Titoli Account Holder), the bearer thereof (in the case of a Voting Certificate issued by a Paying Agent), and any Proxy named therein (in the case of a Block Voting Instruction issued by a Paying Agent) shall be deemed to be the Holder of the Covered Bonds to which it relates for all purposes in connection with the Meeting to which such Voting Certificate or Block Voting Instruction relates.

4.5 A Voting Certificate and a Block Voting Instruction cannot be outstanding simultaneously in respect of the same Covered Bonds.

4.6 References to the blocking or release of Covered Bonds shall be construed in accordance with the usual practices (including blocking the relevant account) of any Relevant Clearing System.

5. **VALIDITY OF BLOCK VOTING INSTRUCTIONS**

A Block Voting Instruction or a Voting Certificate issued by a Monte Titoli Account Holder shall be valid for the purpose of the relevant Meeting only if it is deposited at the Specified Offices of the Principal Paying Agent, or at any other place approved by the Representative of the Bondholders, at least 24 hours before the time fixed for the relevant Meeting. If a Block Voting Instruction or a Voting Certificate is not deposited before such deadline, it shall not be valid. If the Representative of the Bondholders so requires, a notarised (or otherwise acceptable) copy of each Block Voting Instruction

and satisfactory evidence of the identity of each Proxy named in a Block Voting Instruction or of each Holders or Proxy named in a Voting Certificate issued by a Monte Titoli Account Holder shall be produced at the Meeting but the Representative of the Bondholders shall not be obliged to investigate the validity of a Block Voting Instruction or a Voting Certificate or the identity of any Proxy or any holder of the Covered Bonds named in a Voting Certificate or a Block Voting Instruction.

6. CONVENING A MEETING

6.1 Convening a Meeting

The Representative of the Bondholders, the Guarantor or the Issuer may and (in relation to a meeting for the passing of a Programme Resolution) the Issuer shall upon a requisition in writing signed by the holders of not less than five per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding convene a meeting of the Bondholders and if the Issuer makes default for a period of seven days in convening such a meeting requisitioned by the Bondholders the same may be convened by the Representative of the Bondholders or the requisitionists. The Representative of the Bondholders may convene a single meeting of the holders of Covered Bonds of more than one Series or Tranche if in the opinion of the Representative of the Bondholders there is no conflict between the holders of the Covered Bonds of the relevant Series or Tranche, in which event the provisions of this Schedule shall apply thereto mutatis mutandis.

6.2 Meetings convened by Issuer

Whenever the Issuer is about to convene a Meeting, it shall immediately give notice in writing to the Representative of the Bondholders specifying the proposed day, time and place of the Meeting, and the items to be included in the agenda.

6.3 Time and place of Meetings

Every Meeting will be held on a date and at a time and place selected or approved by the Representative of the Bondholders.

7. NOTICE

7.1 Notice of Meeting

At least 21, or 5 in case of a Meeting convened in order to resolve to extend the Test Remedy Period pursuant to Condition 11.2 (*Issuer Events of Default*), days' notice (exclusive of the day notice is delivered and of the day on which the relevant Meeting is to be held), specifying the day, time and place of the Meeting, must be given to the relevant Bondholders and the Paying Agents, with a copy to the Issuer and the Guarantor, where the Meeting is convened by the Representative of the Bondholders, or with a copy to the Representative of the Bondholders, where the Meeting is convened by the Issuer, subject to Article 6.3.

7.2 Content of notice

The notice shall set out the full text of any resolution to be proposed at the Meeting unless the Representative of the Bondholders agrees that the notice shall instead specify

the nature of the resolution without including the full text and shall state that Voting Certificates for the purpose of such Meeting may be obtained from a Monte Titoli Account Holder in accordance with the provisions of the regulation issued jointly by the Bank of Italy and CONSOB on 22 February 2008, as amended from time to time and that for the purpose of obtaining Voting Certificates from a Paying Agent or appointing Proxies under a Block Voting Instruction, Covered Bonds must (to the satisfaction of such Paying Agent) be held to the order of or placed under the control of such Paying Agent or blocked in an account with a clearing system not later than 48 hours before the relevant Meeting.

7.3 Validity notwithstanding lack of notice

A Meeting is valid notwithstanding that the formalities required by this Article 7 are not complied with if the Holders of the Covered Bonds constituting all the Principal Amount Outstanding of the Covered Bonds, the Holders of which are entitled to attend and vote, are represented at such Meeting and the Issuer and the Representative of the Bondholders are present.

8. CHAIRMAN OF THE MEETING

8.1 Appointment of Chairman

An individual (who may, but need not be, a Bondholder), nominated by the Representative of the Bondholders may take the chair at any Meeting, but if:

8.1.1 the Representative of the Bondholders fails to make a nomination; or

8.1.2 the individual nominated declines to act or is not present within 15 minutes after the time fixed for the Meeting,

the Meeting shall be chaired by the person elected by the majority of the Voters present, failing which, the Issuer shall appoint a Chairman. The Chairman of an adjourned Meeting need not be the same person as was Chairman at the original Meeting.

8.2 Duties of Chairman

The Chairman ascertains that the Meeting has been duly convened and validly constituted, manages the business of the Meeting, monitors the fairness of proceedings, leads and moderates the debate, and determines the mode of voting.

8.3 Assistance to Chairman

The Chairman may be assisted by outside experts or technical consultants, specifically invited to assist in any given matter, and may appoint one or more vote-counters, who are not required to be Bondholders.

9. QUORUM

The quorum at any Meeting will be:

9.1.1 in the case of an Ordinary Resolution, two or more persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the

Covered Bonds the holders of which are entitled to attend and vote or, at an adjourned Meeting, two or more persons being or representing Bondholders entitled to attend and vote, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented;

9.1.2 in the case of an Extraordinary Resolution or a Programme Resolution, two or more persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds the holders of which are entitled to attend and vote or at an adjourned Meeting, two or more persons being or representing Bondholders entitled to attend and vote, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented;

9.1.3 at any meeting the business of which includes any of the following matters (other than in relation to a Programme Resolution) (each of which shall, subject only to Article 32.4 (*Obligation to act*), only be capable of being effected after having been approved by Extraordinary Resolution) namely:

(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;

(b) alteration of the currency in which payments under the Covered Bonds are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) any amendment to the Guarantee or the Deed of Pledge (except in a manner determined by the Representative of the Bondholders not to be materially prejudicial to the interests of the Bondholders of any Series or Tranche);

(e) except in accordance with Articles 31 (*Amendments and Modifications*) and 32 (*Waiver*), the sanctioning of any such scheme or proposal to effect the exchange, conversion or substitution of the Covered Bonds for, or the conversion of such Covered Bonds into, shares, bonds or other obligations or securities of the Issuer or the Guarantor or any other person or body corporate, formed or to be formed; and

(f) alteration of this Article 9.1.3;

(each a "**Series or Tranche Reserved Matter**"), the quorum shall be two or more persons being or representing holders of not less two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series or Tranche for the time being outstanding or, at any adjourned meeting, two or more persons being or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series or Tranche for the time being outstanding,

provided that, if in respect of any Covered Bonds the Paying Agent has received evidence that 90 per cent. Covered Bonds are held by a single Holder and the Voting Certificate or Block Voting Instruction so states then a single Voter appointed in relation thereto or being the Holder of the Covered Bonds thereby represented shall be deemed to be two Voters for the purpose of forming a quorum.

10. ADJOURNMENT FOR WANT OF QUORUM

If a quorum is not present for the transaction of any particular business within 15 minutes after the time fixed for any Meeting, then, without prejudice to the transaction of the business (if any) for which a quorum is present:

10.1 if such Meeting was requested by Bondholders, the Meeting shall be dissolved; and

10.2 in any other case, the Meeting (unless the Issuer and the Representative of the Bondholders otherwise agree) shall, subject to paragraphs 10.2.1 and 10.2.2 below, be adjourned to a new date no earlier than 14 days and no later than 42 days after the original date of such Meeting, and to such place as the Chairman determines with the approval of the Representative of the Bondholders provided that:

10.2.1 no Meeting may be adjourned more than once for want of a quorum; and

10.2.2 the Meeting shall be dissolved if the Issuer and the Representative of the Bondholders together so decide.

11. ADJOURNED MEETING

Except as provided in Article 10 (Adjournment for Want of Quorum), the Chairman may, with the prior consent of any Meeting, and shall if so directed by any Meeting, adjourn such Meeting to another time and place. No business shall be transacted at any adjourned meeting except business which might have been transacted at the Meeting from which the adjournment took place.

12. NOTICE FOLLOWING ADJOURNMENT

12.1 Notice required

Article 7 (*Notice*) shall apply to any Meeting which is to be resumed after adjournment for lack of a quorum except that:

12.1.1 10 days' notice (exclusive of the day on which the notice is delivered and of the day on which the Meeting is to be resumed) shall be sufficient; and

12.1.2 the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

12.2 Notice not required

It shall not be necessary to give notice of resumption of any Meeting adjourned for reasons other than those described in Article 10 (*Adjournment for Want of Quorum*).

13. PARTICIPATION

The following categories of persons may attend and speak at a Meeting:

13.1 Voters;

13.2 the directors and the auditors of the Issuer and the Guarantor;

13.3 representatives of the Issuer, the Guarantor and the Representative of the Bondholders;

13.4 financial advisers to the Issuer, the Guarantor and the Representative of the Bondholders;

13.5 legal advisers to the Issuer, the Guarantor and the Representative of the Bondholders; and

13.6 any other person authorised by virtue of a resolution of such Meeting or by the Representative of the Bondholders.

14. VOTING BY SHOW OF HANDS

14.1 Every question submitted to a Meeting shall be decided in the first instance by a vote by a show of hands.

14.2 Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed or passed by a particular majority or rejected, or rejected by a particular majority, shall be conclusive without proof of the number of votes cast for, or against, the resolution.

15. VOTING BY POLL

15.1 Demand for a poll

A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Guarantor, the Representative of the Bondholders or one or more Voters whatever the Principal Amount Outstanding of the Covered Bonds held or represented by such Voter(s). A poll may be taken immediately or after such adjournment as is decided by the Chairman but any poll demanded on the election of a Chairman or on any question of adjournment shall be taken immediately. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business. The result of a poll shall be deemed to be the resolution of the Meeting at which the poll was demanded.

15.2 The Chairman and a poll

The Chairman sets the conditions for the voting, including for counting and calculating the votes, and may set a time limit by which all votes must be cast. Any vote which is not cast in compliance with the terms specified by the Chairman shall be null and void. After voting ends, the votes shall be counted and, after the counting, the Chairman shall announce to the Meeting the outcome of the vote.

16. VOTES

16.1 Voting

Each Voter shall have:

16.1.1 on a show of hands, one vote; and

16.1.2 on a poll every Vote who is so present shall have one vote in respect of each €1,000 or such other amount as the Representative of the Bondholders may in its absolute discretion stipulate (or, in the case of meetings of holders of Covered Bonds denominated in another currency, such amount in such other currency as the Representative of the Bondholders in its absolute discretion may stipulate) in the Principal Amount Outstanding of the Covered Bonds it holds or represents.

16.2 Block Voting Instruction

Unless the terms of any Block Voting Instruction or Voting Certificate state otherwise in the case of a Proxy, a Voter shall not be obliged to exercise all the votes to which such Voter is entitled or to cast all the votes he exercises the same way.

16.3 Voting tie

In the case of a voting tie, the relevant Resolution shall be deemed to have been rejected.

17. VOTING BY PROXY

17.1 Validity

Any vote by a Proxy in accordance with the relevant Block Voting Instruction or Voting Certificate appointing a Proxy shall be valid even if such Block Voting Instruction or Voting Certificate or any instruction pursuant to which it has been given had been amended or revoked **provided that** none of the Issuer, the Representative of the Bondholders or the Chairman has been notified in writing of such amendment or revocation at least 24 hours prior to the time set for the relevant Meeting.

17.2 Adjournment

Unless revoked, the appointment of a Proxy under a Block Voting Instruction or a Voting Certificate in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment save that no such appointment of a Proxy in relation to a meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such meeting when it is resumed. Any person appointed to vote at such Meeting must be re-appointed under a Block Voting Instruction or Voting Certificate to vote at the Meeting when it is resumed.

18. RESOLUTIONS

18.1 Ordinary Resolutions

Subject to Article 18.2 (*Extraordinary Resolutions*), a Meeting shall have the following powers exercisable by Ordinary Resolution, to:

18.1.1 grant any authority, order or sanction which, under the provisions of these Rules or of the Conditions, is required to be the subject of an Ordinary Resolution or required to be the subject of a resolution or determined by a Meeting and not required to be the subject of an Extraordinary Resolution; and

18.1.2 to authorise the Representative of the Bondholders or any other person to execute all documents and do all things necessary to give effect to any Ordinary Resolution.

18.2 Extraordinary Resolutions

A Meeting, in addition to any powers assigned to it in the Conditions, shall have power exercisable by Extraordinary Resolution to:

18.2.1 sanction any compromise or arrangement proposed to be made between the Issuer, the Guarantor, the Representative of the Bondholders, the Bondholders or any of them;

18.2.2 approve any modification, abrogation, variation or compromise in respect of (a) the rights of the Representative of the Bondholders, the Issuer, the Guarantor, the Bondholders or any of them, whether such rights arise under the Programme Documents or otherwise, and (b) these Rules, the Conditions or of any Programme Document or any arrangement in respect of the obligations of the Issuer under or in respect of the Covered Bonds, which, in any such case, shall be proposed by the Issuer, the Representative of the Bondholders and/or any other party thereto;

18.2.3 assent to any modification of the provisions of this these Rules or the Programme Documents which shall be proposed by the Issuer, the Guarantor, the Representative of the Bondholders or of any Bondholder;

18.2.4 in accordance with Article 26 (*Appointment, Removal and Remuneration*), appoint and remove the Representative of the Bondholders;

18.2.5 discharge or exonerate, whether retrospectively or otherwise, the Representative of the Bondholders from any liability in relation to any act or omission for which the Representative of the Bondholders has or may become liable pursuant or in relation to these Rules, the Conditions or any other Programme Document;

18.2.6 waive any breach or authorise any proposed breach by the Issuer, the Guarantor or (if relevant) any other Transaction Party of its obligations under or in respect of these Rules, the Covered Bonds or any other Programme Document or any act or omission which might otherwise constitute an Event of Default;

18.2.7 grant any authority, order or sanction which, under the provisions of these Rules or of the Conditions, must be granted by an Extraordinary Resolution;

18.2.8 authorise and ratify the actions of the Representative of the Bondholders in compliance with these Rules, the Intercreditor Agreement and any other Programme Document;

18.2.9 to appoint any persons (whether Bondholders or not) as a committee to represent the interests of the Bondholders and to confer on any such committee any powers which the Bondholders could themselves exercise by Extraordinary Resolution; and

18.2.10 authorise the Representative of the Bondholders or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution.

18.3 **Programme Resolutions**

A Meeting shall have power exercisable by a Programme Resolution to direct the Representative of the Bondholders to take any action pursuant to Condition 11.2(b) (*Issuer Events of Default – Breach of other obligations*) and Condition 11.3(c) (*Guarantor Event of Default - Breach of other obligations*) or to appoint or remove the Representative of the Bondholders pursuant to Article 26 (*Appointment, Removal and Remuneration*) or to take any other action required by the Conditions or any Programme Document to be taken by Programme Resolution.

18.4 **Other Series or Tranches of Covered Bonds**

No Ordinary Resolution or Extraordinary Resolution other than a Programme Resolution that is passed by the Holders of one Series of Covered Bonds shall be effective in respect of another Series or Tranche of Covered Bonds unless it is sanctioned by an Ordinary Resolution or Extraordinary Resolution (as the case may be) of the Holders of Covered Bonds then outstanding of that other Series or Tranches.

19. **EFFECT OF RESOLUTIONS**

19.1 **Binding nature**

Subject to Article 18.4 (*Other Series or Tranches of Covered Bonds*), any resolution passed at a Meeting of the Bondholders duly convened and held in accordance with these Rules shall be binding upon all Bondholders, whether or not present at such Meeting and or not voting. A Programme Resolution passed at any Meeting of the holders of the Covered Bonds of all Series and Tranches shall be binding on all holders of the Covered Bonds of all Series and Tranches, whether or not present at the meeting.

19.2 **Notice of voting results**

Notice of the results of every vote on a resolution duly considered by Bondholders shall be published (at the cost of the Issuer) in accordance with the Conditions and given to the Paying Agents (with a copy to the Issuer, the Guarantor and the Representative of the Bondholders within 14 days of the conclusion of each Meeting).

20. CHALLENGE TO RESOLUTIONS

Any absent or dissenting Bondholder has the right to challenge Resolutions which are not passed in compliance with the provisions of these Rules.

21. MINUTES

Minutes shall be made of all resolutions and proceedings of each Meeting. The Minutes shall be signed by the Chairman and shall be *prima facie* evidence of the proceedings therein recorded. Unless and until the contrary is proved, every Meeting in respect of which minutes have been signed by the Chairman shall be regarded as having been duly convened and held and all resolutions passed or proceedings transacted shall be regarded as having been duly passed and transacted.

22. WRITTEN RESOLUTION

A Written Resolution shall take effect as if it were an Extraordinary Resolution or, in respect of matters required to be determined by Ordinary Resolution, as if it were an Ordinary Resolution.

23. INDIVIDUAL ACTIONS AND REMEDIES

Each Bondholder has accepted and is bound by the provisions of Condition 12 (*Limited Recourse and Non Petition*) and clause 10 (*Limited Recourse*) of the Guarantee, accordingly, if any Bondholder is considering bringing individual actions or using other individual remedies to enforce his/her rights under the Guarantee (hereinafter, a "**Claiming Bondholder**"), then such Claiming Bondholder intending to enforce his/her rights under the Covered Bonds will notify the Representative of the Bondholders of his/her intention. The Representative of the Bondholders shall inform the other Bondholders of such prospective individual actions and remedies of which the Representative of the Bondholders has been informed by the Claiming Bondholder or otherwise and invite them to raise, in writing, any objection that they may have by a specific date not more than 30 days after the date of the Representative of the Bondholders notification and not less than 15 days after such notification. If Bondholders representing 5 per cent. or more of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding object to such prospective individual actions and remedies, then the Claiming Bondholder will be prevented from taking any individual action or remedy (without prejudice to the fact that after a reasonable period of time, the same matter may be resubmitted to the Representative of the Bondholders pursuant to the terms of this Article).

24. MEETINGS AND SEPARATE SERIES OR TRANCHES

24.1 Choice of Meeting

If and whenever the Issuer shall have issued and have outstanding Covered Bonds of more than one Series or Tranche the foregoing provisions of this Schedule shall have effect subject to the following modifications:

24.1.1 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of only one Series or Tranche shall be deemed to

have been duly passed if passed at a separate meeting of the holders of the Covered Bonds of that Series or Tranches;

24.1.2 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of more than one Series or Tranche but does not give rise to a conflict of interest between the holders of Covered Bonds of any of the Series or Tranche so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Covered Bonds of all the Series or Tranches so affected;

24.1.3 a resolution which in the opinion of the Representative of the Bondholders affects the Covered Bonds of more than one Series or Tranche and gives or may give rise to a conflict of interest between the holders of the Covered Bonds of one Series or Tranche or group of Series or Tranches so affected and the holders of the Covered Bonds of another Series or Tranche or group of Series or Tranches so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Covered Bonds of each Series or Tranche or group of Series or Tranches so affected;

24.1.4 a Programme Resolution shall be deemed to have been duly passed only if passed at a single meeting of the Bondholders of all Series or Tranches; and

24.1.5 to all such meetings all the preceding provisions of these Rules shall mutatis mutandis apply as though references therein to Covered Bonds and Bondholders were references to the Covered Bonds of the Series or Tranche or group of Series or Tranches in question or to the holders of such Covered Bonds, as the case may be.

24.2 **Denominations other than euro**

If the Issuer has issued and has outstanding Covered Bonds which are not denominated in euro in the case of any meeting or request in writing or Written Resolution of holders of Covered Bonds of more than one currency (whether in respect of a meeting or any adjourned such meeting or any poll resulting therefrom or any such request or Written Resolution) the Principal Amount Outstanding of such Covered Bonds shall be the equivalent in euro at the relevant Swap Rate. In such circumstances, on any poll each person present shall have one vote for each €1.00 (or such other euro amount as the Representative of the Bondholders may in its absolute discretion stipulate) of the Principal Amount Outstanding of the Covered Bonds (converted as above) which he holds or represents.

25. FURTHER REGULATIONS

Subject to all other provisions contained in these Rules, the Representative of the Bondholders may, without the consent of the Issuer, prescribe such further regulations regarding the holding of Meetings and attendance and voting at them and/or the provisions of a Written Resolution as the Representative of the Bondholders in its sole discretion may decide.

TITLE III
THE REPRESENTATIVE OF THE BONDHOLDERS

26. APPOINTMENT, REMOVAL AND REMUNERATION

26.1 Appointment

The appointment of the Representative of the Bondholders takes place by Programme Resolution in accordance with the provisions of this Article 26, except for the appointment of the first Representative of the Bondholders which will be BNY Mellon Corporate Trustee Services Limited.

26.2 Identity of Representative of the Bondholders

The Representative of the Bondholders shall be:

26.2.1 a bank incorporated in any jurisdiction of the EEA or a bank incorporated in any other jurisdiction acting through an Italian branch; or

26.2.2 a company or financial institution enrolled with the register held by the Bank of Italy pursuant to Article 106 of Italian Legislative Decree No. 385 of 1993; or

26.2.3 any other entity which is not prohibited from acting in the capacity of Representative of the Bondholders pursuant to the law.

The directors and auditors of the Issuer and those who fall within the conditions set out in Article 2399 of the Italian Civil Code cannot be appointed as Representative of the Bondholders and, if appointed as such, they shall be automatically removed.

26.3 Duration of appointment

Unless the Representative of the Bondholders is removed by Programme Resolution of the Bondholders pursuant to Article 18.3 (*Programme Resolution*) or resigns pursuant to Article 27 (*Resignation of the Representative of the Bondholders*), it shall remain in office until full repayment or cancellation of all the Covered Bonds.

26.4 After termination

In the event of a termination of the appointment of the Representative of the Bondholders for any reason whatsoever, such representative shall remain in office until the substitute Representative of the Bondholders, which shall be an entity specified in Article 26.2 (*Identity of Representative of the Bondholders*), accepts its appointment, and the powers and authority of the Representative of the Bondholders whose appointment has been terminated shall, pending the acceptance of its appointment by the substitute, be limited to those necessary to perform the essential functions required in connection with the Covered Bonds.

26.5 Remuneration

The Issuer, failing which the Guarantor, shall pay to the Representative of the Bondholders an annual fee for its services as Representative of the Bondholders from the Issue Date, as agreed either in the initial agreement(s) for the issue of and

subscription for the Covered Bonds or in a separate fee letter. Such fees shall accrue from day to day and shall be payable in accordance with the priority of payments set out in the Intercreditor Agreement up to (and including) the date when all the Covered Bonds of whatever Series or Tranche shall have been repaid in full or cancelled in accordance with the Conditions.

27. RESIGNATION OF THE REPRESENTATIVE OF THE BONDHOLDERS

The Representative of the Bondholders may resign at any time by giving at least three calendar months' written notice to the Issuer and the Guarantor, without needing to provide any specific reason for the resignation and without being responsible for any costs incurred as a result of such resignation. The resignation of the Representative of the Bondholders shall not become effective until a new Representative of the Bondholders has been appointed in accordance with Article 26.1 (*Appointment*) and such new Representative of the Bondholders has accepted its appointment. **Provided that** if Bondholders fail to select a new Representative of the Bondholders within three months of written notice of resignation delivered by the Representative of the Bondholders, the Representative of the Bondholders may appoint a successor which is a qualifying entity pursuant to Article 26.2 (*Identity of the Representative of the Bondholders*).

28. DUTIES AND POWERS OF THE REPRESENTATIVE OF THE BONDHOLDERS

28.1 Representative of the Bondholders as legal representative

The Representative of the Bondholders is the legal representative of the Organisation of the Bondholders and has the power to exercise the rights conferred on it by the Programme Documents in order to protect the interests of the Bondholders.

28.2 Meetings and resolutions

Unless any Resolution provides to the contrary, the Representative of the Bondholders is responsible for implementing all resolutions of the Bondholders. The Representative of the Bondholders has the right to convene and attend Meetings (together with its adviser) to propose any course of action which it considers from time to time necessary or desirable.

28.3 Delegation

The Representative of the Bondholders may in the exercise of the powers, discretions and authorities vested in it by these Rules and the Programme Documents:

28.3.1 act by responsible officers or a responsible officer for the time being of the Representative of the Bondholders;

28.3.2 whenever it considers it expedient and in the interest of the Bondholders, whether by power of attorney or otherwise, delegate to any person or persons or fluctuating body of persons some, but not all, of the powers, discretions or authorities vested in it as aforesaid.

28.3.3 Any such delegation pursuant to Article 28.3.1 may be made upon such conditions and subject to such regulations (including power to sub-delegate) as the Representative of the Bondholders may think fit in the interest of the Bondholders. The Representative of the Bondholders shall not be bound to supervise the acts or proceedings of such delegate or sub-delegate and shall not in any way or to any extent be responsible for any loss incurred by reason of any misconduct, omission or default on the part of such delegate or sub-delegate, **provided that** the Representative of the Bondholders shall use all reasonable care in the appointment of any such delegate and shall be responsible for the instructions given by it to such delegate. The Representative of the Bondholders shall, as soon as reasonably practicable, give notice to the Issuer and the Guarantor of the appointment of any delegate and any renewal, extension and termination of such appointment, and shall procure that any delegate shall give notice to the Issuer and the Guarantor of the appointment of any sub-delegate as soon as reasonably practicable.

28.4 **Judicial proceedings**

The Representative of the Bondholders is authorised to represent the Organisation of the Bondholders in any judicial proceedings including any Insolvency Event in respect of the Issuer and/or the Guarantor.

28.5 **Consents given by Representative of Bondholders**

Any consent or approval given by the Representative of the Bondholders under these Rules and any other Programme Document may be given on such terms and subject to such conditions (if any) as the Representative of the Bondholders deems appropriate and, notwithstanding anything to the contrary contained in the Rules or in the Programme Documents, such consent or approval may be given retrospectively.

28.6 **Discretions**

Save as expressly otherwise provided herein, the Representative of the Bondholders shall have absolute discretion as to the exercise or non-exercise of any right, power and discretion vested in the Representative of the Bondholders by these Rules or by operation of law.

28.7 **Obtaining instructions**

In connection with matters in respect of which the Representative of the Bondholders is entitled to exercise its discretion hereunder, the Representative of the Bondholders has the right (but not the obligation) to convene a Meeting or Meetings in order to obtain the Bondholders' instructions as to how it should act. Prior to undertaking any action, the Representative of the Bondholders shall be entitled to request that the Bondholders indemnify it and/or provide it with security as specified in Article 29.2 (Specific Limitations).

28.8 **Remedy**

The Representative of the Bondholders may determine whether or not a default in the performance by the Issuer or the Guarantor of any obligation under the provisions of

these Rules, the Covered Bonds or any other Programme Documents may be remedied, and if the Representative of the Bondholders certifies that any such default is, in its opinion, not capable of being remedied, such certificate shall be conclusive and binding upon the Issuer, the Bondholders, the other creditors of the Guarantor and any other party to the Programme Documents.

29. EXONERATION OF THE REPRESENTATIVE OF THE BONDHOLDERS

29.1 Limited obligations

The Representative of the Bondholders shall not assume any obligations or responsibilities in addition to those expressly provided herein and in the Programme Documents.

29.2 Specific limitations

Without limiting the generality of the Article 29.1, the Representative of the Bondholders:

29.2.1 shall not be under any obligation to take any steps to ascertain whether an Event of Default, Segregation Event or any other event, condition or act, the occurrence of which would cause a right or remedy to become exercisable by the Representative of the Bondholders hereunder or under any other Programme Document, has occurred and, until the Representative of the Bondholders has actual knowledge or express notice to the contrary, it shall be entitled to assume that no Segregation Event, Event of Default or such other event, condition or act has occurred;

29.2.2 shall not be under any obligation to monitor or supervise the observance and performance by the Issuer or the Guarantor or any other parties of their obligations contained in these Rules, the Programme Documents or the Conditions and, until it shall have actual knowledge or express notice to the contrary, the Representative of the Bondholders shall be entitled to assume that the Issuer or the Guarantor and each other party to the Programme Documents are duly observing and performing all their respective obligations;

29.2.3 except as expressly required in these Rules or any Programme Document, shall not be under any obligation to give notice to any person of its activities in performance of the provisions of these Rules or any other Programme Document;

29.2.4 shall not be responsible for investigating the legality, validity, effectiveness, adequacy, suitability or genuineness of these Rules or of any Programme Document, or of any other document or any obligation or right created or purported to be created hereby or thereby or pursuant hereto or thereto, and (without prejudice to the generality of the foregoing) it shall not have any responsibility for or have any duty to make any investigation in respect of or in any way be liable whatsoever for:

(a) the nature, status, creditworthiness or solvency of the Issuer or the Guarantor;

(b) the existence, accuracy or sufficiency of any legal or other opinion, search, report, certificate, valuation or investigation delivered or obtained or required to be delivered or obtained at any time in connection with the Programme;

(c) the suitability, adequacy or sufficiency of any collection procedure operated by the Servicer or compliance therewith;

(d) the failure by the Issuer to obtain or comply with any licence, consent or other authorisation in connection with the purchase or administration of the assets contained in the Cover Pool; and

(e) any accounts, books, records or files maintained by the Issuer, the Guarantor, the Servicer and the Paying Agent or any other person in respect of the Cover Pool or the Covered Bonds;

29.2.5 shall not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Covered Bonds or the distribution of any of such proceeds to the persons entitled thereto;

29.2.6 shall have no responsibility for procuring or maintaining any rating of the Covered Bonds by any credit or rating agency or any other person;

29.2.7 shall not be responsible for investigating any matter which is the subject of any recital, statement, warranty, representation or covenant by any party other than the Representative of the Bondholders contained herein or in any Programme Document or any certificate, document or agreement relating thereto or for the execution, legality, validity, effectiveness, enforceability or admissibility in evidence thereof;

29.2.8 shall not be liable for any failure, omission or defect in registering or filing or procuring registration or filing of or otherwise protecting or perfecting these Rules or any Programme Document;

29.2.9 shall not be bound or concerned to examine or enquire into or be liable for any defect or failure in the right or title of the Guarantor in relation to the assets contained in the Cover Pool or any part thereof, whether such defect or failure was known to the Representative of the Bondholders or might have been discovered upon examination or enquiry or whether capable of being remedied or not;

29.2.10 shall not be under any obligation to guarantee or procure the repayment of the Assets contained in the Cover Pool or any part thereof;

29.2.11 shall not be responsible for reviewing or investigating any report relating to the Cover Pool or any part thereof provided by any person, with the exception of the Test Performance Report for the purposes of delivery of the notice;

29.2.12 shall not be responsible for or have any liability with respect to any loss or damage arising from the realisation of the Cover Pool or any part thereof;

29.2.13 shall not be responsible (except as expressly provided in the Conditions) for making or verifying any determination or calculation in respect of the Covered Bonds, the Cover Pool or any Programme Document;

29.2.14 shall not be under any obligation to insure the Cover Pool or any part thereof;

29.2.15 shall, when in these Rules or any Programme Document it is required in connection with the exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Bondholders, have regard to the overall interests of the Bondholders of each Series or Tranche as a class of persons and shall not be obliged to have regard to any interests arising from circumstances particular to individual Bondholders whatever their number and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or taxing authority;

29.2.16 shall not, if in connection with the exercise of its powers, trusts, authorities or discretions, it is of the opinion that the interest of the holders of the Covered Bonds of any one or more Series or Tranche would be materially prejudiced thereby, exercise such power, trust, authority or discretion without the approval of such Bondholders by Extraordinary Resolution or by a written resolution of such Bondholders of not less than 75 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant Series or Tranche then outstanding;

29.2.17 shall, with respect to the powers, trusts, authorities and discretions vested in it by the Programme Documents, except where expressly provided therein, have regard to the interests of both the Bondholders and the other creditors of the Issuer or the Guarantor but if, in the opinion of the Representative of the Bondholders, there is a conflict between their interests the Representative of the Bondholders will have regard solely to the interest of the Bondholders;

29.2.18 may refrain from taking any action or exercising any right, power, authority or discretion vested in it under these Rules or any Programme Document or any other agreement relating to the transactions herein or therein contemplated until it has been indemnified and/or secured to its satisfaction against any and all actions, proceedings, claims and demands which might be brought or made against it and against all Liabilities suffered, incurred or sustained by it as a result. Nothing contained in these Rules or any of the other Programme Documents shall require the Representative of the Bondholders to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder; and

29.2.19 shall not have any liability for any loss, liability, damages claim or expense directly or indirectly suffered or incurred by the Issuer, the Guarantor, any Bondholder, any Other Guarantor Creditor or any other person as a result of (a) the delivery by the Representative of the Bondholders of the certificate of incapability of remedy relating any material default of obligations pursuant to Condition 11.2 (*Issuer Events of Default*) and Condition 11.3 (*Guarantor*

Events of Default) on the basis of an opinion formed by it in good faith; or (b) any determination, any act, matter or thing that will not be materially prejudicial to the interests of the Bondholders as a whole or the interests of the Bondholders of any Series or Tranche.

29.3 **Covered Bonds held by Issuer**

The Representative of the Bondholders may assume without enquiry that no Covered Bonds are, at any given time, held by or for the benefit of the Issuer.

29.4 **Illegality**

No provision of these Rules shall require the Representative of the Bondholders to do anything which may be illegal or contrary to applicable law or regulations or to expend moneys or otherwise take risks in the performance of any of its duties, or in the exercise of any of its powers or discretion. The Representative of the Bondholders may refrain from taking any action which would or might, in its opinion, be contrary to any law of any jurisdiction or any regulation or directive of any agency of any state, or if it has reasonable grounds to believe that it will not be reimbursed for any funds it expends, or that it will not be indemnified against any loss or liability which it may incur as a consequence of such action. The Representative of the Bondholders may do anything which, in its opinion, is necessary to comply with any such law, regulation or directive as aforesaid.

30. **RELIANCE ON INFORMATION**

30.1 **Advice**

The Representative of the Bondholders may act on the advice of a certificate or opinion of, or any written information obtained from, any lawyer, accountant, banker, broker, credit or rating agency or other expert, whether obtained by the Issuer, the Guarantor, the Representative of the Bondholders or otherwise, and shall not be liable for any loss occasioned by so acting. Any such opinion, advice, certificate or information may be sent or obtained by letter, telegram, e-mail or fax transmission and the Representative of the Bondholders shall not be liable for acting on any opinion, advice, certificate or information purporting to be so conveyed although the same contains some error or is not authentic and, when in the opinion of the Representative of the Bondholders to obtain such advice on any other basis is not viable notwithstanding any limitation or cap on Liability in respect thereof.

30.2 **Certificates of Issuer and/or Guarantor**

The Representative of the Bondholders may require, and shall be at liberty to accept (a) as sufficient evidence

30.2.1 as to any fact or matter prima facie within the Issuer's or the Guarantor's knowledge, a certificate duly signed by a director of the Issuer or (as the case may be) the Guarantor;

30.2.2 that such is the case, a certificate of a director of the Issuer or (as the case may be) the Guarantor to the effect that any particular dealing, transaction, step or thing is expedient,

and the Representative of the Bondholders shall not be bound in any such case to call for further evidence or be responsible for any loss that may be incurred as a result of acting on such certificate unless any of its officers in charge of the administration of these Rules shall have actual knowledge or express notice of the untruthfulness of the matters contained in the certificate.

30.3 **Resolution or direction of Bondholders**

The Representative of the Bondholders shall not be responsible for acting upon any resolution purporting to be a Written Resolution or to have been passed at any Meeting in respect whereof minutes have been made and signed or a direction of the requisite percentage of Bondholders, even though it may subsequently be found that there was some defect in the constitution of the Meeting or the passing of the Written Resolution or the giving of such directions or that for any reason the resolution purporting to be a Written Resolution or to have been passed at any Meeting or the giving of the direction was not valid or binding upon the Bondholders.

30.4 **Certificates of Monte Titoli Account Holders**

The Representative of the Bondholders, in order to ascertain ownership of the Covered Bonds, may fully rely on the certificates issued by any Monte Titoli Account Holder in accordance with the regulation issued jointly by the Bank of Italy and CONSOB on 22 February 2008, as amended from time to time, which certificates are to be conclusive proof of the matters certified therein.

30.5 **Clearing Systems**

The Representative of the Bondholders shall be at liberty to call for and to rely on as sufficient evidence of the facts stated therein, a certificate, letter or confirmation certified as true and accurate and signed on behalf of such clearing system as the Representative of the Bondholders considers appropriate, or any form of record made by any clearing system, to the effect that at any particular time or throughout any particular period any particular person is, or was, or will be, shown its records as entitled to a particular number of Covered Bonds.

30.6 **Rating Agencies**

The Representative of the Bondholders in evaluating, for the purposes of exercising any power, authority, duty or discretion under or in relation to these Rules that such exercise will not be materially prejudicial to the interests of the Bondholders of any Series or Tranche or of all Series for the time being outstanding, is entitled to consider, *inter alia*, the circumstance that the then current rating of the Covered Bonds of any such Series or Tranche or all such Series (as the case may be) would not be adversely affected by such exercise. If the Representative of the Bondholders, in order properly to exercise its rights or fulfil its obligations, deems it necessary to obtain the views of the Rating Agencies as to how a specific act would affect any outstanding rating of the Covered Bonds, the Representative of the Bondholders may inform the Issuer, which will then obtain such views at its expense on behalf of the Representative of the Bondholders or the Representative of the Bondholders may seek and obtain such views itself at the cost of the Issuer.

30.7 **Certificates of Parties to Programme Document**

The Representative of the Bondholders shall have the right to call for or require the Issuer or the Guarantor to call for and to rely on written certificates issued by any party (other than the Issuer or the Guarantor) to the Intercreditor Agreement or any other Programme Document,

30.7.1 in respect of every matter and circumstance for which a certificate is expressly provided for under the Conditions or any Programme Document;

30.7.2 as any matter or fact *prima facie* within the knowledge of such party; or

30.7.3 as to such party's opinion with respect to any issue,

and the Representative of the Bondholders shall not be required to seek additional evidence in respect of the relevant fact, matter or circumstances and shall not be held responsible for any Liability incurred as a result of having failed to do so unless any of its officers has actual knowledge or express notice of the untruthfulness of the matter contained in the certificate.

30.8 **Auditors**

The Representative of the Bondholders shall not be responsible for reviewing or investigating any auditors' report or certificate and may rely on the contents of any such report or certificate.

31. **AMENDMENTS AND MODIFICATIONS**

31.1 **Modifications**

The Representative of the Bondholders may at any time and from time to time and without the consent or sanction of the Bondholders of any Series or Tranche concur with the Issuer and/or the Guarantor and any other relevant parties in making any modification (and for this purpose the Representative of the Bondholders may disregard whether any such modification relates to a Series or Tranche Reserved Matter) as follows:

31.1.1 to these Rules, the Conditions and/or the other Programme Documents which, in the opinion of the Representative of the Bondholders, it may be expedient to make **provided that** the Representative of the Bondholders is of the opinion that such modification will not be materially prejudicial to the interests of any of the Bondholders of any Series or Tranche; and

31.1.2 to these Rules, the Conditions and/or the other Programme Documents which is of a formal, minor, administrative or technical nature or to comply with mandatory provisions of law; and

31.1.3 to these Rules, the Conditions and/or the other Programme Documents which, in the opinion of the Representative of the Bondholders, is to correct a manifest error or an error established as such to the satisfaction of the Representative of the Bondholders.

31.2 **Binding Nature**

Any such modification may be made on such terms and subject to such conditions (if any) as the Representative of the Bondholders may determine, shall be binding upon the Bondholders and, unless the Representative of the Bondholders otherwise agrees, shall be notified by the Issuer or the Guarantor (as the case may be) to the Bondholders in accordance with Condition 17 (*Notices*) as soon as practicable thereafter.

31.3 **Establishing an error**

In establishing whether an error is established as such, the Representative of the Bondholders may have regard to any evidence on which the Representative of the Bondholders considers it appropriate to rely and may, but shall not be obliged to, have regard to a certificate from the Arrangers:

(a) stating the intention of the parties to the relevant Programme Document;

(b) confirming nothing has been said to, or by, investors or any other parties which is in any way inconsistent with such stated intention; and

(c) stating the modification to the relevant Programme Document that is required to reflect such intention;

and may be entitled to consider, *inter alia*, the circumstance that, after giving effect to such modification, the Covered Bonds shall continue to have the same credit ratings as those assigned to them immediately prior to the modification.

31.4 **Obligation to act**

The Representative of the Bondholders shall be bound to concur with the Issuer and the Guarantor and any other party in making any modifications to these Rules, the Conditions and/or the other Programme Documents if it is so directed by an Extraordinary Resolution and then only if it is indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

32. **WAIVER**

32.1 **Waiver of Breach**

The Representative of the Bondholders may at any time and from time to time without the consent or sanction of the Bondholders of any Series or Tranche and, without prejudice to its rights in respect of any subsequent breach, condition or event but only if, and in so far as, in its opinion the interests of the Holders of the Covered Bonds of any Series or Tranche then outstanding shall not be materially prejudiced thereby:

32.1.1 authorise or waive any proposed breach or breach by the Issuer or the Guarantor of any of the covenants or provisions contained in the Guarantee, these Rules, the Conditions or the other Programme Documents; or

32.1.2 determine that any Event of Default shall not be treated as such for the purposes of the Programme Documents,

without any consent or sanction of the Bondholders.

32.2 **Binding Nature**

Any such authorisation or waiver or determination may be given on such terms and subject to such conditions (if any) as the Representative of the Bondholders may determine, shall be binding on all Bondholders and, if the Representative of the Bondholders so requires, shall be notified to the Bondholders and the Other Guarantor Creditors by the Issuer or the Guarantor, as soon as practicable after it has been given or made in accordance with the provisions of the conditions relating to Notices and the relevant Programme Documents.

32.3 **Restriction on powers**

The Representative of the Bondholders shall not exercise any powers conferred upon it by this Article 32 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution, but so that no such direction shall affect any authorisation, waiver or determination previously given or made.

32.4 **Obligation to act**

The Representative of the Bondholders shall be bound to waive or authorise any breach or proposed breach by the Issuer or the Guarantor of any of the covenants or provisions contained in by Guarantee, these Rules or any of the other Programme Documents or determine that any Event of Default shall not be treated as such if it is so directed by a Programme Resolution and then only if it is indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

33. **INDEMNITY**

Pursuant to the Programme Agreement, all documented costs, expenses, liabilities and claims incurred by or made against the Representative of the Bondholders (or by any persons appointed by it to whom any power, authority or discretion may be delegated by it) in relation to the preparation and execution of this Agreement or the other Programme Documents, the exercise or purported exercise of, the Representative of the Bondholder's powers, authorities and discretions and performance of its duties under and in any other manner in relation to this Agreement or any other Programme Documents (including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary and other taxes or duties paid by or due from the Representative of the Bondholders in connection with any action and/or legal proceedings brought or contemplated by the Representative of the Bondholders pursuant to the Programme Documents, against the Issuer or the Guarantor for enforcing any obligations under the Covered Bonds or the Programme Documents), except insofar as the same are incurred as a result of fraud (*frode*), gross negligence (*colpa grave*) or wilful default (*dolo*) of the Representative of the Bondholders, shall be reimbursed, paid or discharged (on full indemnity basis), on demand, to the extent not already reimbursed, paid or discharged by the Bondholders, by the Guarantor and the Issuer on the Guarantor Payment Date immediately succeeding the date of request from funds available thereof in accordance with the relevant Priority of Payments.

34. LIABILITY

Notwithstanding any other provision of these Rules and save as otherwise provided in the Programme Documents the Representative of the Bondholders shall not be liable for any act, matter or thing done or omitted in any way in connection with the Programme Documents, the Covered Bonds or the Rules except in relation to its own fraud (*frode*), gross negligence (*colpa grave*) or wilful default (*dolo*).

35. SECURITY DOCUMENTS

35.1 The Deed of Pledge

The Representative of the Bondholders shall have the right to exercise all the rights granted by the Guarantor to the Bondholders pursuant to the Deed of Pledge. The beneficiaries of the Deed of Pledge are referred to in this Article 35 as the "**Secured Bondholders**".

35.2 Rights of the Representative of the Bondholders

35.2.1 The Representative of the Bondholders, acting on behalf of the Secured Bondholders, shall be entitled to appoint and entrust the Guarantor to collect, in the Secured Bondholders' interest and on their behalf, any amounts deriving from the pledged claims and rights, and shall be entitled to give instructions, jointly with the Guarantor, to the respective debtors of the pledged claims to make the payments related to such claims to the Programme Accounts or to any other account opened in the name of the Guarantor and appropriate for such purpose;

35.2.2 The Secured Bondholders irrevocably waive any right they may have in relation to any amount deriving from time to time from the pledged claims or credited to the Main Programme Account or to any other account opened in the name of the Guarantor and appropriate of such purpose which is not in accordance with the provisions of this Article 35. The Representative of the Bondholders shall not be entitled to collect, withdraw or apply, or issue instructions for the collection, withdrawal or application of, cash deriving from time to time from the pledged claims under the Deed of Pledge except in accordance with the provisions of this Article 35 and the Intercreditor Agreement.

TITLE IV
THE ORGANISATION OF THE BONDHOLDERS AFTER SERVICE OF AN NOTICE

36. POWERS TO ACT ON BEHALF OF THE GUARANTOR

It is hereby acknowledged that, upon service of a Guarantor Default Notice or, prior to service of a Guarantor Default Notice, following the failure of the Guarantor to exercise any right to which it is entitled, pursuant to the Mandate Agreement the Representative of the Bondholders, in its capacity as legal representative of the Organisation of the Bondholders, shall be entitled (also in the interests of the Other Guarantor Creditors) pursuant to Articles 1411 and 1723 of the Italian Civil Code, to exercise certain rights in relation to the Cover Pool. Therefore, the Representative of the Bondholders, in its

capacity as legal representative of the Organisation of the Bondholders, will be authorised, pursuant to the terms of the Mandate Agreement, to exercise, in the name and on behalf of the Guarantor and as *mandatario in rem propriam* of the Guarantor, any and all of the Guarantor's rights under certain Programme Documents, including the right to give directions and instructions to the relevant parties to the relevant Programme Documents.

TITLE V
GOVERNING LAW AND JURISDICTION

37. **GOVERNING LAW**

These Rules are governed by, and will be construed in accordance with, the laws of the Republic of Italy.

38. **JURISDICTION**

The Courts of Milan will have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with these Rules.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.

*[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Covered Bonds are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.]*

*[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the [Notes] has led to the conclusion that: (i) the target market for the [Notes] is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the [Notes] to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the [Notes] (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the [Notes] (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]*

Final Terms dated [●]

Banca Monte dei Paschi di Siena S.p.A. (the "Issuer")

Issue of [Aggregate Nominal Amount of Tranche][Description] **Covered Bonds** (**Obbligazioni Bancarie Garantite**) **due** [Maturity]

Guaranteed by

MPS Covered Bond S.r.l. (the "**Guarantor**")
under the € 20,000,000,000 Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the prospectus dated 22 December 2017 [and the supplement[s] to the prospectus [●] 201[●]] which [together] constitute[s] a base prospectus

(the " **Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended from time to time, the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein for the purposes of article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Covered Bonds and must be read in conjunction with the Prospectus [as so completed]. Full information on the Issuer, the Guarantor and the offer of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein is only available on the basis of the combination of these Final Terms, the Conditions and the Prospectus [as so completed]. The Prospectus [, including the supplement[s]] [is/are] available for viewing [at [*website*]] [and] during normal business hours at [address] [and copies may be obtained from [*address*]].

(Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.)

(When completing any final terms consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a drawdown Prospectus under article 16 of the Prospectus Directive.)

1.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (*If fungible with an existing Series, name of that Series, including the date on which the Covered Bonds become fungible*)
2.	**Specified Currency or Currencies:**		[●]
3.	**Aggregate Nominal Amount**		
	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
	(iii)	Aggregate Nominal Amount:	[●]
4.	**Issue Price:**		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●] (insert date) (*in the case of fungible issues only, if applicable*)]
5.	(i)	Specified Denominations:	[●] [plus integral multiples of [●] in addition to the said sum of [●]] (I*nclude the wording in square brackets where the Specified Denomination is €100,000 or equivalent plus multiples of a lower principal amount.*)
	(ii)	Calculation Amount:	[●]

	(iii) Rounding:	[The provisions of Condition 18 apply/Not Applicable]
6.	(i) Issue Date	[●]
	(ii) Interest Commencement Date	[[●]/Issue Date/Not Applicable]
7.	**Maturity Date**:	[●] (*Insert date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*)
8.	**Extended Maturity Date of Guaranteed Amounts corresponding to Final Redemption Amount under the Guarantee**:	[●] (*Insert date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*)
9.	**Interest Basis**:	[[●] per cent. Fixed Rate][[*EURIBOR / LIBOR*] +/– [*Margin*] per cent. Floating Rate] [Zero Coupon] (f*urther particulars specified below in Sections 16, 17, or 18, as the case may be*)
10.	**Redemption/Payment Basis**:	[Redemption at par] [Installment]
11.	**Change of Interest or Redemption/Payment Basis**:	[Applicable/Not Applicable] (*Specify details of any provision for convertibility of Covered Bonds into another interest redemption/payment basis*)
12.	**Hedging through covered bond swaps**	[Applicable/Not applicable]
13.	**Put/Call Options**:	[Not Applicable] [Investor Put] [Issuer Call] [(*further particulars specified below in Section 19 or 20, as the case may be*)]
14.	[**Date [Board] approval for issuance of Covered Bonds [and Guarantee] [respectively]] obtained**:	[●] [and [●], respectively] (*N.B. Only relevant where Board (or similar) authorisation is required for the*

		particular tranche of Covered Bonds or related Guarantee)
15.	**Method of distribution**:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Provisions**	[The provisions of Conditions 5 apply /Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Rate(s) of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/ in arrear]
(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with (*insert Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day")/not adjusted*]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)]
(vi)	[Determination Date(s):	[●] in each year. (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*) (*N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA)*))
17.	**Floating Rate Provisions**	[The provisions of Condition 6 apply / Not Applicable] / Applicable in respect of Extended Maturity Period] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	**[●]**
(ii)	Specified Period:	**[●]** (*Specified Period and Interest Payment Dates are alternatives. A Specified Period, rather than Interest Payment Dates, will only be relevant if the Business Day*

Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")

(iii)	Interest Payment Dates:	[●] (Specified Period and Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/FRN Convention]
(vi)	Additional Business Centre(s):	[Not Applicable / TARGET / London/ Luxembourg / Milan]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[[*Name*] shall be the Calculation Agent]
(ix)	Screen Rate Determination:	
	– Reference Rate:	[●] (*For example*, *LIBOR or EURIBOR*)
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●] [Reuters LIBOR 01/ EURIBOR 01] (*if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	– Relevant Time:	[●] (*For example, 11.00 a.m. Luxembourg time/Brussels time*)
	– Relevant Financial Centre:	[●] (*For example, Luxembourg/Euro-zone (where Euro-zone means the region*

		comprised of the countries whose lawful currency is the euro)
	– Specifiy Reference Rate	[●]
	– Specifiy Screen Page	[●]
(x)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions:	[2000/2006]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[Actual/Actual (ICMA)/ Actual/Actual (ISDA)/ Actual/365 (Fixed)/ Actual/360/ 30/360/ 30E/360/ Eurobond Basis/ 30E/360 (ISDA)]
18.	**Zero Coupon Provisions**	[The provisions of Conditions 7 /Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	[Amortisation/Accrual] Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

19.	**Call Option**	[The provisions of Conditions 8(d) apply/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of Covered Bonds and method, if any, of calculation of such amount(s):	[●] per Calculation Amount

(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[[●] per Calculation Amount / not applicable]
	(b) Maximum Redemption Amount	[●] per Calculation Amount / not applicable]
(iv)	Notice period:	[●]
20.	**Put Option**	[The provisions of Conditions 8(e) apply /Not Applicable](*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	Notice period:	[●]
21.	**Final Redemption Amount of Covered Bonds**	[●] per Calculation Amount
22.	**Early Redemption Amount**	
	Early redemption amount(s) per Calculation Amount payable on redemption for taxation reasons or on acceleration following a Guarantor Event of Default or other early redemption:	[●]/[Not Applicable] (*If both the Early Termination Amount (Tax) and the Early Termination Amount are the principal amount of the Covered Bonds/insert the Early Termination Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Covered Bonds*)

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable / Milan / Siena / Luxembourg / London] (*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii) and 16(vi)*)
24.	Details relating to Covered Bonds which are amortising and for which principal is repayable in instalments: amount of each	[Not Applicable/ monthly or quarterly or semiannually or annually instalments / linear instalments]

instalment, date on which each payment is to be made:

DISTRIBUTION

25.	U.S. Selling Restrictions:	[Reg. S Compliance Category 2]/[TEFRA D]/[TEFRA C]/[Not Applicable]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [the regulated market of the Luxembourg Stock Exchange/[●]] of the Covered Bonds (*Obbligazioni Bancarie Garantite*) described herein] pursuant to the € 20,000,000,000 Covered Bond (*Obbligazioni Bancarie Garantite*) Programme of Banca Monte dei Paschi di Siena S.p.A.

[THIRD PARTY INFORMATION]

[The Issuer accepts responsibility for [(*Relevant third party information*)] which has been extracted from [(specify source)]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [(*specify source*)], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Banca Monte dei Paschi di Siena S.p.A.

By:

Duly authorised

Signed on behalf of MPS Covered Bond S.r.l.

By:

Duly authorised]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing	[Official list of the Luxembourg Stock Exchange/([●]) None]
(ii)	Admission to trading	Application [is expected to be/has been] made by the Issuer (or on its behalf) for the Covered Bonds (*Obbligazioni Bancarie Garantite*) to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange/[●]] with effect from [●]. *(Where documenting a fungible issue, need to indicate that original Covered Bonds are already admitted to trading.)*

2. RATINGS

Ratings:	The Covered Bonds *(Obbligazioni Bancarie Garantite)* to be issued have been rated: [S & P: [●]] [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] *(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* *[S&P] / [Moody's] / [Fitch] / [Others] are established in the EEA and are registered under Regulation (EU) No 1060/2009.* *In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the Regulation (EU) No 1060/2009 ("CRA Regulation") unless the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not*

refused (Please refer to the ESMA webpage http://www.esma.europa.eu/page/List-registered-and-certified-CRAs in order to consult the updated list of registered credit rating agencies).

[Not applicable *(if not rated)*]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

[Not Applicable / Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer."]

[MPS Capital Services Banca per l'Impresa S.p.A., acting as a Dealer/Manager, may have a conflict of interest in connection with the issue of the Covered Bonds as they belong to the Montepaschi Group and are subject to control and guidelines of the Issuer.]

(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under article 16 of the Prospectus Directive.)

4. **TOTAL EXPENSES**

Estimated total expenses:	[●] (*Refer to total expenses related to the admission to trading*)

5. (*Fixed Rate Covered Bonds only*) **YIELD**

Indication of yield:	(*Please note that this is applicable in respect of Fixed Rate Covered Bonds and Zero Coupon Bonds only*) [Not Applicable / [●]]

6. **[***Floating Rate Covered Bonds only* **- HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **OPERATIONAL INFORMATION**

ISIN Code:	[●]

Common Code:	[●]
Any Relevant Clearing System(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s) and address(es):	[Not Applicable/[●] (*give name(s), number(s) and address(es)*)]
Delivery:	Delivery [against/free of] payment
Names and Specified Offices of additional Paying Agent(s) (if any):	[Not Applicable/[●]]
Name of the Calculation Agent	[●]
Name of the Representative of the Bondholders	[●]. The provisions of the Rules of the Organisation of the Bondholders shall apply.
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not Applicable][Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

USE OF PROCEEDS

The net proceeds of the sale of the Covered Bonds will be used by the Issuer for general funding purposes of BMPS.

BANCA MONTE DEI PASCHI DI SIENA S.P.A.

Issuer, Principal Seller, Principal Servicer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender

1. GENERAL

Banca Monte dei Paschi di Siena S.p.A. ("**BMPS**" or the "**Bank**") was incorporated on 14 August 1995 as a joint stock company (*Società per Azioni*) under Italian legislation. On 23 August 1995 BMPS was registered with the Bank of Italy's Register (No. 5274) and with the Companies Register (No. 00884060526). BMPS has its registered office in Piazza Salimbeni 3, 53100, Siena, Italy (telephone number: +39 0577 294 111). BMPS's duration is currently limited to 31 December 2100 though this may be extended by shareholders' resolution.

BMPS's corporate purpose, as set out under Article 3 of its By-laws, is as follows: "The purpose of BMPS is to collect and maintain savings and issue loans and credit, in various forms in Italy and abroad, including any related activity permitted to lending institutions by current regulations. BMPS can carry out, in accordance with the laws and regulations in force, all permitted banking and financial activities and any other transaction which is instrumental, or in any case linked, to the achievement of the company's purpose.".

BMPS is the parent company of an Italian banking group operating throughout Italy and in major international financial centres. The Monte dei Paschi Group (the "**Montepaschi Group**" or the "**Group**") offers a wide range of financial services and products to private individuals and corporations. The products and services include ordinary and specialised deposit-taking and lending, including leasing and factoring; payment services (home banking, cash management, credit or debit cards and treasury services for public entities); asset management (through joint venture), brokerage services and corporate finance (project finance, merchant banking, financial consulting).

Pursuant to article 2497 and subsequent articles of the Italian Civil Code, the role of the parent company is carried out by BMPS which directs and coordinates the activities of its direct and indirect subsidiaries, including companies that, under current regulations, do not belong to the Montepaschi Group. Founded in 1472 as a public pawn broking establishment (Monte di Pietà), BMPS has been a member of FTSE MIB40 since September 1999 with a share capital of Euro 15,692,799,350.97 as at the date of this Prospectus.

2. HISTORY

BMPS, which is believed to be the oldest bank in the world, has been in continuous operation since 1472, when the General Council of the Republic of Siena approved its original charter. The Bank, then known as "Monte di Pietà", was originally established by the Republic of Siena for the purpose of providing a controlled source of lending for the local community and to fight usury. In 1624, the Bank changed its name to "Monte dei Paschi di Siena" after the paschi, the grazing fields owned by the Grand Duchy of Tuscany, which generated income that was pledged to support the Bank's capital. Following the unification of Italy, the Bank extended its activities beyond the immediate outskirts of Siena. However, significant expansion of the Bank's activities occurred only after World War I, both geographically (with the opening of approximately 100 additional branches) and in terms of activities undertaken (with the commencement of various tax collection activities on behalf of national and regional governments). In 1936, the Bank was declared a public credit institution (*Istituto di Credito di*

Diritto Pubblico) organised under a new charter, which, although modified during this period, remained in force until 1995.

In 1995 the Bank was reorganised in accordance with the Amato Law and was incorporated as a *Società per Azioni* or joint stock company owned by Monte dei Paschi di Siena — Istituto di Diritto Pubblico (the "**Foundation**").

3. MAJOR EVENTS

Recent developments

2000-2007

In this period there has been an intense phase of territorial and organisational expansion and the main events are the following:

- acquisition of equity interests in some regional banks having strong roots in the territory, among which Banca 121 S.p.A. (formerly Banca del Salento S.p.A.) and Banca Agricola Mantovana S.p.A., subsequently merged by incorporation into BMPS, effective as of 21 September 2008;
- enhancement of the operational structures in strategic market sectors, through the development of product companies (Consum.it S.p.A., MPS Leasing & Factoring S.p.A., MPS Capital Services Banca per le Imprese S.p.A. ("**MPSCS**"), MPS Asset Management S.p.A. and MPS Banca Personale S.p.A.);
- development of business productivity, with the goal of improving the level of assistance and consultancy to savers and enterprises, through service models specialised by customer segment;
- consolidation of the business in some strategic markets, such as private banking and pension saving;
- implementation of a wide plan for the opening of new branches of the Montepaschi Group;
- strengthening the bancassurance and supplementary pension sectors through a strategic alliance entered into with the Montepaschi Group led by AXA S.A.; and
- acquisition of 59 per cent. stake in Biverbanca S.p.A. from Intesa Sanpaolo S.p.A.

On 14 June 2003 – as part of the programme aimed at complying with the requirements for the transfer of control over BMPS by the Foundation, and in accordance with the provisions set out in Legislative Decree No. 153 of 17 May 1999, pursuant to which foundations that proceeded with the contribution of banking enterprises may not hold the majority of voting rights on ordinary capital in such transferee companies (except, on a temporary basis, until 15 June 2003) – BMPS' extraordinary shareholders' meeting resolved the conversion of no. 565,939,729 ordinary shares held by the Foundation, equal to 18.77 per cent. of BMPS share capital, into a corresponding number of preferred shares, with consequent reduction, as at such date, in Foundation's stake from 58.575 per cent. to 49 per cent. of BMPS ordinary capital.

2008-2012

The acquisition of Banca Antonveneta and the consequent reorganisation

The transactions entered into from 2008 to 2012 aimed substantially at (i) evolving the Montepaschi Group's organisational and distributional structure, (ii) enhancing the new production structure, (iii) specializing the product/service offer to customers, (iv) improving the operational efficiency, and (v) optimizing the capital.

On 30 May 2008, further to the authorisation by the Bank of Italy (released on 17 March 2008), the Issuer completed the acquisition of Banca Antonveneta from Banco Santander S.A. for a consideration equal to Euro 9 billion, plus Euro 230 million as interests on such amount.

The acquisition of Banca Antonveneta was funded by way of equity and debt instruments as well as through a bridge loan. In particular, the funding plan of the transaction was structured as follows:

- a capital increase pursuant to article 2441, subsection 1, of the Italian Civil Code (the final terms of which have been approved by BMPS' board of directors on 24 April 2008) which ended up with the subscription of new ordinary, saving and preferred shares for an overall value, inclusive of share premium, equal to Euro 4,974 million;

- a capital increase with exclusion of option rights which has been carried out by issuing shares, inclusive of share premium, offered in subscription to J.P. Morgan Securities Ltd (subsequently renamed J.P. Morgan Securities plc) ("**J.P. Morgan**") for an overall value of Euro 950 million (pursuant to a resolution of BMPS' board of directors dated 10 April 2008). On 16 April 2008, BMPS purchased from J.P. Morgan a usufruct right on such shares (pursuant to article 2352 of the Italian Civil Code) for a term of thirty years against payment of an annual fee which is conditional upon the existence of distributable profits, the payment of cash dividends out of distributable profits and for an amount not exceeding the difference between distributable profits and paid dividends. The voting right attached to the shares, which the usufructuary is entitled to, is suspended until the usufruct right established in favour of BMPS is in force and there is no right to dividend thereon (for more information on the transaction, please see paragraph "**FRESH 2008**" below);

- a public offer of the subordinated notes named "*Banca Monte dei Paschi di Siena S.p.A. Tasso Variabile Subordinato Upper Tier II 2008-2018*". The bonds were issued on 15 May 2008 for a nominal amount of Euro 2.161 million; and

- a bridge loan entered into on 24 April 2008 with a pool of banks for a maximum amount of Euro 1,950 million, which was redeemed in 2009 by assigning non-strategic assets.

The deed for the merger by incorporation of Banca Antonveneta into BMPS was entered into on 22 December 2008, civilly effective as of 31 December 2008 and accounting/tax effective as of 1 June 2008. At the same time, a business unit for a value of Euro 3.2 billion, inclusive of, *inter alia*, more than 400 branches, was assigned to a newly established company named "*Banca Antonveneta S.p.A.*" ("**New Banca Antonveneta**"), fully controlled by BMPS.

FRESH 2008

In April 2008 the Bank increased its share capital by issuing no. 295,236,070 ordinary shares (the "**FRESH 2008 Shares**") subscribed by J.P. Morgan and establishing a thirty-year usufruct right over the securities in favour of the Bank.

The structure of the transaction is essentially the following:

- on 10 April 2008 the Bank's board of directors (on the basis of the mandate given by the shareholders' meeting on 6 March 2008) resolved a capital increase with exclusion of option rights pursuant to article 2441, subsection 5, of the Italian Civil Code, to be carried out by issuing 295,236,070 ordinary shares, inclusive of the share premium, to be subscribed by a company of the Montepaschi Group led by J.P. Morgan Chase & Co.;

- the shares were subscribed for by J.P. Morgan at the price of Euro 3.218 each, for an aggregate amount of Euro 950 million. The issuance of the floating rate equity-linked subordinated hybrid preferred securities (the "**FRESH 2008**") was carried out by The Bank of New York (Luxembourg) S.A. on a fiduciary basis pursuant to Luxembourg law;

- on 16 April 2008, the Bank and J.P. Morgan, pursuant to article 2352 of the Italian Civil Code, entered into a thirty-year usufruct agreement, on the basis of which J.P. Morgan retained the bare ownership of the shares, while the Bank held the usufruct thereon, subject to the possibility of being early terminated in a number of circumstances (e.g.: conversion of the instruments, public tender offer on BMPS shares). Until the usufruct is in force, the voting right relating to the FRESH 2008 Shares is suspended and there is no entitlement to dividends whilst any option rights pertain to J.P. Morgan., J.P. Morgan is bound to transfer such option rights to The Bank of New York (Luxembourg) S.A. on the terms provided for by the documents governing the FRESH 2008 securities for the purpose of transferring such rights to the holders of the FRESH 2008, in accordance with the terms and conditions of the securities;

- the Bank and J.P. Morgan also entered into a swap agreement with a term equal to the term of BMPS, pursuant to which (i) J.P. Morgan has undertaken to pay to BMPS, upon conversion of the FRESH 2008, an amount of approximately Euro 50 million (equal to the difference between the nominal value of the FRESH 2008 – Euro 1 billion – and the value of the relevant capital increase – Euro 950 million); and (ii) BMPS has undertaken to pay annually J.P. Morgan. Such payments shall be equal to the average market value (as recorded during the year prior to the relevant payment) of no. 295,236,070 BMPS shares multiplied by a rate, such rate being determined as the higher between 95 basis points (0.95 per cent.) and the value of the five-year senior credit default swap of J.P. Morgan itself, as observed during the quarterly period prior to the relevant payment.

The main features of the FRESH 2008 securities are as follows:

- the term is set until the term of the Issuer (currently 31 December 2100);

- the securities are convertible into BMPS shares on the basis of a conversion ratio set at the time of the issuance (by a 29,523,607 BMPS shares for each FRESH 2008 security,

subject to adjustment in the ratio of (i) 1/100 as a result of the grouping together of BMPS shares carried out on 5 May 2014, (ii) 1/20 as a result of the grouping together of BMPS shares carried out on 18 May 2015 and (iii) 1/100 as a result of the grouping together of BMPS resolved on 24 November 2016);

- the conversion may take place, at any time, upon investor request, starting from 27 May 2008;
- the conversion is automatic in certain circumstances, among which:
  - if the Bank's overall capital requirement (either individual or consolidated) falls below 5 per cent. (or any other threshold provided for by the banking supervisory rules for the purpose of absorbing losses in innovative capital instruments);
  - if the share market price exceeds (for 20 days out of 30 consecutive open exchange days) the threshold price of Euro 1,016,136, equal to 150 per cent. of the conversion price (Euro 677,424), which values are adjusted as a result of the reverse stock split of BMPS shares carried out on 5 May 2014, 18 May 2015 and 28 November 2016;
  - in the event that the Bank defaults the payment obligations undertaken pursuant to the abovementioned usufruct agreement and swap agreement;
  - in the event of Bank's liquidation;
  - in certain cases of public tender offer on any and all BMPS shares; and
  - upon the maturity of the securities.
- the remuneration of the securities is substantially equal to the payments that J.P. Morgan receives as consideration for the usufruct, and equal to the three-month Euribor rate plus 425 basis points.

The payment in favour of J.P. Morgan of the fee relating to the usufruct agreement – as amended on 1 October 2008, 16 October 2008 and 31 January 2012 – shall be made on the relevant payment dates (16 January, 16 April, 16 July and 16 October in each year) if, and to the extent that:

- on the basis of the individual financial statements approved prior to such date, the Bank has realised distributable profits; and
- on the basis of such financial statements, cash dividends have been paid to the shareholders.

Upon satisfaction of both the above conditions in relation to a financial year, the fee payable for all the four payment dates following the shareholders' meeting which approved the relevant financial statements may be paid only in an amount equal to the difference between distributable profits resulting from such financial statements and the overall amount of cash dividends paid to the shareholders.

Furthermore, the Foundation entered into, on 14 April 2008, total return swaps (so called "**TROR**"), having as underlying the FRESH 2008, with the following counterparties: (i) Credit Suisse International (underlying FRESH 2008 securities for a nominal value of Euro 196 million); (ii) Mediobanca – Banca di Credito Finanziario S.p.A. ("**Mediobanca**") (underlying FRESH 2008 securities for a nominal value of Euro 196 million); and (iii) Banca Leonardo S.p.A., (underlying FRESH 2008 securities for a nominal value of Euro 98 million). In addition, on 23 June 2012, as a result of the termination of the "TROR" agreements entered into with Credit Suisse International (which in 2010 took also over the financial positions of Banca Leonardo S.p.A.) and Mediobanca, the Foundation was received the FRESH 2008 securities for an overall nominal value of Euro 490 million. On 4 December 2013, the Foundation informed that, in the course of the last two weeks of November 2013, it has progressively assigned the entire amount of FRESH 2008 securities held for a net overall value of Euro 95.2 million.

On 10 October 2016, the Bank of New York Mellon (Luxembourg) withdrew from the role of fiduciary and Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. was appointed for the same role.

Restructuring of the "Santorini" transaction

In December 2008, BMPS and Deutsche Bank AG ("**Deutsche Bank**") entered into three separate total return swap transactions on BTP for an overall nominal value of Euro 2,000 million, bearing a coupon value of 4.50 per cent. and with a maturity of 2018/2020; these transactions have been then replaced with a BTP bearing a 6 per cent. coupon and having maturity in May 2031. The term of the agreements was equal to the maturity date of the securities. Such transactions were restructured and amended several times between 2009 and 2011. On 19 December 2013 a settlement agreement was entered in respect of such transaction, providing for its early closure, and, as at that time, the agreements provided for the following obligations:

- BMPS to deliver as at the effective date to Deutsche Bank the BTPs and to receive, as consideration, the relevant market value as at the same date (Euro 2,195 million);
- as at each BTP ex-dividend date, BMPS to pay to Deutsche Bank a variable yield equal to the six-month EONIA Index Swap rate plus a spread of 2.82 per cent. and to receive as consideration from Deutsche Bank an amount equal to the BTP coupons, to the extent these have been actually collected from the Italian government (as issuer of the BTP) on the relevant maturities;
- as at the maturity date, Deutsche Bank to pay to BMPS an amount equal to the redemption amount of the BTPs (as effectively collected) and BMPS to pay to Deutsche Bank an amount equal to the nominal value of such BTPs; and
- upon the occurrence of a credit event relating to the Republic of Italy (i.e. events which would have entailed the default of the Republic of Italy), the agreement to be early terminated. In such event, Deutsche Bank shall be entitled to return to BMPS any security issued by the Republic of Italy (and not specifically the BTPs of the total return swaps), or the equivalent value in cash, and BMPS shall pay the nominal value of the security.

For the purpose of reducing the investment rate risk, in July 2009 the Bank negotiated a "forward start" interest rate swap (with deferred value date) to 2011 for a notional amount of Euro 2 billion and maturity on 1 May 2031. Pursuant to such agreement, with effect from the deferred value date:

- BMPS shall pay to Deutsche Bank a 6 per cent. fixed rate interest; and
- Deutsche Bank shall pay to BMPS an amount calculated on the basis of the six-month Euribor rate plus a 1.485 per cent. spread.

Such transaction was subject to daily collateralization or marginalization obligation.

For the purpose of managing the overall rate risk of the banking book, the interest rate swap agreement was early terminated in part and, as at the date of the settlement agreement with Deutsche Bank (i.e. 19 December 2013) the outstanding nominal amount was equal to Euro 1.7 billion.

Such transaction was settled in December 2013 (see also paragraph "*'Santorini' Transaction – settlement agreement*").

<u>*Restructuring of the "Alexandria" notes*</u>

During the financial year ended on 31 December 2009, the Bank put in place with Nomura International Plc ("**Nomura**"), as counterparty, a transaction called "Alexandria".

Such transaction had the following contractual features:

- the securities were BTPs for a nominal value of Euro 3,050 million, bearing a 5 per cent. coupon and with maturity in 2034; the term of the agreement was equal to the maturity date of the securities;
- BMPS purchased the securities from Nomura by way of forward agreements was entered into in the period from 3 August 2009 and until 18 September 2009; the settlement date was on 28 September 2009;
- the securities purchased had been fully hedged for interest rate fluctuations by entering into asset swap agreements with Nomura; on the basis of these agreements, BMPS shall pay to the counterparty a 5 per cent. fixed interest rate (equal to the BTPs coupon rate) on a nominal amount of Euro 3,050 million, and shall receive a payment calculated on the basis of the three-month Euribor plus an average 98 basis points spread;
- BMPS entered into a long-term repo transaction with Nomura where the underlying asset was the BTP 5 per cent. 2034, having the same nominal amount and same maturity; on the basis of the agreement, BMPS had assigned the securities to Nomura on a spot basis and received as consideration an amount equal to Euro 3,102 million, inclusive of accrued interests. As at each ex-dividend date, BMPS received from Nomura a 5 per cent. coupon (calculated on the nominal value) and paid an amount determined on the basis of the three-month Euribor plus a 59.15 basis points spread on a quarterly basis, and calculated on the cash amount received;

- at maturity, provided that no default of the Republic of Italy has occurred, the transaction had to be settled as a normal repo transaction and, accordingly, by way of delivery of the security versus payment of a cash consideration;

- upon the occurrence of a credit event with respect to the Republic of Italy (i.e. failure to pay, moratorium, refusal to fulfil or restructuring of the Republic of Italy), the agreement would have been early terminated. In this circumstances, Nomura would have been entitled to return to BMPS any security issued by the Republic of Italy, (and not specifically the BTPs of the long-term repo), against payment by BMPS of the amount received;

- in addition, BMPS had granted to Nomura a repo facility with maturity on 1 September 2040 (with Nomura's option to extend the maturity until 1 September 2045), according to which Nomura was entitled to use a credit facility up to a maximum amount of Euro 3,050 million, by delivering to BMPS BTPs or similar securities for an equivalent amount. In the event of a drawdown under the credit facility, BMPS would have received payment of interest determined on the basis of the three-month Euribor and calculated on the amount of the facility granted. In addition, BMPS would receive a five-basis points fee calculated on the amount of the credit facility granted (Euro 3,050 million) and regardless of the effective drawdowns.

Such transaction was subject to daily collateralization or marginalization obligation. The parties accordingly had to pay so-called guarantee margins to ensure the possibility to liquidate the transactions at any time, in case of early termination due to the other party's default.

Such transaction was settled, and early terminated, in September 2015 (see also paragraph "*Alexandria' Transaction – settlement agreement*").

Exercises conducted by EBA on banks' capital and capital enhancement measures adopted by BMPS

During the 2011 financial year, EBA and the Member States' national supervisory authorities conducted, in cooperation with the European Systemic Risk Board (ESRB), the ECB and the European Commission, a stress exercise on the European Union banking system (the "**Stress Test 2011**").

The Stress Test 2011, which was conducted at a consolidated level, concerned in aggregate 90 banking groups of 21 Member States – among which the Montepaschi Group – with the aim of assessing the endurance of European banks in hypothetical circumstances of serious worsening of the economic conditions (the so-called "shock") and the relevant solvency in the event of any stress situation relating to certain restrictive conditions. The findings of the Stress Test 2011 highlighted that BMPS satisfied the capital benchmark which had been set for the purpose of the stress test and will continue to guarantee the maintenance of the appropriate capitalization level.

During the course of 2011, after the worsening of tensions on sovereign debt markets, the Council of Heads of State and Government of the European Union approved, at the meeting held on 26 October 2011, the "banking package" aimed at restoring confidence in the banking sector through guarantees on medium-term lending and through a capital enhancement of the Bank by creating an extraordinary and temporary buffer so as to allow the achievement of a 9 per cent. Core Tier 1 Ratio by 30 June 2012.

Such exercise, which involved 71 international banks and ended on 8 December 2011, led to the issuance by the EBA of a formal recommendation relating to banks' recapitalisation needs. In relation to the Issuer, such recommendation highlighted the need for a capital enhancement of Euro 3,267 million (such capital deficit already takes into account the capital increase realised by the Issuer in 2011 and better described below). In this respect, the Montepaschi Group submitted to the Bank of Italy an intervention plan – to be shared in the context of the colleges of supervisors and with the EBA – for the achievement of the 9 per cent. Core Tier 1 Ratio target within the deadlines set thereon.

For the purpose of implementing such intervention plan, the Issuer took the following actions during the course of 2011:

- conversion into BMPS shares of the convertible bond FRESH 2003. Following the repurchase transaction of such securities (for a value of Euro 152.2 million) carried out within the context of the capital increase concluded on 20 July 2011, on 30 December 2011 BMPS received a further conversion request, for an aggregate amount of Euro 289.8 million, further to which it issued 136,698,112 BMPS ordinary shares at the conversion price of Euro 2.12; and

- reduction of RWAs as a consequence of the overall assets dynamic, their constant remodulation aimed at assuming less risky and/or more guaranteed lending and, finally, ordinary maintenance interventions on risk-measurement parameters.

At the same time, on 6 June 2011, the extraordinary shareholders' meeting delegated the board of directors to increase the share capital for a maximum amount of Euro 2,471 million, to be offered on a pre-emptive basis to those entitled, and approved the removal of the indication of the BMPS shares nominal value.

Such capital increase falls within the capital requalification and enhancement interventions, in line with the approaches of the Basel III regime.

The delegation was exercised by the board of directors on 7 June 2011 and on 20 July 2011, the capital increase for consideration with option rights was completed with the full subscription of 4,824,826,434 newly issued ordinary shares (equal to 41.79 per cent. of the new share capital) for an overall value of Euro 2,152 million, with no intervention of the guarantee syndicate. In particular, in the period from 20 June 2011 to 8 July 2011, 6,694,944,400 option rights were exercised and were subscribed 4,820,359,968 of newly issued BMPS ordinary shares, equal to 99.91 per cent. of total offered shares, for an overall value of Euro 2,150 million. All the 6,203,425 option rights which were not exercised at the end of the offer period were sold on 13 July 2011 (in the first stock exchange offer session of the rights unexercised by BMPS, through Mediobanca, pursuant to article 2441, third subsection, of the Italian Civil Code) and then exercised by 20 July 2011 with the subscription of no. 4,466,466 newly issued ordinary shares, equal to 0.09 per cent. of offered shares, for a total value of Euro 2 million.

* * * * *

Starting from 2009, the Montepaschi Group launched a process for the dismissal of branches mainly located in Tuscany, Umbria and Lazio. In particular, 15 branches were transferred to Banca Popolare di Puglia e Basilicata S.c. a r.l. in September 2009, were transferred 22 branches to Banca Carige S.p.A. in May 2010 and 50 branches to Banca CR Firenze S.p.A. (Intesa Sanpaolo Group) in June 2010.

In March 2009, BMPS incorporated the subsidiary Banca Toscana S.p.A. and realised the goal of creating one single bank in that territory. The transaction was authorised by the Bank of Italy on 23 January 2009 and produced civil effects as of 29 March 2009.

During 2009, the rearrangement of the Montepaschi Group's asset management division was also completed through a partnership with the group headed by Clessidra SGR S.p.A. which led to the creation of the "Prima Group".

Furthermore, in 2009 the Montepaschi Group continued its rearrangement plan of the real estate division, also through the establishment of a company (Perimetro Gestione Proprietà Immobiliari S.c.p.a., controlled by entities external to the Montepaschi Group and in which the Montepaschi Group holds a 7.9 per cent. interest with voting rights), to which MPS Immobiliare transferred a going concern.

In December 2009, the MEF authorised the subscription of debt financial instruments convertible into the Issuer ordinary shares to be issued by BMPS for an amount equal to Euro 1.9 billion (the so called "**Tremonti Bond**").

In 2010, as part of a wide project for the reorganisation of the Montepaschi Group, some relevant extraordinary transactions were finalised, among which:

- the merger by incorporation of MPS Banca Personale S.p.A. into BMPS;
- the merger by incorporation of MPS SIM S.p.A. into BMPS;
- the merger by incorporation of the vehicles Antenore Finance S.p.A., Theano Finance S.p.A., Siena Mortgages 00-1 S.p.A. and Ulisse S.p.A. in liquidation into BMPS;
- the partial demerger by New Banca Antonveneta of the business unit comprised of 13 branches (in the provinces of Novara, Verbania, Turin and Alessandria) in favour of Biverbanca S.p.A.;
- the merger by incorporation of Paschi Gestioni Immobiliari S.p.A. and MPS Investments S.p.A. into BMPS; and
- the partial demerger of MPS Immobiliare in favour of BMPS and New Banca Antonveneta.

In February 2010, with a view of strengthening its position in the bancassurance sector, BMPS extended the strategic alliance agreement with the group headed by AXA S.A. also to the distribution network represented by the 1,000 branches of New Banca Antonveneta, for a consideration of Euro 240 million.

During 2010, new important initiatives were undertaken as part of the rearrangement project of the asset management division. In particular, BMPS entered into an alliance with the Banca Popolare di Milano group, providing for the progressive business integration between the Prima Group and Anima SGR S.p.A.. By virtue of such agreement BMPS, Clessidra SGR S.p.A. and the Banca Popolare di Milano group agreed to develop a strategic alliance through a new legal entity, Anima Holding S.p.A. (of which BMPS holds 22.24 per cent.) which would have acquired the full share capital of Prima Holding (which in turn held 100 per cent. of Prima SGR S.p.A.) and of Anima SGR S.p.A.. The transaction was completed at the end of December 2010

and Anima Holding S.p.A. became the most important independent operator in the asset management sector in Italy, with more than Euro 40 billion of assets under management.

The full BMPS' stake in Anima Holding S.p.A. was then sold on 25 June 2015 to Poste Italiane S.p.A..

On 18 January 2011, BMPS communicated that the spread on the preferred securities instruments issued by MPS Capital Trust I for Euro 350 million and by Antonveneta Capital Trust I for Euro 80 million was to be increased, and that such instruments were not going to be redeemed on the first possible redemption date (respectively, 7 February 2011 and 21 March 2011). The extent of the spread increase was set in a manner such as to align the remuneration of the preferred securities to that resulting from current market conditions for securities with similar characteristics, taking also into account the residual term of such securities.

In April 2011, Aiace Reoco S.r.l. and Enea Reoco S.r.l., companies fully owned by MPS Gestione Crediti Banca S.p.A., were incorporated for the purpose of carrying out real estate activities connected with the management of credit recovery, with the aim of adding value to the real estate properties used as collateral for the receivables through the purchase (out-of-court or in auction) and subsequent resale of the assets.

On 2 February 2011 and 9 March 2011, two series of covered bonds were issued under the Euro 10 billion programme, as announced at the end of June 2010 and fully backed by the Montepaschi Group's residential mortgages. The first transaction (for an amount of Euro 1 billion) had a seven-year maturity and a fixed rate structure and provided for a 5 per cent. annual coupon equal to a 5.056 per cent. yield (equivalent to the seven-year Euro mid-swap rate plus a 185 basis points spread). The second transaction (for an amount of Euro 1.25 billion) had a five-and-a-half year maturity with a fixed rate structure and provided for a 4.875 per cent. annual coupon equal to a 4.882 per cent. yield (equivalent to the interpolated mid-swap rate plus a 180 basis points spread). Both transactions were offered to qualified institutional investors and financial intermediaries. Under the same programme, further issuances of covered bank bonds have then been realised.

With legal effect as of 1 May 2011, MPS Commerciale Leasing S.p.A. was merged by incorporation into MPS Leasing & Factoring S.p.A..

On 30 June 2011 the total disposal of the indirect subsidiary Monte Paschi Monaco SAM was finalized with a Euro 9.7 million contribution to the Montepaschi Group's net profits.

On 23 September 2011, BMPS communicated the decision to increase the spread for the preferred securities instrument issued by Antonveneta Capital Trust II for Euro 220 million and accordingly such securities were not redeemed on the first possible redemption date (scheduled for 27 September 2011). The new spread on the three-month Euribor was set at 630 basis points and, effective as from the first possible redemption date (27 December 2011), has replaced the level set contractually. The spread for the issuance was then aligned to the level set for the other two Group's preferred securities (see above), which were not redeemed on 7 February 2011 and 21 March 2011 and whose remuneration was increased to 630 basis points on the three -month Euribor. The decision was adopted taking into account the exceptional circumstances relating to market tensions and the persisting uncertainty of the legislative framework.

On 30 September 2011 the real estate complex located in Rome between via dei Normanni, via Labicana and via San Giovanni in Laterano (former office of the tax collection centre) was assigned to a closed-end real estate fund managed by Mittel R.E. SGR S.p.A.. The completion of the transaction entailed a three basis points benefit on Tier 1.

As from 30 September 2011, further to the prudential recognition of the conditions provided for by the supervisory rules, the capital benefits deriving from the valorisation transaction of the Montepaschi Group's real estate assets, which can be quantified in an increase of around 40 basis points on Tier 1, were acquired.

On 26 October 2011, the assignment of a 22 per cent. stake in the indirect subsidiary MPVenture SGR S.p.A. (at the time MPS Venture SGR S.p.A.) was finalised, with consequent reduction of the equity interest to 48 per cent. and the company going from control to affiliation. The transaction involved a Euro 8 million contribution to the Montepaschi Group's net profit. MPVenture SGR S.p.A. was subsequently fully assigned in the course of the financial year ended on 31 December 2014.

In the course of 2012 a new board of directors was appointed; a chief executive officer was also appointed for the first time and the top management was renewed. Therefore, in the course of the financial year, the Bank's organisational structure was redrawn, with the purpose of simplifying its structure and assuring its adequacy compared to the reference market's developments.

Furthermore, the capital enhancement initiatives started in 2011, and aiming at achieving a 9 per cent. Core Tier 1 Ratio by the end of June 2012, continued. In particular, during the first 6 months of the year, the Issuer proceeded with: (i) the share capital increase without consideration, pursuant to article 2442 of the Italian Civil Code, for an amount of Euro 752 million by conversion to equity of the share premium reserve relating to the 295,236,070 FRESH 2008 Shares; and (ii) the conversion at par of all 18,864,340 saving shares into ordinary shares.

On 26 June 2012, the board of directors approved the Montepaschi Group's business plan for the period 2012-2015 which was then superseded by the business plan for the period 2013 - 2017, which was approved by the board of directors on 28 November 2013 and set out in detail the strategic and operational lines of the Restructuring Plan (for more information on the Restructuring Plan reference is made to sub-paragraph "*2013*" below). Furthermore, on 8 May 2015 the Bank's board of directors updated the Montepaschi Group's economic and capital objectives as envisaged in the Restructuring Plan, identifying new economic and capital targets referred to the period 2015-2018 (the New Targets, as defined below).

In relation to the Montepaschi Group structure, during 2012 (i) two plans of merger by incorporation of Agrisviluppo S.p.A. and Ulisse 2 S.p.A. into BMPS were approved by the extraordinary shareholders' meeting; and (ii) the assignment of the 60.42 per cent. stake in the share capital of Biverbanca S.p.A. to Cassa di Risparmio di Asti S.p.A. was finalized. Furthermore, the Bank announced the termination of the shareholders' agreement relating to Banca Popolare di Spoleto.

In June 2012 BPMS launched an exchange offer relating to nine series of subordinated notes (*Tier 1, Upper Tier 2 and Lower Tier 2*). Those adhering to the offer were offered fixed rate senior notes, to be issued under the Debt Issuance Programme. At the end of the offer period (i) securities for overall Euro 1,007 million, in terms of nominal value/liquidation preference,

were accepted, corresponding to 30.74 per cent. of the overall nominal value/liquidation preference of outstanding securities, and (ii) the Bank issued new securities for an overall amount in terms of nominal value equal to Euro 790 million. The finalisation of the transaction allowed the Montepaschi Group to post a Euro 227 million gross capital gain.

2013

During 2013, further amendments to the Bank's organisational structure were realised, among which:

- set up of the large risk management staff reporting to the chief executive officer/general manager;
- set up of the credit recovery area reporting to the credit department, subsequent to the merger by incorporation into BMPS of MPS Gestione Crediti Banca S.p.A.;
- transfer of the compliance area into the risk management department, which assumed the new name of risk department;
- set up and transfer of the legal and corporate area reporting to the chief executive officer/general manager and contextual closing of the compliance and legal department;
- set up of the new private banking area; and
- set up of the on-line bank development area directly reporting to the chief executive officer/general manager.

Furthermore, as part of the initiatives for the renewal of the management, new heads of the legal and corporate area, "on-line bank" services and administration and financial statement area were hired.

On 1 March 2013, BMPS' board of directors has started liability and damages actions in respect of certain structured transactions carried out in the previous financial years. In particular, by virtue of board of directors resolution, the Bank started before the Civil Courts of Florence the following judicial actions and in particular:

- a corporate liability action against former chairman Giuseppe Mussari and former general manager Antonio Vigni and a non-contractual liability action for association thereof with the aforementioned Bank officers against Nomura, in respect of the financial restructuring transaction concerning the "Alexandria" notes carried out in July-October 2009; such action sought the joint conviction of defendants to the compensation for damages incurred and to be incurred by the Bank as a result of the challenged transaction. The requests against Nomura were relinquished on 23 September 2015 in the context of the settlement agreement entered into with Nomura (see below paragraph "*'Alexandria" transaction – settlement agreement*");
- a corporate liability action against former general manager Antonio Vigni, and a non-contractual liability action for association thereof with the aforementioned Bank officer against Deutsche Bank in respect of the total return swap transactions entered into in December 2008 in relation to the vehicle Santorini Investment Ltd; such action sought the joint conviction of the defendants to the compensation for damages incurred and to

be incurred by the Bank as a result of the challenged transactions. The requests against Deutsche Bank were relinquished on 19 December 2013 in the context of the settlement agreement entered into with the same Deutsche Bank (see below paragraph "*'Santorini' Transaction – settlement agreement*");

On 1 March 2013, BMPS and trade unions (FABI – Federazione Autonoma Bancari Italiani; FIBA – Federazione Italiana Bancari e Assicurativi; UGL – Unione Generale del Lavoro e UILCA – UIL Credito, Esattorie e Assicurazioni) defined the full granting of employees' requests to adhere to the solidarity fund, in implementation of the agreement reached between the same parties on 19 December 2012 concerning the Montepaschi Group's business plan for the period 2012-2015. As a consequence of the determinations adopted, the employment relationships of approximately 1,660 employees were early terminated.

On 28 March 2013, BMPS' board of directors approved the results for financial year 2012 and resolved to summon the ordinary shareholders' meeting for 29 and 30 April 2013, respectively in first and second call, to approve, *inter alia*, the individual and consolidated financial statements as at 31 December 2012 and resolved upon the institution of the liability action, pursuant to article 2393 of the Italian Civil Code, against former company's officers.

On 23 April 2013, the merger by incorporation deed of New Banca Antonveneta into BMPS was entered into, with civil effects as of 28 April 2013 and accounting and tax effects as of 1 January 2013.

On 29 April 2013, the Issuer's ordinary shareholders' meeting approved, *inter alia*, the individual and consolidated financial statements as at 31 December 2012 and ratified the resolution adopted by the board of directors on the liability action instituted on 1 March 2013 against former company's officers.

On 6 May 2013, the merger by incorporation deed of MPS Gestione Crediti Banca S.p.A. into BMPS, was entered into, with civil effects as of 12 May 2013 and accounting and tax effects as of 1 January 2013.

On 5 July 2013, it was confirmed that, as a result of the termination notice served on 27 July 2012 by BMPS on Spoleto Credito e Servizi Soc.Coop., the shareholders' agreement between the two companies was terminated with effect as of 30 June 2013.

On 18 July 2013, the Issuer's extraordinary shareholders' meeting approved some statutory amendments mainly concerning the removal of the 4 per cent. limit to shareholding, the inclusion of the maximum limit of two consecutive mandates after the first one for the members of the board of directors (except for the outgoing chief executive officer), the implementation of the new regime relating to "gender quotas" and the introduction of the age limit for the members of the board of directors, the chairman and the chief executive officer (respectively at 75 years, 70 years and 67 years). The ordinary shareholders' meeting then resolved, *inter alia*, the appointment of Mr. Franco Michelotti as alternate auditor in substitution of Prof. Gianni Tarozzi who had resigned in May.

On 8 November 2013 Banca Widiba S.p.A. was set up, 100 per cent. owned by BMPS and which will carry out the on-line bank business for the Montepaschi Group starting from the second half-year of 2014. In particular, with resolution no. 252/2014, the Bank of Italy authorised Banca Widiba S.p.A. to the exercise the banking business and the provision of investment services under article 1, subsection 5, lett. a) (*dealing for own account*), b)

(*execution of orders for clients*), c) (*subscription and/or placement with firm commitment underwriting or standby commitments to issuers*), c-bis) (*placement without firm or standby commitment to issuers*), d) (*portfolio management*), e) (*reception and transmission of orders*) and f) (*investment consultancy*) of the legislative decree no. 58 of 24 February 1998 (as amended, the "**Consolidated Finance Act**").

New Financial Instruments

Following the capital exercise conducted by the EBA in the last months of 2011 - aiming at restoring confidence in the EU banking sector after the tensions on sovereign issuers' debt securities markets – which ended up with the verification on data as at 30 June 2012, the Bank was found to have a capital need - necessary to achieve a 9 per cent. Core Tier 1 Ratio - equal to Euro 3,267 million. Such target was inclusive of the lower valuation, as at 30 September 2011, of exposures to sovereign issuers in order to take into account market concerns on sovereign risk. For the purpose of covering such capital shortfall, the Bank – in agreement with the supervisory authority and the MEF – identified as a suitable tool to this aim, the issuance of the new financial instruments (the "**New Financial Instruments**" hereinafter) to be subscribed for by the MEF and eligible as supervisory capital (Core Tier 1).

On 28 November 2012, BMPS' board of directors approved the issuance of the New Financial Instruments for an amount of Euro 3.9 billion.

On 25 January 2013, the Issuer's extraordinary shareholders' meeting resolved to grant the board of directors a delegation to increase the share capital, with exclusion of option rights, for a maximum value of Euro 4,500 million, to the exclusive service of the Bank's exercise of the conversion right of the New Financial Instruments and/or to increase the share capital, with exclusion of option rights, pursuant to articles 2443 and 2441, subsection 5, of the Italian Civil Code, by issuing ordinary shares for a maximum value of Euro 2,000 million, to the exclusive service of the payment in shares of interests to be paid pursuant to the regime applicable to the New Financial Instruments.

On 28 February 2013 the issuance of the New Financial Instruments was completed. In particular, the MEF subscribed the New Financial Instruments issued by the Bank for an aggregate amount of Euro 4,071 million, of which around Euro 1,900 million for the purpose of the full replacement of the so-called Tremonti Bonds issued by the Bank in 2009 and Euro 171 million, with entitlement date 1 July 2013, on account of payment of interests accrued until 31 December 2012 on the so called Tremonti Bonds in consideration of the loss for the year recorded in 2012.

For more information on the redemption and full refund of the New Financial Instruments, see paragraphs "*2014*" and "*2015*" below.

Restructuring Plan

On 7 October 2013, BMPS' board of directors approved the restructuring plan 2013-2017 (the "**Restructuring Plan 2013-2017**"), designed according to the guidelines shared with the MEF and the competent offices of the European Commission.

The Restructuring Plan 2013-2017 was transmitted to the MEF for subsequent notification to the European Commission, which notified its approval on 27 November 2013.

The Restructuring Plan 2013-2017 provided for the achievement of net profits of around Euro 900 million and a ROTE of around 9 per cent. by 2017. Among the targets of the Restructuring Plan 2013-2017, for 2017 the following should be noted: (i) the reduction of the number of employees by around 8,000 units; (ii) the reduction of other administrative costs by around Euro 440 million in the period 2013-2017; (iii) the closing of overall 550 domestic branches by 2015 (including the 335 branches already closed between December 2012 and June 2013); (iv) an increase in revenues (in terms of CAGR in the period 2013-2017) equal to 0.8 per cent.; (v) a decrease in operational costs (always in terms of CAGR in the period 2013-2017) equal to 2.1 per cent.; (vi) a cost/revenue ratio equal to around 50 per cent.; (vii) the reduction of the cost of funding to 90 basis points[7]; (viii) a lending/overall deposit collection ratio equal to around 90 per cent. (around 101 per cent. net of institutional deposit collection); and (ix) a phased in Common Equity Tier 1 Ratio level equal to around 10 per cent..

In the context of the Restructuring Plan 2013-2017, initiatives were envisaged which aimed at allowing the full redemption of the New Financial Instruments by 2017, whose goal was achieved on 15 June 2015 (see paragraph "*2015*" below).

Furthermore, in the context of the State aid procedure and of the issuance of the New Financial Instruments, the Bank committed with the MEF (in a way similar to the commitments vis-à-vis the Republic of Italy during the procedure for the approval by the European Commission of the Restructuring Plan 2013-2017) the relevant terms which, unless otherwise specified, has been set from the approval date of the Restructuring Plan 2013-2017 by the European Commission (27 November 2013) until 31 December 2017. The main commitments given are summarised below and are substantially in line with that disclosed by the European Commission in respect of the commitments given by the Republic of Italy:

- Monitoring of commitments: the implementation of the commitments given by the Bank is monitored on an on-going basis by Degroof Petercam Finance, as independent trustee. The monitoring trustee was appointed by the Bank on 28 April 2014 subject to the prior approval of the European Commission and is paid for its activity by the same Bank;

- Reduction of assets: the Bank undertook to reduce the total financial statement assets according to what was provided for in the Restructuring Plan, with a margin of tolerance of 10 per cent. for the period 2013-2016 (but without any margin for 2017);

- Reduction of Italian government securities in the AFS portfolio: the Bank undertook to reduce the Italian government securities held in the AFS portfolio up to a nominal value of Euro 17 billion in 2017, with a further reduction by an amount identified in the context of the commitments should the "Alexandria" and/or "Santorini" transactions be terminated further to a favourable conclusion of the judicial proceedings pending. After the early termination of the "Santorini" transaction, due to the entering into of the settlement agreement of 19 December 2013, and the early termination of the "Alexandria" transaction, by way of a settlement agreement in September 2015, the reduction target for 2017 was re-determined at Euro 14 billion;

- Assignment of equity interests: the Bank shall assign the equity interests in Consum.it S.p.A., MPS Leasing & Factoring S.p.A. (leasing business), Monte Paschi Banque S.A.

[7] Calculated excluding receivables represented by securities from the lending set out in the financial statement. Including such component, the cost of funding would be 88 basis points.

("**MP Banque**") and Banca Monte Paschi Belgio ("**MP Belgio**"). Such assignments may be postponed by twelve months in the event that the bids received are lower than the book value of the equity interest or are such as to generate a loss in the Bank's consolidated financial statement. In case the sale is not executed by the end of the envisaged period, an exclusive mandate will be granted to a third party (the "**Divestiture Trustee**") to realize such divestments. Should the Divestiture Trustee not be able to realize one or more of the aforementioned assignments in a way which would not cause an excessive loss for the Bank (i.e. a loss which would jeopardize its sustainability), the Bank will be entitled to propose to the European Commission alternative measures to the assignment. In relation to the above, it should be noted that, after having verified the absence of favourable market conditions for an assignment, at the beginning of 2014 BMPS and Consum.it S.p.A. entered into an alliance agreement with two counterparties (Compass S.p.A. and Futuro S.p.A.), appointed for the granting of personal loans and personal loans redeemable by assignment with recourse (*pro solvendo*) of one fifth of salary/pension; furthermore, on 11 May 2015, the merger by incorporation deed of Consum.it S.p.A. was entered into. The implementation of the commitment relating to Consum.it S.p.A. shall then be deemed completed;

- Closing of foreign branches: the Bank undertook to close its New York branch as soon as possible and in any case no later than a certain date specified in the context of the commitments;

- Closing of domestic branches: the Bank undertook to close further 150 domestic branches by 2015 (in addition to the 278 branches already closed between December 2012 and June 2013), so to bring the total branches number to around 2,200 at the end of 2017. Accordingly, as at 31 December 2015, the total number of branches was 2,133;

- Proprietary trading: prohibition to carry out, for the entire term of the Plan, trading activities which may significantly increase the Bank's risk profile. In particular, the trading book VaR for fluctuations in market prices, (as defined in the new supervisory rules) may not exceed a certain amount identified in the context of the commitments and comprised in a range between Euro 15 million and Euro 25 million per day and in a range between Euro 10 million and Euro 20 million in daily average, with a range of confidence of 99 per cent. (where "daily average" means the daily average in each three-month rolling period). The "stop loss" limit for proprietary trading is set at an amount specified in the commitments and included in a range between Euro 25 million and Euro 35 million. Furthermore, the proprietary trading activity shall be limited to liquid instruments, with reliable quotations provided by a reasonable number of market operators (at least five) and with low transaction costs (i.e., maximum bid/ask spread over notional according to a percentage specified in the commitments). In particular, it is forbidden for the Bank to hold financial instruments which do not fall within the normal Bank business or derivatives with "exotic" underlyings;

- Prohibition of acquisitions: it is forbidden for the Bank, throughout the entire term of the Plan and until the full redemption of the New Financial Instruments, to acquire equity interests in any enterprise category (company or asset classes), except for equity interests (i) acquired in the context of normal banking transactions aimed at managing outstanding receivables owed by enterprises in difficulty; (ii) acquired in the context of the normal banking business, provided that the transaction is consistent with the Restructuring Plan 2013-2017; (iii) originated from the subscription of new shares of

the company Autostrade Tirrenica S.p.A. within the limits and according to the conditions strictly necessary to comply with the contractual obligations arisen prior to 17 December 2012; (iv) in securitisation vehicles as part of structured funding transactions; (v) in vehicles or companies aimed at the implementation of the Restructuring Plan 2013-2017 or contemplated by the same Plan; (vi) the acquisition price of which is lower than the specified amounts specifically set out in the context of the individual and aggregated commitments. The acquisition of Perimetro Gestione Proprietà Immobiliari S.c.p.a. and the incorporation/acquisition of a company aimed at the implementation of the "on-line bank" (i.e. Banca Widiba S.p.A.) are expressly permitted. In spite of the prohibition under this commitment, the Bank may acquire, subject to prior authorisation of the Commission, equity interests in businesses in case this should be necessary in exceptional circumstances to restore the financial stability or to ensure an effective competitiveness;

- Hybrid capitalization instruments: until the completion of the 2014 capital increase it was forbidden for the Bank to proceed with the payment of coupons on hybrid capitalization instruments, except with respect to any legal or contractual obligation to proceed with the payment;

- Liability management: it is forbidden for the Bank to carry out liability management transactions, unless such transactions are carried out in compliance with precise limits in terms of minimum discount over nominal value and premium compared to market price. Any liability management transaction will in any case be promptly submitted for the approval of the competent offices of the European Commission;

- Restriction on dividends: the Bank undertook not to distribute dividends until the capital increase provided for in the Restructuring Plan 2013-2017 will be completed. Such restriction was removed after the capital increase provided for by the Restructuring Plan 2013-2017, carried out in 2014. Although this restriction provided for in the Plan is no longer applicable, the Bank remains subject to a restriction on the payment of dividends imposed by the ECB in February 2015, after the conclusion of the Supervisory Review and Evaluation Process ("SREP");

- Restrictions in the matter of advertising: the Bank undertook not to use the granting of State aid or the competitive advantages which may derive therefrom for advertising purposes;

- Business policy: the Bank's business policy shall be inspired by prudence and oriented towards sustainability;

- Pricing business strategies: the Bank undertook not to adopt any aggressive business policy which would not be possible in the absence of State aid;

- Cost reduction: the Bank undertook to reduce operational costs according to the provisions of the Restructuring Plan, with a margin of tolerance of 2 per cent. for the period 2013-2016 (but no margin for 2017). If in 2015 or in 2016 the commission income and the net profit targets were not achieved and the ROE is also lower than as provided for, the Bank undertook to adopt further cost reduction measures. The amount of such possible further reduction will be equal to the lower of (i) the difference between commission income expected and realised; (ii) the difference between gross profit expected and realised; and (iii) an amount specifically provided for in the context of the

commitments. For the purposes of the above, targets are deemed achieved with a 2 per cent. margin of tolerance;

- Capital increase: the Bank fulfilled the commitment of carrying out a capital increase by at least Euro 2.5 billion by 2014 with the execution of the capital increase with option rights by Euro 5 billion in July 2014;

- Remuneration of senior management: according to the Plan's provisions, the Bank undertook to limit the overall remuneration (including any variable component, but excluding pension costs imposed on the Bank) for each member of the board of directors and each senior manager at an appropriate level. In principle, a remuneration exceeding Euro 500,000 per year may not be deemed appropriate. The remuneration limit set out in the Plan was removed after the capital increase provided for by the Restructuring Plan 2013-2017 and carried out in 2014 (although the Bank remains subject to compliance with paragraph 6 ("*Banks benefiting from State aid*") of the measure adopted by the Bank of Italy on 30 March 2011 ("*Provisions in the matter of remuneration and incentive policies and practices within banks and banking groups*"), as subsequently amended and supplemented; and

- Commitments relating to corporate governance: the Bank fulfilled the commitment to submit to the shareholders' meeting a proposal concerning the introduction in the By-Laws of a clause by virtue of which at least one third of the members of the board of directors should be comprised of directors meeting the independence requirements provided for by Italian laws and regulations. The shareholders' meeting approved such proposal on 29 April 2014.

The Bank hence put in place activities aimed at complying with the above-mentioned commitments - which the Bank did in almost the entirety of cases.

Outsourcing of back office services

In the context of the optimization activity of ancillary, accounting and administrative services (the "**Back Office Services**"), on 30 December 2013 - effective as of 1 January 2014 - the Issuer assigned the Back Office Services business unit to Fruendo S.r.l. (whose company's shares are held for 60 per cent. by Bassilichi S.p.A. and 40 per cent. by Accenture S.p.A.) and contextually entered into, together with other Group companies, outsourcing agreements for 18 year with Fruendo S.r.l. and with Accenture S.p.A. for the outsourcing of such services.

Among the main effects of the outsourcing of Back Office Services, it should be noted: (i) the transfer to Fruendo S.r.l. of approximately 1,100 BMPS resources; (ii) a structural cost reduction by 22 per cent. (net value between staff costs and other administrative costs) on average on a yearly basis; (iii) the establishment of an excellence pole for quality of services for the Bank's branches and final customers through process innovation and technology; (iv) the creation of a new important business reality, able to act as optimization platform for financial services.

"Santorini" Transaction – settlement agreement

In relation to the structured finance transaction named "Santorini", on 19 December 2013, the Bank and Deutsche Bank entered into an agreement governing the conditions of the early termination of the transactions, which were put in place between December 2008 and July

2009, and concerning a Euro 2 billion investment in BTPs with 6 per cent. coupon and maturity in May 2031, funded with a long-term repo of equal maturity, and an interest rate swap entered into for the purpose of reducing the investment rate risk.

In particular, on the basis of the calculations made by the Bank in application of its own valuation parameters, the early termination would have involved a Euro 746 million disbursement (equal to the mark to market of the overall position represented by BTPs, long-term repo and interest rate swap). Further to the termination of the transaction, the actual disbursement for BMPS was down to Euro 525 million, with an estimated Euro 221 million economic benefit.

In light of the termination of the transaction on the above mentioned economic terms, BMPS settled the damage claims instituted thereby before the Courts of Florence in March 2013 against Deutsche Bank, however only with respect to Deutsche Bank's liability quota, and it relinquished in full every other claim, action or right enforceable against Deutsche Bank (and its directors, employees, consultants and/or officers in charge or in office at the time of events) in respect of the "Santorini" transaction, without prejudice to the corporate liability action against the former General Manager, and, moreover, without prejudice to any further BMPS' claim against other persons who may prove jointly liable with reference to the "Santorini" transaction.

The impact through profit or loss of the settlement agreement for BMPS was negative by Euro 287 million (approximately Euro 194 million net of taxes), as represented below:

Transaction components	**Accounting impacts** ***(in Euro million)***
BTP 2031	(2,346)
Long-term repo **(inclusive of the Euro 429 million restatement as at 31 December 2008)**	2,475
Interest rate swap	497
Partial balance (A)	***626***
Re-entry through profit or loss of AFS reserve	(388)
Partial balance (B)	***238***
Transaction disbursement	(525)
Total balance through profit or loss	***(287)***

Compared to the representation provided in periodic financial reports pursuant to the Document adopted jointly by Bank of Italy/CONSOB/IVASS No. 6 of 8 March 2013, the impact through profit or loss of the termination of the transaction would basically coincide, considered that the closing value of the transaction was determined taking into account the mark to market of the various components of the transaction.

From an equity perspective, the agreement determined a positive impact by approximately 25 basis points in terms of fully phased Basel III Common Equity Tier 1, compared to data as at

30 September 2013 (last available reporting prior to the transaction termination date). In addition, the above-mentioned positive effects in terms of supervisory capital, the closing of the transaction generated positive results for BMPS both through prospective profit or loss, since the set of terminated transactions would have produced a negative contribution to the estimated interest margin, gross of tax effect, by approximately Euro 33 million per year, as well as on risk and liquidity profiles. As regards the latter, the overall positive effect was equal to Euro 173 million, as a result of the difference between the value of refunded collaterals, equal to Euro 698 million, and the price paid for the early closing of the transactions, equal to Euro 525 million.

The properness and fairness even under a methodological point of view of the benefit possibly obtained by this negotiation have also been determined with the support of external consultants.

2014

During the first six months of 2014, an important Issuer's organisational rearrangement was conducted, with the purpose of strengthening the commercial functions and controlling, in an integrated and coordinated manner, the governance and business support functions.

With specific reference to the business functions, the Issuer put in place the following interventions: (i) the credit department was strengthened by setting up a specific vice general direction; (ii) the specialisation of controls on the various business segments was increased by setting up the retail and network department (for the retail and private segments, and the coordination of the commercial network) and the corporate and investment banking department (for the corporate, large groups, international activities and private equity segments); and (iii) the financial promotion activity was annexed to the business unit set up for the purpose of developing Banca Widiba S.p.A. (i.e. the on line bank development area).

In relation to the management, control and business support functions, BMPS put in place the following actions: (i) the finance and operations general vice department was set up, to which the chief financial officer department and the chief operating officer department shall report; (ii) the human resources, organisation and communication department was developed for the purpose of supporting an effective interaction between staff management, corporate organisational structures and internal and external communication; and (iii) the risk department was reorganised by setting up a more organic control on validation, monitoring and risk-reporting activities.

On 27 January 2014, the deed for the merger by incorporation of Monte Paschi Ireland Limited into BMPS was entered into, with civil effects as of 11 February 2014 and accounting and tax effects as of 1 January 2014.

On 14 January 2014, BMPS entered into an agreement with Compass S.p.A., a company leader in consumer lending being part of the group headed by Mediobanca, for the distribution of Compass S.p.A. loans in the Montepaschi Group branches.

On 29 April 2014, the Issuer's ordinary shareholders' meeting approved the individual and consolidated financial statements as at 31 December 2013 and, in extraordinary session, approved some amendments to the by-laws concerning, in particular, matters relating to the gender balance in the composition of the board of directors and board of statutory auditors and the increase of the minimum quota of independent directors within the board of directors.

On 5 May 2014, the reverse stock split of BMPS ordinary shares was executed according to a ratio of one new share for each 100 shares held, as resolved by the Issuer's extraordinary shareholders' meeting held on 28 December 2013.

On 21 May 2014, the Issuer's extraordinary shareholders' meeting resolved to increase the share capital for consideration by a maximum amount of Euro 5 billion, by issuing ordinary shares to be offered on a pre-emptive basis to the Issuer's shareholders.

On 1 July 2014, the Issuer proceeded with (i) the redemption of nominal Euro 3 billion of New Financial Instruments; and (ii) the payment of interests accrued in 2013 thereon by issuing and contextually redeeming New Financial Instruments, for an aggregate amount of approximately Euro 3.5 billion, according to the provisions of the Bank of Italy's authorisation of 13 May 2014 and in accordance with the commitments given in the context of the State aid procedure.

On 4 July 2014, the share capital for consideration with option rights as resolved by the extraordinary shareholders' meeting in the meeting of 21 May 2014 was finalised. The capital increase was completed with the full subscription of 4,999,698,478 newly issued ordinary shares, equal to 97.7 per cent. of the new share capital, for an overall value of Euro 4,999,698,478, with no intervention of the guarantee syndicate. In particular, during the offer period (from 9 June 2014 to 27 June 2014) 116,636,830 options rights were exercised and accordingly overall no. 4,992,056,324 BMPS newly issued ordinary shares were subscribed for, equal to 99.85 per cent. of total offered shares, for an overall value of Euro 4,992,056,324. All 178.555 unexercised option rights at the end of the offer period were sold on 1 July 2014 (in the first stock exchange offer session of rights unexercised by BMPS, pursuant to article 2441, subsection 3, of the Italian Civil Code) and subsequently exercised within 4 July 2014 with the subscription of no. 7,642,154 newly issued ordinary shares, equal to 0.15 per cent. of offered shares, for an overall value of Euro 7,642,154.

On 7 August 2014, after the consultation launched in July with trade unions, BMPS and the trade unions entered into an agreement for activating the solidarity fund for 2014 with the aim of reducing staff by 1,334 units. In addition, on 17 November 2014, BMPS and the trade unions entered into an agreement for additional 90 adhesions to the solidarity fund, bringing the overall redundancies resorting to the redundancy scheme to a total of more than 1,400 units.

On 18 September 2014 the on-line bank, Banca Widiba S.p.A. began its operations.

On 26 October 2014, the ECB disclosed the findings of the comprehensive assessment and on 5 November 2014 BMPS' board of directors approved the related capital plan (as described below, the "**Capital Plan**"), which provided for, *inter alia*, a capital increase for an overall amount equal to maximum Euro 2.5 billion.

On 5 December 2014, the merger by incorporation of MPS Immobiliare, company 100 per cent. controlled by the Issuer, into BMPS was effective. The merger accounting and tax effects were effective as of 1 January 2014.

During the course of the financial year ended 31 December 2014 the Montepaschi Group finalised, respectively on 27 June 2014 and 24 December 2014, two non-recourse assignments to a securitisation vehicle funded by companies affiliated to Fortress Investment Group LLC. The first sale, concerning a portfolio comprised of approximately 12,000 non-performing loans (deriving from medium and long term secured and unsecured loans) with a gross book value of approximately Euro 500 million and a coverage ratio exceeding 90 per cent., generated a

loss, gross of tax impact, equal to Euro 11.4 million, against future administrative and managerial benefits deriving from the size of the portfolio being assigned, whilst the second assignment, concerning a portfolio comprised of approximately 4,000 non-performing loans (deriving from medium and long term secured and unsecured loans) with a gross book value of approximately Euro 380 million and a coverage ratio a equal to 89 per cent., generated a loss, gross of tax impact, equal to Euro 12.2 million, against future administrative and managerial benefits deriving from the size of the portfolio being assigned.

Comprehensive assessment

On 4 November 2014, the ECB took on the supervisory duties provided for in the context of the SSM, among which was the supervision over banking groups of considerable sizes.

In this respect, during the period from November 2013 to October 2014 the ECB carried out, with the cooperation of the national authorities in charge of conducting banking supervision, a thorough assessment which involved 130 EU credit institutions, among which the Bank (so called comprehensive assessment).

The comprehensive assessment had three main goals: transparency (improving the quality of available information on the conditions of banks), correction (identifying and undertaking the necessary corrective measures, if any), and building of confidence (assuring to all persons concerned by the banking business that institutions are basically healthy and reliable).

The assessment was structured in two streams: (i) an asset quality review which provided an accurate valuation over time of the accuracy bank assets' book value as at 31 December 2013; and (ii) a stress test exercise, which provided a prospective analysis of the soundness of the banks' solvency (assessed over the 2014-2016 three-year time period) in two scenarios: "baseline scenario" and "adverse scenario".

The findings of the comprehensive assessment, disclosed by the ECB on 26 October 2014, were the following: (i) the Bank passed the asset quality review, with a Common Equity Tier 1 Ratio equal to 9.5 per cent. against a minimum 8 per cent. threshold; (ii) the Bank passed the stress test in the "baseline scenario", with a Common Equity Tier 1 Ratio equal to 8.8 per cent. against a minimum 8 per cent. threshold; and (iii) the Bank failed the stress test in the "adverse scenario", with a Common Equity Tier 1 Ratio equal to 2.7 per cent. against a minimum 5.5 per cent. threshold and a consequent capital shortfall equal to Euro 2,111 million.

After the publication of the findings of the comprehensive assessment, the Bank submitted to the ECB the Capital Plan aiming at replenishing, within a nine-month period (i.e. by the end of July 2015), such capital shortfall. The Capital Plan, approved by the Issuer's board of directors on 5 November 2014, provided for the following main interventions:

- a capital increase with option rights up to a maximum of Euro 2.5 billion; and
- non-diluting shares for shareholders, represented by further capital management measures estimated in approximately Euro 220 million, such as assignment of non-core equity interests and high capital absorption treasury assets.

On 10 February 2015, the European Central Bank informed the Bank of the findings of the SREP and the approval of the Capital Plan submitted by the Bank.

2015

SREP 2014 and capital enhancement transaction

As part of the duties entrusted to the ECB within the framework of the SSM, the supervisory authority carried out the SREP for the purpose of ascertaining that banks subject to the ECB supervision adopted safeguards, strategies and processes of financial and organisational nature appropriate compared to the risks taken, including those resulting from stress test exercises. After having completed the SREP activity, on 10 February 2015, the ECB identified the minimum threshold for Common Equity Tier 1 Ratio, on a transitional basis, equal to 10.2 per cent. and the minimum threshold for Total Capital Ratio, on a transitional basis, equal to 10.9 per cent..

Considering the deductions from supervisory capital provided for by Basel III for 2015 (phase-in thresholds), the Issuer's board of directors, on 11 February 2015, resolved to submit to the extraordinary shareholders' meeting a capital increase with option rights up to a maximum of Euro 3 billion, compared to the Euro 2.5 billion provided for in the Capital Plan, for the purpose of having a buffer compared to minimum thresholds, on a transitional basis, of Common Equity Tier 1 Ratio equal to 10.2 per cent. and Total Capital Ratio equal to 10.9 per cent. as required by the ECB in the context of the SREP.

On 16 April 2015, the extraordinary shareholders' meeting approved the aforementioned capital increase for a maximum value of Euro 3.0 billion. The same shareholders' meeting furthermore resolved, *inter alia*, in extraordinary session to (i) reduce the share capital to cover for the losses accrued and cumulative as at 31 December 2014, equal to Euro 7,320,141,297, reduced to Euro 6,718,684,236 due to the use of available reserves for aggregate Euro 601,457,061, reducing the share capital by a corresponding amount, which accordingly now amounts to Euro 5,765,522,412.60, (ii) not recreate valuation reserves, (iii) group together ordinary shares in the ration of 1 new ordinary share every 20 outstanding ordinary shares, and (iv) amend articles 12, 13, 14, 15, 17 and 23 of the corporate by-laws, with consequent adjustment of articles 24 and 27 of the same by-laws. During the ordinary session, the shareholders' meeting appointed the members of the board of directors and board of statutory auditors who shall remain in office until the date of the shareholders' meeting called to approve the financial statements relating to financial year closed on 31 December 2017.

On 19 June 2015, the share capital for consideration with option right (as resolved by the extraordinary shareholders' meeting during the meeting on 16 April 2015) was finalised with the full subscription of 2,558,256,930 newly issued ordinary shares, for an overall value of Euro 2,993,160,608.10, with no intervention of the guarantee syndicate. In particular, during the offer period (from 25 May 2015 to 12 June 2015) 254.771.120 options rights were exercised for the subscription of 2,547,771,200 new shares, equal to 99.59 per cent. of total offered new shares, for an overall value of Euro 2,980,822,104.00. All 1,054,573 unexercised option rights at the end of the offer period were sold on 16 June 2015 (in the first stock exchange offer session of rights unexercised by BMPS, pursuant to article 2441, subsection 3, of the Italian Civil Code) and subsequently exercised with the suspiration of 10,545,730 newly issued ordinary shares, equal to 0.41 per cent. of offered shares, for an overall value of Euro 12,338,504.10.

Amendments to the Restructuring Plan 2013-2017 and new targets

On 8 May 2015, in light of the significant changes intervened after the approval by the European Commission of the Restructuring Plan, the Bank deemed it appropriate to update the Montepaschi Group's economic and capital targets envisaged in the Restructuring Plan, identifying economic and capital new targets referred to the period 2015-2018 (the "**New Targets**"). Such New Targets were approved by BMPS' board of directors on 8 May 2015 and illustrated to the financial community on 11 May 2015, through the presentation document called "*1Q2015 GMPS Results – Business Plan update*", made available to the public on the Issuer's website (www.gruppomps.it).

Merger by incorporation of Consum.it S.p.A.

On 11 May 2015, the deed for the merger by incorporation of Consum.it S.p.A., company 100 per cent. controlled by the Issuer, into BMPS was entered into, with civil effects as of 1 June 2015 and accounting and tax effects as of 1 January 2015.

Redemption of the New Financial Instruments

On 15 June 2015, on the basis of the agreements intervened with the MEF, the Issuer proceeded with the full redemption of residual nominal Euro 1.071 billion of New Financial Instruments (against payment of a consideration of approximately Euro 1.116 billion, pursuant to the provisions of the prospectus for the issuance of the New Financial Instruments), early completing the refund of State aid received in 2013, as opposed to the final deadline of 2017 provided for in the context of the commitments made to the MEF and the European Commission's DG Comp.

On 1 July 2015, in execution of the resolution adopted by the board of directors of 21 May 2015, no. 117,997,241 ordinary shares, equal to 4 per cent. of the share capital, with contextual share capital increase of Euro 243,073,800.00 were issued in favour of the MEF – on account of interests accrued as at 31 December 2014 pursuant to the "New Financial Instruments" regime provided for by Law Decree No. 95 of 6 July 2012, as amended. The MEF gave to BMPS, in respect of such shares, a lock up undertaking until the 180th calendar day after 1 July 2015.

Assignment of non-performing loans to Banca IFIS

On 23 June 2015, the Issuer entered into a binding agreement for the non-recourse assignment of a portfolio of non-performing loans comprising consumer credits, personal loans and credit cards originated by Consum.it S.p.A. to Banca IFIS S.p.A. and a securitisation vehicle funded by a company affiliated with Cerberus Capital Management, L.P.. The portfolio being assigned comprised almost 135,000 loans with a gross book value of approximately Euro 1 billion (Euro 1.3 billion, including delayed interests accrued and/or other charges assigned thereto).

Assignment of the equity interest in Anima Holding S.p.A.

On 25 June 2015, the Issuer entered into a final agreement for the purchase by Poste Italiane S.p.A. of the 10.3 per cent. equity interest held by BMPS in Anima Holding S.p.A..

Resignations of Alessandro Profumo

On 24 July 2015, Alessandro Profumo resigned from his role of chairman and member of BMPS' board of directors. On 15 September 2015, the ordinary shareholders' meeting resolved to integrate the board of directors with the appointment of Massimo Tononi, who was vested with the role of chairman of the board of directors.

"Alexandria" transaction – settlement agreement

In relation to the structured finance transaction named "Alexandria", on 23 September 2015 the Bank and Nomura International plc entered into an agreement governing the conditions of the early termination of the transactions, which were put in place in 2009 and relating to an investment in asset swap BTPs with maturity in 2034, for a nominal value of Euro 3 billion, that was funded with a long-term repo of equal maturity. Within the context of the termination of such transactions the claim for damages started by BMPS in March 2013 against Nomura before the Courts of Florence relating to the same transaction was settled. Such termination referred only to Nomura's liability quota, without prejudice to the corporate liability action against the former chairman and the former general manager, and without prejudice to any further BMPS' claim against other persons, unrelated to Nomura, who may prove jointly liable with reference to the Alexandria transaction. Similarly, the proceeding instituted by Nomura with the English Courts was ended.

In particular, by applying a pricing methodology agreed between the parties, the early termination of the overall position (resented by BTP, long-term repo, interest rate swap and liquidity facility), autonomously assessed, would have involved a Euro 799 million disbursement, inclusive of Euro 188 million corresponding to the restoration of the funding benefit loss incurred by Nomura as a result of the early termination of the transaction. After the termination of the transaction, the actual disbursement for BMPS was down to Euro 359 million. As a consequence, BMPS benefited from a lower disbursement of Euro 440 million compared to the shared transaction pricing. In addition, within the context of the termination, Nomura delivered to the Bank, at market values, a portfolio mainly comprised of asset swap BTPs with medium-long financial terms, for an approximate overall nominal value of Euro 2,635 million. The difference between the carry value of the old portfolio and the new one was positive by approximately Euro 40 million per annum from the agreement date onwards. Vice versa the one-off impact on the 2015 income statement of the settlement agreement for BMPS was negative by approximately Euro 130 million (approximately Euro 88 million net of taxes).

In this respect, it should be noted that with the entering into of this settlement agreement the Bank undertook not to appear as civil plaintiff in the criminal proceedings concerning the Alexandria transaction pending before the Courts of Milan, nor against Nomura or the managers who acted on its behalf.

SREP 2015

On 25 November 2015, the ECB informed BMPS of the outcome of the SREP for financial year 2015 ("**SREP Decision 2015**"), specifying that the Issuer shall comply with a minimum capital requirement in terms of Common Equity Tier 1 Ratio on a consolidated basis of 10.75 per cent. starting from 31 December 2016 (and from 1 January 2016 until 31 December 2016, not lower than 10.2 per cent., as per the SREP Decision 2014). In this context, the ECB has reiterated some prudential requests, *inter alia*, on Own Funds requirements, on the assignment of assets deemed excessively risky for the Issuer soundness, on restrictions to the payment of

dividends to shareholders and distributions by the Issuer relating to certain instruments issued thereby as well as on supplementary disclosure obligations. Accordingly, in addition to the above mentioned minimum capital requirements relating to the CET1 Ratio, the ECB asked the Issuer: (i) for restrictions on the payment of dividends and distributions on shares and other financial instruments issued thereby, (ii) to continue with the initiatives aimed at dealing with non-performing exposures ("**NPE**"), together with restructuring initiatives, including aggregation transactions, (iii) for the enhancement of strategies and processes to assess, maintain and distribute internal capital, with specific reference to some specific SREP findings, (iv) to take initiatives aiming at effectively monitoring and guaranteeing on an on-going basis, the capital adequacy of subsidiaries MPSCS and MPS Leasing & Factoring S.p.A., as well as the implementation of corrective measures to comply with regulatory limits imposed on Large Exposures; and (v) for the implementation of a documented liquidity risk and funding strategy within 28 February 2016.

The SREP Decision 2015 further contained the supervisory authority's request to the Issuer to submit, within one month after having received the decision, a Capital Plan for the purpose of achieving a 10.75 per cent. CET1 Ratio by 31 December 2016.

On 23 December 2015, BMPS submitted to the ECB the Capital Plan 2015, as resolved by the board of directors of BMPS on 17 December 2015, which did not provide for extraordinary measures to achieve a 10.75 per cent. CET1 Ratio by 31 December 2016 as required in the SREP Decision 2015, since updated forecasts for the period 2016 - 2018 confirmed, in the opinion of BMPS, the Bank's capital adequacy, allowing for a buffer over the projections horizon.

After the completion of the risk assessment conducted in the context of the SREP 2015, by letter dated 7 December 2015, the ECB asked the Bank to adopt a risk mitigation programme, in consideration of the 8 observations expressed in the same letter and the corresponding recommendations. The Bank replied to the authority's requests with letter dated 15 April 2016, further to the board of directors' resolution of 20 January 2016, illustrating the actions identified to deal with such recommendations, to be adopted in compliance with the specified deadlines. ECB's observations were merely of organisational, process, internal regulation, control and monitoring nature. As at 31 December 2016 remedial actions were all fully completed in compliance with the requested deadlines.

Findings of Consob Investigations on the Financial Statements 2014 and the half-year financial report as at 30 June 2015

On 11 December 2015, by resolution no. 19459, after completing its investigation, Consob found that the consolidated and individual financial statements for 2014 and the half-year report as at 30 June 2015 were not compliant with the rules governing the relevant drafting and, in particular, the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the items referring to the "Alexandria" transaction (as described above). In relation to the above, Consob requested the Bank to publicly disclose the following information: (i) a description of the international accounting standards applicable and the violations found in this respect; (ii) an illustration of the deficiencies and criticalities found by Consob in relation to the accounting accuracy of the individual and consolidated financial statements as at 31 December 2014 and the half-year financial report as at 30 June 2015; (iii) a disclosure suitable to represent the effects of the application of IAS 8 with reference to the errors associated with the recognition, valuation and presentation of the transactions entered into with Nomura, providing an accounting

representation of the transaction at closed balances with the posting of a credit derivative in accordance with the definition provided by paragraph 9 of IAS 39.

On 16 December 2015, in compliance with Consob instructions, the Issuer then published a press release, containing the information requested by the supervisory authority and to which reference is made for further details, and available to the public on the Issuer's website, www.gruppomps.it.

Assignment of non-performing loans to Epicuro SPV

On 28 December 2015, BMPS communicated to have entered into an agreement for the assignment with no recourse of a portfolio of non-performing loans comprised of approximately 18,000 loans for a gross book value of around Euro 1 billion to Epicuro SPV S.r.l., a special purpose vehicle funded by companies affiliated with Deutsche Bank. Non-performing loans being assigned were mainly unsecured, relating to corporate counterparties and for the great majority became non-performing prior to 2009.

2016

Securitisation of MPS Leasing & Factoring S.p.A.

On 21 January 2016, MPS Leasing & Factoring S.p.A. finalised a securitisation transaction of performing leasing loan portfolio by Euro 1.6 billion.

Agreement on second level bargaining

On 26 January 2016, the new level II bargaining entered into with all trade unions present within the company was ratified by employees' meetings. The agreement assures the rationalisation of the costs envisaged by the New Targets and implements the commitments given to the European Commission in the context of the Restructuring Plan, contributing to the change and enhancement track commenced by the Bank. Furthermore, the new level II bargaining contains new provisions relating to variable remuneration, support measures for personal (company welfare) and professional development which, in an overall sustainability framework, interact with cost containment, social equity and internal mutuality actions.

Approval of Financial Statement 2015, Remuneration Report and "performance shares" plan

On 25 February 2016, the board of directors approved the draft individual financial statement 2015 and the consolidated financial statement 2015. On 14 April 2016, the individual financial statement 2015 was approved by the shareholders' meeting which, on such date, also approved (i) the remuneration report, provided for by article 123-*ter* of the Consolidated Finance Act, and (ii) the "performance shares" plan, pursuant to article 114-*bis* of the Consolidated Finance Act, in favour of the Montepaschi Group employees.

Findings of ECB's thematic review on risk governance and appetite

On 3 March 2016, the ECB notified the Issuer of the findings of the thematic review on the functioning of the bodies with strategic supervision and management and control functions as well as on the RAFs, conducted in 2015 for all significant Euro-area entities.

The findings of such analysis were included in the SREP decisions for each entity subject to the SSM and were to be taken in due consideration in future assessments of professionalism and integrity requirements.

In particular, the investigation conducted by the ECB on the Issuer highlighted, *inter alia*:

- in respect of the board of directors, the recommendation to raise the competence and expertise of the same board in respect of risk management, control and back office activities, enhancing the appointment procedure of its members, and to review the functioning mechanisms of internal board committees, in particular the risk committee, in respect of the role and guidance by the chief risk officer; and

- in respect of the risk appetite framework, the indication that the RAF model shall be fully implemented by the first quarter 2016, effectively integrating it in the governance and risk management processes for the purpose of allowing an adequate determination and monitoring of business results.

Furthermore, at the end of the thematic review, the ECB expressed 10 observations and corresponding recommendations in respect of specific criticalities found in the context of the investigation, and specified, for each such observation, the deadline by which the relating remedial actions identified by the Bank shall be implemented.

On 7 April 2016, the Issuer provided the authority with a response, indicating the measures it intended to adopt. As at the date of the Prospectus, remedial actions are almost entirely completed in compliance with the deadlines requested and evidence of implemented remedial actions have been provided to the supervisory authority.

Detailed information on the 10 findings and the relevant recommendations detected by the thematic review are set out below together with the remedial actions identified by the Issuer and to be realised in compliance with the specified deadlines. As at the date of this Prospectus all envisaged interventions have been completed, except for part of the recommendations of finding no. 4 relating to internal regulations deliberative aspects, the completion of which is scheduled for 31 October 2017.

Finding	**Recommendations**	**Remedial actions (RA)**	**Deadline**
# 1 Composition of the board of directors limited expertise and competences	1) Identify possible gaps in the areas of competence 2) Draft an action plan to address each gap found both at individual and collective level 3) Implement and update policies so to assure the coverage of the necessary competences	Update of the self-assessment process regulation introducing stricter criteria in the assessment of requirements and reference to the coverage of areas of competence	31-05-2016
# 2 Consideration of reputational aspects in the board members appointment procedure	Put in place adequate measures and ensure that all board of directors members possess the necessary integrity and fairness requirements meeting the suitability requirements defined by the EU legislation (CRD IV and EBA)	Supplement to the board regulation dedicating more focus on the phases concerning the assessment of integrity, professionalisms and fairness requirements	31-03-2016
# 3 *Checks and balances*: ensure	1) Assessment of possible impediments to the CRO's involvement in the main	- Review of the risk committee internal regulation (1030D01788)	31-05-2016

Finding	Recommendations	Remedial actions (RA)	Deadline
direct and limitless access by the CRO to the board of directors and risk committee	decisions concerning risks and identification of solutions 2) Update of internal regulations 3) Realisation of policies ensuring the CRO's entitlement to dialogue with the risk committee without the contextual presence of the CEO	- New version of the internal control system policy (1030D00793) - Regulation no.1 BMPS Organisation (1030D00751)	
# 4 Involvement of the board of directors in the approval of internal regulations relating to risks and risk management	1) Identify the list of documents and regulations for the detection, management, monitoring and mitigation of risks 2) Analyse the adequacy of the approval level of such documents and regulations 3) Adapt the approval level where necessary 4) Assign a fix frequency for the regulations review 5) Where not already in use, assign a version number evidence to the documents under item 1) 6) Prepare an action plan to define interventions planned and the related realisation deadlines	- Overview of the main internal documents governing the detection, management, monitoring and mitigation of risks - Review of the adequacy of the internal approval level - Adaptation of regulations where necessary - Assignment of a predetermined frequency for the update of regulations relating to the main risks	1) 2) 6) 31-03-2016 3) 4) 5) 31-12-2016
# 5 Reporting Risk	1) Review of the structure and contents of the main reports taking account of the characteristics of addressees 2) Adaptation of risk reporting taking account of what was detected under the preceding item and provide an overview of interventions carried out	1) Production of risk reports differentiated by different addresses 2) Design of a specific dashboard incorporating the new board of directors approved set of metrics	30-08-2016
# 6 Interaction among internal Board committees	Insufficient interaction found between the board of directors and internal committees It is asked that mechanisms are put in place to facilitate an effective interaction among board of directors's internal committees	New actions and incremental implementations of operational practices board of directors resolution of 07-04-2016.	31-03-2016
# 7 RAF: internal regulation and monitoring (*dashboard*)	1) Formalisation of the RAF in an organic body of regulations and processes 2) Implementation of a specific tool to monitor the RAF and the reporting to corporate bodies	- Drafting of the RAF Guidance - Although the RAF dashboard in place already contains a broad set of risk metrics, the 2016 dashboard sees the introduction of further quantitative metrics and for 2017 specific qualitative indicators will be introduced	30-06-2016
# 8 RAF: perimeter, metrics and limits	1) Optimize the perimeter of risks covered by the RAF and broaden metrics so to ensure the coverage of the Bank's risk profile; consideration of qualitative measures of risks and definition of relevant thresholds by appetite, capacity and tolerance	- A first set of quantitative detail risk indicators has already been included in the RAF approved in December 2015 - the RAF 2017 will include qualitative indicators - Limit system included in the RAS 2016	30-04-2016

Finding	Recommendations	Remedial actions (RA)	Deadline
	2) Accurate definition of the relevant limits and integration thereof in the main Bank's processes and declined by BU and legal entity		
# 9 RAF: *governance*	1) Complete the definition and allocation of competences and responsibilities of the main stakeholders involved in the process 2) Periodic monitoring and review by corporate bodies, escalation processes and independent validation	1) Review of the definition and allocation of competences and responsibilities – new RAF guidance 2) No further interventions are proposed as regards item 2)	30-04-2016
# 10 RAF: risk appetite and strategies	1) Determine a consistent logic and chronological sequence in the RAF process	1) The current RAF process has been deemed in line with the recommendation	31-03-2016
	2) Ensure consistency between RAF and strategic management of each risk category	2) Consistency between RAF and strategic size for each risk is assured by the board of directors and specific documents	30-04-2016
	3) Introduction of linkage between RAF and corporate remuneration system	3) No further interventions are proposed	30-06-2016

Inspections 2016

During the period January – May 2015, an ordinary investigation was conducted by the ECB and the Bank of Italy in relation to the credit risk and the loan portfolio and the relevant final "follow-up" letter was sent to the Bank on 30 November 2015 with 31 recommendations provided by the investigation bodies and to which the Bank formally responded on 20 January 2016 indicating the relevant remedy actions identified. Such actions are of organisational, internal regulation, process and control nature, as well as of structural enhancement of supporting IT tools. The great part of such actions have already been completed in compliance with the timetable set in terms of deliverable, while, for a marginal portion, the relating full deployment is still in progress in consideration of the complexity of the solution adopted.

In particular, the recommendations addressed by the authority to the Issuer relate to six macro-areas, as specified below:

- *Ordinary loans*: (i) loan classification and adequacy of provisions in compliance with the new policies; (ii) timely identification of impaired positions; (iii) reduction of the managers' directionality for classification of loans and write-downs; (iv) update of collaterals' informative basis; (v) completion of organizational and procedural changes within the monitoring of first tier credit; and (vi) enhancement of monitoring tools concerning moratorium exposures and "restructured exposures";

- *Problem loans*: (i) completion of the review of recovery strategies and consequent internal reorganisation and rationalization of external legal advisors; (ii) introduction of new processes for the reduction of disbursement and recovery times; (iii) completion

of the integration at Group level of the credit monitoring and recovery process; and (iv) update of policies;

- *Accounting aspects*: provisioning policies and improvement of the relation between management and accounting systems;

- *Risks*: (i) enhancement of the monitoring of second tier credit also at Group level; and (ii) recalibration of risk parameters of the internal model for calculating collective provisions;

- *Regulation*: update and implementation of policies, operational guidelines and standards associated with the new credit classification and assessment rules; and

- IT: improvement of IT systems as support of the credit and credit risk management process.

For the purpose of implementing the necessary actions in response to the observations raised further to the aforementioned investigations, the Issuer internally activated a programme called ARGO 2, established on 14 January 2016, for the purpose of responding to the 31 recommendations notified to the Bank by the ECB letter dated 30 November 2015 ("ARGO 2"). The remedy action plan agreed with the ECB provided for the completion of all activities within 31 December 2016, with the exception of remedy action no. 31 (relating to the structural architectural review of the credit support IT systems); in this respect 30 June 2017 was set as deadline to achieve important improvements in the context of credit support instruments, such as the unification of the management of the special loans within the mortgage management system, rationalization and alignment of instruments for the documentary management of the loans, extension of the loan's monitoring activity to the Unlikely to Pay Loans, creation of a sole data warehouse of the loans along with the introduction, in particular, of the so called "Loan Data Tape" (*vista di analisi dedicata*) for the Impaired Loan, enhanced with information related to the Unlikely to Pay by the end of 2017, with an overall deadline for the remedial action by the end of 2018, as indicated into the road-map set out on 31 March 2016.

Amongst the 31 recommendations having a deadline scheduled for 31 December 2016, as of 31 March 2017, two of them were not completed.

More information on the activities associated with the requested remedial actions are set out in paragraph "*2017*" below (sub-paragraph "*ARGO 2*").

During the period September 2015 - January 2016 an ordinary investigation was carried out by the ECB and the Bank of Italy concerning the Bank's governance and the risk management system, OSI 3233. On 28 February 2017, the Bank received the relevant follow up letter. The ECB, in this respect, highlighted some improvement areas associated with the risk management system and the organisational aspects thereof, for which the Issuer has already undertaken the requested mitigation actions.

In May 2016, the ECB and the Bank of Italy began an inspection (OSI 1238) within the Bank concerning credit and counterparty risk and the control system that ended in February 2017 (more information is set out in paragraph "*2017*" (paragraph "*OSI 1238 Inspection*").

Furthermore, on 25 September 2015 the internal model investigation relating to internal operational risk advanced models ("**AMA**") was closed. On 2 February 2017, the Bank

received the relevant follow up letter whereby the ECB expressed its positive opinion on the progresses of the AMA model implemented by the Montepaschi Group, identifying several corrective actions for the enhancement of certain methodologies aspects. The Montepaschi Group communicated to the ECB that during the first six months of 2017 it has addressed and solved all the actions in accordance with the manners required by the ECB. As at the date of this Prospectus, the Issuer believes to have implemented all the actions required and that the activity can be considered completed, subject to an official confirmation by the ECB.

During the period September-December 2016, the Bank of Italy carried out a verification activity within sample branches of the Bank for the verification of compliance with the provisions relating to transparency of contractual conditions and the fairness of the relationships with retail customers, pursuant to article 128 of the Italian Banking Act. In a note dated 28 August 2017, the Bank was informed of the findings of the investigation activity, and six observations were expressed, in respect of which the supervisory authority has requested to provide structured and precise clarifications within 60 days of the receipt thereof, reserving to express further evaluations in respect of the responses received. Along with such requests, the Bank was asked for further clarifications about certain conducts that have been subject to petitions received by the authority. On 27 October 2017, the Bank delivered the clarifications requested as well as the indication of the remedy actions deemed necessary, including those with compensatory character. The authority will evaluate them.

Furthermore, the supervisory authority notified to the board of directors the findings of the aforementioned inspection, pointing out several improvable areas, relating in particular to: the identification of politically exposed persons; the risk evaluation process; the adequate test; the internal control. On 27 October 2017, the board meeting approved the contents of the reply letter for the Bank of Italy, which will be sent by the terms indicated thereof.

Assignment of non-performing loans to Kruk group

On 23 June 2016, BMPS entered into an agreement for the assignment without recourse and in block of a non-performing loan portfolio to Kruk group. The portfolio comprised more than 40,000 loans for a gross book value of approximately Euro 290 million (approximately Euro 350 million, including delayed interests accrued and/or other charges assigned together with principal). Non-performing loans assigned were consumer credits, personal loans and credit cards, unsecured, originated by Consum.it S.p.A., which was incorporated into BMPS in 2015. The assignment determined a slightly positive impact through profit or loss and had no significant effects on BMPS' capital ratios.

Draft ECB Decision on Impaired Loans and liquidity

On 23 June 2016, the ECB sent BMPS a letter through which it notified the intention to request the Bank to comply with certain requirements relating, in particular, to impaired loans and liquidity. Such requirements were set out in a "draft" decision, in respect of which the Bank was granted the possibility to submit its arguments by 8 July 2016. In more details, the "draft" decision included a table – set out below – according to which the Bank shall reduce non-performing loans in the next three years and achieve the specified parameters.

(data in Euro billion)	***31 December 2015***	***2016***	***2017***	***2018***
NPLs – Gross Exposure	46.9	Max 43.4	Max 38.9	Max 32.6

NPLs – Net Exposure	24.2	Max 21.8	Max 18.4	Max 14.6

The "draft" decision also requested for the ECB to be provided by 3 October 2016 with a plan defining what measures may be adopted by the Bank to reduce the total non-performing loans/ total loans ratio (NPL ratio) to 20 per cent. in 2018.

In relation to liquidity, the ECB requested BMPS for a clear definition of the strategic asset encumbrance targets for each of the next three years until 2018, by sending, at the beginning of each year, a detailed funding plan describing the actions for achieving the targets. Furthermore, such target levels shall be set in a manner such as to obtain a constant asset encumbrance reduction throughout the plan. In addition, the ECB requested a detailed analysis containing an estimate of expected liquidity benefits, to make encumberable the majority of assets currently classified as unencumberable.

In relation to the actions planned by the Issuer with respect to Impaired Loans and liquidity, reference is made to what specified in the paragraphs below relating to the Precautionary Recapitalisation and the Restructuring Plan. The ECB notified to the Bank its approaches concerning the Montepaschi Group NPL Portfolio in the context of the SREP Decision received by the Bank on 19 June 2017.

Payment of the New Financial Instruments

On 1 July 2016, BMPS communicated that the MEF informed the Bank that it would have paid on such date (being the scheduled deadline) interests accrued on the New Financial Instruments redeemed on 15 June 2015 in cash for an amount equal to Euro 45,994,309 and relating to the financial year 2015; such payment was not in line with BMPS' opinion, which intended to fulfil the relevant payment obligation by way of assignment of shares (as occurred in 2015). Such payment had no impact on the Montepaschi Group's capitalization.

For more information on the redemption of the New Financial Instruments, reference is made to "*2015*" above.

Plea bargaining request before the Courts of Milan

In respect of the criminal proceeding relating to the investigations on the "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions, on 2 July 2016 BMPS submitted, with the consent of the Public Prosecutor's Office, a plea bargaining request in the criminal proceeding pending before the Milan PHJ, in respect of the allegations brought against the Bank pursuant to Legislative Decree 231/2001 for administrative liability of entities depending on crimes. The predicate offences of the Bank's administrative liability concerned cases of false corporate communications, market abuse and obstruction to supervision and were exclusively charged to the former management for the period between 2009 and 2012. With the plea bargaining request, upheld by the Milan PHJ on 14 October 2016 with application of the penalty agreed upon, the proceedings relating to the administrative offence consequent to the crimes committed by its former top managers - limiting the consequences to a monetary administrative sanction of Euro 600,000 and a confiscation for Euro 10 million - was concluded for the Bank. In the same proceeding the Banks also appeared as civil plaintiff against the former directors and managers in office at the time of events.

In addition, it should be noted that, on 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016, held before the second criminal section of the Courts of Milan, further to the request as civilly liable parties of the Banks MPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs served on the Bank the civilly liable summon in respect of the crimes charged to indicted former directors and managers. During the course of the trial, with order of 6 April 2017, the Courts of Milan ruled on the exclusion request of civil plaintiffs filed by defendants and civilly liable parties, excluding certain civil plaintiffs. The civil action brought by the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also dismissed on the assumption of a Bank's liability for complicity with the defendants. As at the date of this Prospectus, around 1,250 civil plaintiffs appeared against the Bank.

Positive outcome of the questioning filed in April 2016

On 21 July 2016, the Bank received from the tax authority a favourable response to the questioning filed in April on the tax materiality of certain components of the restatement of the Alexandria transaction which was made in the Financial Statement 2015. In this respect, it should be noted that the restatement made in Financial Statement 2015, although with neutral pre-tax overall economic effect, involved a different allocation of income components associated with the transaction in the time period 2009-2015, compared to the original recognition and that in Financial Statement 2015 the restatement tax effect was represented considering as non-fiscally relevant some negative income components, by virtue of a first and restrictive interpretation of the Circular TA 31/2013. By virtue of the response to the above questioning, the Bank posted to profit or loss of the 2016 half-year report (tax item line) the corresponding income, equal to Euro 133.9 million, mainly off-setting deferred tax assets.

Corrado Passera and UBS Letters

On 28 July 2016, BMPS received two letters, one from Corrado Passera and one from UBS, containing proposals concerning the Bank; on 29 July 2016, the board of directors analysed the content of such letters and deemed that, as at such date, there were no conditions for pursuing the matters set out in such letters.

On 12 October 2016, Corrado Passera sent a new letter to the board of directors (which was received on 13 October 2016), setting out a non-binding proposal relating to the potential capital enhancement of the Bank. On 13 October 2016, the board of directors granted a mandate to the chief executive officer to begin the necessary in-depth analyses. The following conversations, and exchange of letters, had no positive outcome, since the parties were not able to reach an understanding on the terms and conditions of the disclosure of confidential information (although not privileged). On 1 November 2016, Corrado Passera sent the bank's board of directors and the board of statutory auditors a letter (disclosed to the market) explaining the reasons leading him to withdraw the non-binding proposal: in fact, in Corrado Passera's opinion, the minimum conditions to conduct the normal process aimed at making definitive and binding the proposal submitted thereby have been denied. Also, on 1 November 2016, the Bank acknowledged Corrado Passera's decision, specifying in the relating press release that "*… it regrets Mr. Passera's decision, which* the board *deems based on arguments ungrounded and incompatible with the applicable legislation*" (see press release of 1 November 2016, available on the website www.gruppomps.it).

Outcomes of EBA's stress test and definition of the 2016 Transaction's features

On 29 July 2016, the EBA disclosed the outcome of the stress test for 2016 (the "**Stress Test 2016**") which, for BMPS, highlighted, in the "adverse" scenario, a 2018 transitional CET1 equal to -2.2 per cent., while in the "baseline" scenario the 2018 CET1 was confirmed at 12 per cent..

The Stress Test 2016 did not set out a success/failure threshold, but was instead designed as a significant informative element in the context of the 2016 supervision process. The outcomes were then used by the competent authorities to assess the Bank's capacity to comply with regulatory constraints in stressed scenarios on the basis of common methodologies and assumptions. The adverse stress scenario had been designed by the ECB/ESRB and covers a three-year horizon (2016-2018), assuming a static financial statement starting from December 2015, and hence disregards changes in the business strategy, or other actions the Bank may put in place.

On 29 July 2016, the board of directors approved the guidelines of a transaction structured in a series of activities functionally connected among each other (the "**2016 Transaction**" and/or the "**Transaction**") and, in particular:

- derecognition of part of the non-performing loan portfolio of the Montepaschi Group through a securitisation structure;
- capital increase with share premium to be offered to shareholders on a pre-emptive basis of the amount of maximum Euro 5 billion (the "**Capital Increase**"); and
- a further capital increase with exclusion of option rights to service the warrants which will be issued in favour of the Atlante Fund versus the subscription of mezzanine notes.

Furthermore, in line with what preliminarily disclosed to the ECB, the transaction took into account the impact deriving from the 40 per cent. average coverage of loans classified under "Unlikely to Pay" and "Past Due Impaired Loans".

On 28 July 2016, the Issuer entered into with Quaestio SGR a memorandum of understanding aiming at analysing the phases of the possible participation of Quaestio SGR, on behalf on one of the two funds managed thereby, in the securitisation and setting some shared terms and conditions as at such date between the parties in relation to such participation.

On 29 July 2016, the ECB authorised the Bank to integrally exclude the impacts on LGD models deriving from the derecognition of part of the non-performing loans portfolio upon condition that the transaction was completed in all its components as described above.

As part of the transaction, J.P. Morgan and Mediobanca, acting as joint global coordinators and joint bookrunners, and Banco Santander, BofA Merrill Lynch, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs International, acting as co-global coordinators and joint bookrunners, entered into a pre-underwriting agreement concerning the commitment to enter into an underwriting agreement for unsubscribed newly issued shares, for a maximum amount of Euro 5 billion reduced by an extent equal to: (a) the value of the shares possibly subject matter of irrevocable subscription commitments given by qualified and/or institutional investors prior to the signing date of the underwriting agreement, (b) the value of the shares possibly subject matter of guarantee commitments given by other financial institutions which may join the guarantee syndicate, and (c) the value of newly issued shares to be destined to institutional investors which have subscribed for the liability management exercise ("**LME**")

and the subscription of which may not be subject to withdrawal right pursuant to article 95-*bis,* subsection 2 of the Consolidated Finance Act.

The commitment to sign the guarantee agreement was subject to conditions in line with the market practice for analogous transactions as well as other conditions more related to the conditions of the Italian banking market in general and, more in particular, those of the Bank and the Montepaschi Group.

On 23 November 2016, the ECB released the necessary authorisations for the purpose of the transaction, although subject to the condition subsequent of the compliance with certain legislative requirements and the completion, by certain dates, of some parts of the transaction. On the same date, the Bank of Italy, with measure no. 1399807/16 issued the preliminary assessment measure concerning the statutory amendments associated with the Transaction.

As part of the Capital Increase – provided for in the context of the transaction disclosed to the market on 29 July 2016 and the features of which have been subsequently approved by the Issuers' board of directors with resolution of 24 October 2016 – the Issuer launched a LME transaction, which consisted of a tender offer on LME securities launched by the Bank with the adhering party's obligation to destine the consideration for the subscription of the new LME shares, which closed on 2 December 2016 with the following final results:

	LME domestic offer	LME institutional offer
Value of tendered LME securities(*)	Euro 229,572,000	Euro 793,169,000

(*) Tenders are expressed in the terms of nominal value/liquidation preference of LME securities tendered in the context of LME offers.

Resignations of the Chief Executive Officer and Chairman

On 8 September 2016, the Bank's Board of Directors and the former chief executive officer Fabrizio Viola agreed on the opportunity of a turnover in the Bank's top management and, accordingly, the process for the succession of the chief executive officer was launched. Subsequently, on 14 September 2016, the Bank's board of directors unanimously approved the appointment of Mr. Marco Morelli who, as of 20 September 2016, took on the role of chief executive officer and general manager.

Furthermore, on 14 September 2016, Massimo Tononi resigned from its role as chairman and member of the Bank's board of directors as of the end of the shareholders' meeting called to approve the preparatory activities for the implementation of the Transaction which was held on 24 November 2016.

Approval of the new business plan and summon of shareholders' meeting

On 24 October 2016, the board of directors approved the new business plan, which – *inter alia* – amended the Restructuring Plan and called the Bank's extraordinary shareholders' meeting for the purpose of approving the necessary resolutions to carry out the Transaction.

On 24 November 2016, the Bank's extraordinary shareholders' meeting resolved on:

(i) the approval of the Issuer's capital situation as at 30 September 2016 and the coverage of the overall loss of Euro 1,636,082,770.63 through a capital reduction of a corresponding amount;

(ii) the approval of the grouping of BMPS' ordinary shares;

(iii) the granting to the board of directors of a delegation, pursuant to article 2443 of the Italian Civil Code to increase for cash consideration, even in more tranches, on one or more occasions and by single tranches, the share capital, with exclusion or limitation of options rights pursuant to article 2441, subsection 5, of the Italian Civil Code for a maximum total amount of Euro 5 billion inclusive of possible share premium.

In relation to the delegation under item (iii) above, it should be noted that, on 24 November 2016, the board of directors partially used the delegation pursuant to article 2443 of the Italian Civil Code granted thereto by the shareholders' meeting and adopted all necessary resolutions to implement the LME and the capital increase.

On the same date, the Bank's shareholders' meeting in ordinary session, approved – *inter alia* – the appointment of: (i) the already co-opted director Mr. Marco Morelli as member of the Bank's board of directors; (ii) prof. Maximum Egidi as member of the board of directors; and (iii) Mr. Alessandro Falciai as chairman of the board of directors.

Juliet Transaction

The Bank's board of directors on 14 November 2016 resolved to accept Cerved Group S.p.A. ("**Cerved**") binding proposal in the context of a competitive procedure launched by the Bank itself for the purpose of entrusting to a specialised manager the special servicing activity (i) of BMPS' and other companies of the Montepaschi Group's Impaired Loans which did not fall within the NPL Portfolio and were therefore not subject to the Securitisation; and (ii) of a significant percentage - equal to 80 per cent. - of future BMPS and other companies of the Montepaschi Group's Impaired Loans.

The "Juliet" transaction – according to what was disclosed by the Bank's board of directors on 14 November 2016 – should have been realized through the assignment to Cerved (or one of its subsidiaries) of 100 per cent. of a Newco, to which BMPS should have entrusted the management – pursuant to a 10-year special servicing agreement – of the above-mentioned loans.

In the context of such transaction, it was further provided for the sale purchase agreement – to be entered into between the Issuer and Cerved by the first quarter 2017 – to be subject to the following conditions precedent: (a) the application of the trade union procedure in respect of transferred and/or seconded employees; (b) the release – in favour of the Newco – of the authorisation pursuant to article 115 of the Consolidated Text of Public Safety Laws: (c) the release of the authorisations required by the Bank of Italy and/or ECB; (d) the payment in favour of the Bank by SPV1 of the assignment price of the NPL Portfolio; and (e) the full subscription of the Capital Increase.

Subsequently, on 28 February 2017, the Bank and Cerved disclosed that, as regards the Juliet Transaction, the conditions precedent, contractually provided for the perfection thereof, have not been satisfied within the deadline of 28 February 2017 and, accordingly, the agreement referred to Project Juliet shall have been deemed without effects.

Assignment of the equity interest in Bassilichi S.p.A.

On 6 December 2016, ICBPI entered into an agreement for the acquisition of up to 100 per cent. of the company Bassilichi S.p.A. – a specialized operator in the context of payments and business oriented services – of which the Issuer hold a 11.74 per cent. stake.

In particular, the equity interest in the company Fruendo S.r.l., of which Bassilichi S.p.A. holds a 60 per cent. stake, a company active in the back-office services for the banking sector, was not included in the assignment transaction as well as other minor equity interests.

Furthermore, the interest in Fruendo should have contributed to a new holding, in which the Issuer would have held a 10 per cent. stake of the capital as well as ICBPI, while the remaining 80 per cent. of the newly incorporated holding capital would have been held by banks and other financial intermediaries. The holding incorporation transaction is conditional upon the closing of the acquisition transaction by ICBPI of up to 100 per cent. of the company Bassilichi S.p.A., scheduled for the first semester 2017, and the necessary regulatory authorisations.

More information on the perfection of the assignment to ICBPI of the interest held in Bassilichi S.p.A. are set out in paragraph "*Assignment of the "Merchant Acquiring" Business and the equity interests held in Bassilichi S.p.A. and Consorzio Triveneto S.p.A.*" below.

Constitutional referendum of 4 December 2016 and outcomes of the 2016 Transaction

On 4 December 2016, voting operations relating to the constitutional referendum were carried out in Italy, at the end of which the constitutional law subject matter of the referendum was not confirmed. Such voting result triggered a government crisis, which led to the resignations of the Chairman of the Council of Ministers.

The situation of uncertainty which was generated thereof entailed a slow-down of the negotiations in progress with some institutional investors. For this reason, on 7 December 2016, the Issuer requested the ECB to postpone to 20 January 2017 the final deadline by which the Global Offer should have been launched (the "**Extension Request**").

Furthermore, on 11 December 2016, the members of the syndicate acting as Global Coordinators and the Bank entered into an agreement based on which the pre-underwriting Agreement was terminated. Subsequently, the Bank entered into an agreement with the joint bookrunners (the "**Agreement**") by virtue of which the latter undertook to negotiate in good faith the terms and conditions of an agreement upon the occurrence of certain conditions (the "**Placement Agreement**"). By way of the Placement Agreement the joint bookrunners did not give any underwriting commitment, but assumed the sole settlement risk i.e. the joint bookrunners undertook to subscribe for the new shares already previously allocated, but subsequently not subscribed for as at the relevant payment date (net of the new shares subscribed for in the context of the LME offers and those possibly subscribed for by the Italian Government).

Having acknowledged the above, the Issuers' Board of Directors, deemed it in the interest of the Bank, to (i) proceed in any case with the transaction, (ii) extend, without prejudice to the conditions set out in the relevant offering document, the acceptance period of the LME Offers starting from 9:00am of 16 December 2016 until 2:00pm of 21 December 2016, and (iii) launch an offer, solely addressed to qualified investors, pursuant to article 34-*ter*, subsection 1, letter b) of the Issuers regulation, even on the FRESH 2008 securities, recognising to the holders of

such securities an amount equal to 23.2 per cent. of the related nominal value per each security converted thereby, with the obligation for those accepting such offer to reinvest such amounts in new LME shares, as per the other LME offers.

On 13 December 2016, the ECB informed the Bank of a draft decision by which it communicated to have denied the Extension Request submitted by the Issuer, confirming 31 December 2016 as the final deadline to complete the full transaction. The impossibility of any postponement of the final deadline to complete the Transaction – in light of ECB's denial of the Extension Request submitted by the Issuer on 7 December 2016 – added another element of uncertainty on the completion of the Transaction, in addition to those already described in the Prospectus and in the LME securities Note.

Precautionary Recapitalisation

On 26 December 2016, the Bank communicated to have acknowledged the impossibility to complete the Transaction disclosed to the market on 25 October 2016 and then authorised by the ECB and the Bank of Italy on 23 November; as a consequence, the Bank communicated to have sent, on 23 December 2016, to the ECB an extraordinary and temporary financial support request for the access to the so called "Precautionary Recapitalisation" scheme.

On 23 December 2016, the Bank submitted to the Bank of Italy and the Ministry of Economy and Finance an application for the admission to the State guarantee provided for under article 7 of the Law Decree No. 237 of 23 December 2017 (the "**Decree 237**"), for the purpose of being granted the possibility to issue further State guaranteed liabilities.

The Bank then received from the Ministry of Economy and Finance two letters drafted by the ECB – addressed to the same Ministry – which, besides confirming the meeting of the necessary requirements to access the Precautionary Recapitalisation, highlighted the following:

(i) in relation to consolidated data, the Bank is solvent as it complies with the minimum capital requirements set by article 92 of the CRR. Furthermore, the Pillar 2 requirements on capital are also complied with;

(ii) the outcomes of EBA's Stress Test 2016 (see paragraph "*Outcomes of EBA's stress test and definition of the 2016 Transaction's features* " above) highlight a shortfall, only in case of adverse scenario, in the fully loaded CET1 parameter at the end of 2018 equal to 2.44 per cent., against an 8 per cent. threshold. According to the ECB such shortfall is represented by a capital demand equal to Euro 8.8 billion, inclusive of all Own Funds components provided for by the applicable legislation in force; and

(iii) the Bank's liquidity position witnessed a swift deterioration between 30 November and 21 December 2016, as highlighted by the significant decrease of counterbalancing capacity (from Euro 14.6 to 8.1 billion) as well as of one-month net liquidity (from Euro 12.1 -7.6 per cent. of total assets – to 7.7 billion -4.78 per cent. of total assets).

The Bank then began conversations with the competent authorities for the purpose of understanding the methodologies used by the ECB for its calculations and implementing the Precautionary Recapitalisation.

2017

Granting of State guarantee

On 20 January 2017, the Bank communicated to have obtained from the Ministry of Economy and Finance the granting of a state guarantee in support of the access to liquidity pursuant to Decree 237 and, accordingly, launched the preparatory activities for the issuances of State guaranteed securities.

On 25 January 2017, two issuances of State guaranteed securities were launched for an overall amount of Euro 7 billion. In particular, the features of the first issuance were maturity 20 January 2018, coupon 0.5 per cent. and nominal amount Euro 3 billion; while the features of the second issuance were maturity 25 January 2020, coupon 0.75 per cent. and nominal amount Euro 4 billion.

On 15 March 2017, the Bank carried out a further issuance of State guaranteed securities, with maturity 15 March 2020, coupon 0.75 per cent. and nominal amount Euro 4 billion.

All issuances were fully subscribed by the Bank upon issuance and subsequently placed in part on the market and, in part, used as collateral for financing transactions.

The guarantee granted by the Ministry of Economy and Finance provided on the side of the Bank for the possibility to realise, by 31 December 2017, an additional issuance of State guaranteed securities, for a nominal amount of Euro 4 billion and three years maturity.

Shareholders' meeting of 12 April 2017

On 12 April 2017, the ordinary shareholders' meeting of the Bank approved:

(a) the individual and consolidated financial statements ended on 31 December 2016. In particular, the Bank's individual financial statement ended with the posting of a Euro 3,722,770,706.06 loss, partially replenished by Euro 1,398,720,205.16, in light of the capital reduction resolution adopted by the Extraordinary Shareholders' Meeting of the Bank on 24 November 2016;

(b) the remuneration report provided for pursuant to article 123-*ter* of the Consolidated Finance Act;

(c) the performance shares plan in favour of the Montepaschi Group's employees provided for pursuant to article 114-*bis* of the Consolidated Finance Act;

(d) the proposal for the reduction of the number of members of the Bank's Board of Directors from 14 to 13.

The Bank's extraordinary shareholders' meeting, called to vote upon the share capital reduction proposal to cover for the residual loss as at 31 December 2016 (i.e. Euro 2,324,050,500.90) and upon the amendments to the by-laws, did not take place since the necessary quorum was not reached.

ARGO 2

In relation to the ARGO2 programme – as set out more in detail in the sub-paragraph "*Inspections 2016*" above – the monitoring as at 30 June 2017 has been transmitted to the ECB on 6 October 2017, and declares the completion of all the deliverables (meant as all the methodologies, organizational and/or IT solutions developed and adopted following specific planning actions) and the related put in operation (so called "deployment") as a response to the recommendations with deadline as at 31 December 2016, except for some of these associated with remedy actions no. 12 and no. 21, for which:

- in relation to remedy action no. 12 – relating to the update and upgrade of the informative bases for the purpose of including all relevant information on collaterals:
    - the Bank completed the digitialization of documents, with contextual integration of the informative set, of the stock of mortgage loans granted between 2002 and the end of 2015 (starting from such date the process provides for this activity to be carried out at the time of the generation of the new flow) for a number equal to 253,000 out of a total of 380,000 loans, the great part of which (249,000) already entered in the Bank's informative bases, with the goal of completing entries by 2017;
    - the retrieval and digitialization activities of the remaining 127,000 loans, the documents of which are stored with branches, is still in progress and its completion is planned by the end of the second semester 2017, while the implementation of the corrective actions in respect of the Bank's IT systems (extension of information set and data quality) is expected by the first quarter of 2018.
- in relation to corrective action no. 21 – relating to the integration of MPSCS and MPS Leasing & Factoring S.p.A. in BMPS' credit processes, including IT tools, for the purpose of assuring the correct application of policies at Group level – starting from February 2017, the tool used by the parent company for the computation of the analytic depreciation was adopted by MPSCS, while the deliverable relating to the extension of accounting management IT applications of the Bank's disputes to MPSCS, the relating interventions and planning is not yet completed as subordinated to the verification, which is still under process, of the consistency of the MPSCS business model with the strategic choices of the Restructuring Plan; the above is without prejudice to the fact that the actual reduction of the non-performing loan portfolio, which will remain after the completion of the assignment of the Impaired Loans, will significantly reduce the impact of the partial treatment inequality compared to the parent company.

In relation to corrective action no. 31, for which the plan of remedy actions agreed with the ECB provided for the completion during the 2018 (for more information reference is made to paragraph "*2016*" above), the activities functional to its resolution continue with the rescheduling of some deliverables (such as, without limitation, the "**Modular Credit Line Electronic File**" solution), which however do not prejudice the overall structural review plan of the IT platform planned within 2018. With reference to the deliverables closed, the Bank, as at the date of the Prospectus has not yet received the related closing declaration from the ECB.

OSI 1238 Inspection

In May 2017, it was closed and an on-site investigation was launched by the ECB and the Bank of Italy in May 2016 concerning credit, counterparty risk and the risk control system of Banca Monte dei Paschi S.p.A., MPSCS and MPS Leasing & Factoring S.p.A.. Specifically, such inspection's objective was to conduct a verification on the risk management process and on the internal control systems. To this end, the investigation team examined almost the entire overall Group's loan portfolio, with specific focus on:

1. classification of the performing loan portfolio;
2. verification of provisions created on the non-performing portfolio;
3. review of collateral values;
4. data quality review of credit risk.

On 7 June 2017, the ECB sent the Issuer the final report on such investigation activity highlighting several areas of improvement in the matter of identification of exposures to credit risk, classification, monitoring, reporting, organisation, data base and collateral management, policy and determination of provisions and specific disclosure to corporate bodies on the deterioration of credit quality. Some of the critical points highlighted have already been resolved/implemented in the course of 2016 with the ARGO2 programme. Measures to be implemented to remedy the remaining deficiencies, in continuity with what has already been implemented in the past years to improve credit quality and the credit risk management process, are included in the assignment of the NPL Portfolio plan communicated to the market on 5th July 2017. In this respect, please further note that the Restructuring Plan fully transposes the findings of the investigation conducted by the ECB on the loan portfolio (CFR) as at 31 December 2015 which highlights further provisions to be created compared to the coverage levels as at the reference date. Such additional adjustments substantially overlap with those already recorded from 31 December 2015 to date, with the effects of the Assignment of the NPL Portfolio and with the increased coverages of the Impaired Loans portfolio provided for in the Restructuring Plan to facilitate such loans reduction process in the period 2017-2021. The residual impact equal to around Euro 0.26 billion is included in the projections of the first years of the Plan, in consideration of a prudential credit cost estimate. It remains understood that the mentioned differences of provisioning will be reflected in accounting insofar they will be matched with receivables events that will entail a reduction of expected cash-flows due to exposures and/or portfolios under investigations. Notwithstanding the above, at the date of this Prospectus, the Bank has not yet received the draft follow up letter from the joint supervisory team, along with the recommendations. The Bank does not believe that it is necessary to proceed, following such inspections, to further write downs on receivables, in addition to those already provided by the Restructuring Plan.

2017 TRIM 2939 Inspection

On 20 September 2017, with the letter received from the ECB and dated 18 September 2017, the Bank has been notified that, starting from 21 November 2017, in the context of the process of review of internal models (TRIM – Targeted Review of Internal Models) an on-site inspection, for the Bank and for the Montepaschi Group, will commence, focusing on the internal models on credit risk, with reference to the PD and LGD parameters and in the context of the perimeter of retail exposures – non PMI – assisted by real estate guarantees.

SREP annual process

By way of letter sent on 19 June 2017, the ECB notified to BMPS the SREP Decision, with which it notified the prudential requirements the Bank and its subsidiaries shall satisfy and other specific requests. The SREP was conducted with reference date as at 31 December 2016, taking also account of the information received after such date among which, specifically, the draft Restructuring Plan submitted by the Bank to the European Commission.

As regards the capital requirements, in relation to Total Capital, the following is required to be maintained on a consolidated basis as of 1 January 2018: i) a level of Total SREP Capital Requirement ("**TSCR**") equal to 11 per cent. (of which 8 per cent. as minimum Own Funds requirement pursuant to article 92 of the CRR and 3 per cent. as Pillar 2 capital requirement fully comprised of CET1) and ii) an overall capital requirement ("**OCR**") including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV.

As a consequence, BMPS shall comply with the following requirements on a consolidated basis starting from 1 January 2018:

- 9.44 per cent. CET1 Ratio on a transitional basis
- 12.94 per cent. Total Capital Ratio on a transitional basis

including, in addition to P2R, 1.875 per cent. in terms of Capital Conservation Buffer and 0.06 per cent. in terms of O-SII buffer (Other Systemically Important Institution Buffer). The Capital Conservation Buffer and the O-SII Buffer will be at full steam respectively in 2019 with 2.5 per cent. and in 2021 with 0.25 per cent. (the latter on a transitional basis will have a 0.13 per cent. coefficient in 2019 and a 0.19 per cent. coefficient in 2020).

The SREP Decision introduced the capital guidance (so called "**Pillar 2 capital guidance**") equal to 1.5 per cent., as request to be fully satisfied with Common Equity Tier 1, in addition to the minimum CET1 regulatory requirement, to the additional Pillar 2 requirements and the Combined Capital Requirement. It should be noted that failed compliance with such capital guidance does not imply failed compliance with capital requirements.

In addition to the above mentioned quantitative requirements, the SREP identified qualitative measures in the matter of management of Impaired Loans and distribution of dividends. In relation to Impaired Loans, it should be noted that the Restructuring Plan incorporated the requests included in the SREP Decision and the findings of the ECB inspection closed in May 2017. In fact, with the almost total disposal of the NPL Portfolio (for a GBV of around Euro 26 billion as at 31 December 2016) and with a specific assignment/reduction programme of the unlikely to pay and non-performing loan portfolio, the economic effects of which are included in the Restructuring Plan, the Issuer expects to achieve a significant reduction on the impact of gross Impaired Loans over total loans (NPE ratio). The ECB requested the Issuer to provide, on a consolidated and quarterly basis, additional periodic information on Impaired Loans according with the standard provided by the supervisory authority. The first submission of the additional information has been requested by September 2017.

Further to the conclusion of the review process, the ECB highlighted some weakness profiles/focus areas mainly relating to: (i) the business model, with specific reference to the persistence of the Bank's low profitability and the insufficient capacity to create internal capital. In particular, it was pointed out a lack of ability to implement and carry out the strategy devised

by the board of directors, for instance through practical commercial measures, which is also associated with a less favourable change of macroeconomic conditions than was expected. In the absence of any new strategies aimed at reducing the NPL and refocusing on profitable business areas, the high cost of risk and the persistent reduction in margins (influenced by the contraction of the volumes of funding and lending) will continue to materially affect the profitability and the generation of internal capital; (ii) the risk management system and organisational aspects judged still not fully adequate because awaiting to assess the mitigation activities already implemented by the Montepaschi Group; (iii) the credit quality in respect of the high and exceeding average NPLs level. In this respect, the supervisory authority highlighted that the Issuer did not manage to implement the NPL management strategy, submitted in 2015; (iv) the market risk in respect of some details linked to the measurement of the banking book's interest rate risk and the high sensitivity to credit spread of the government securities portfolio; (v) the operational risk in respect of the number of pending legal actions and the consolidation, deemed still weak although gradually improving, of the Montepaschi Group's reputation; (vi) the risk associated with capital adequacy; (vii) the liquidity risk related to the volatility of commercial deposits and the Issuer's exposure to stress events, as observed in the last quarter of 2016 following the failure of the 2016 Transaction. The supervisory authority highlighted additional risk profiles associated with the BMPS' structural financial position, the rebalancing of which still depends on the implementation of extraordinary measures as set out in the Restructuring Plan, among which the capital enhancement and the assignment of NPL Portfolio.

By means of the SREP Decision, the ECB further informed the Issuer that no additional capital requirements were requested compared to the minimum ones set by the current legislation in force for the following subsidiaries: MPSCS, MPS Leasing & Factoring S.p.A. and Wise Dialog Bank S.p.A.

However, the ECB introduced, to complete the SREP process, additional capital requirements, in line with article 16(2) of Reg. 1024/2013 for foreign subsidiaries, MP Belgio and MP Banque, as described below.

In relation to the subsidiary MP Belgio, the ECB required:

- as regards the capital requirements and the Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar 2 capital requirement fully comprised of CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV;

- as regards the liquidity requirements to maintain, on an individual basis, the liquidity coverage ratio (LCR) of at least 100 per cent.;

- with respect to the qualitative requirements, to carry out all necessary actions aimed at diversifying the funding sources and reducing the dependency on the Bank as well as to update its governance memorandum to have processes allowing to comply with governance rules.

The SREP Decision introduced - in line with what was asked to the Bank on a consolidated basis - the capital guidance (so called "Pillar 2 capital guidance") equal to 1 per cent., to be fully satisfied with the Common Equity Tier 1, in addition to the sole minimum OCR regulatory requirement in terms of CET1 and not in addition to the Tier 1 and Total Capital OCR

regulatory requirements (for which, accordingly, the requirements remain unchanged compared to OCR ones). It should be noted that failure to comply with such capital guidance would not equal a failure to comply with the capital requirements.

Following the conclusion of the SREP process on the subsidiary MP Belgio, the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain vulnerability of the business model caused by low profitability, excessive concentration of assets and liabilities and low diversification of assets, in particular, the first five deposits represent almost 50 per cent. of the overall deposits, while the first 25 credit exposures represent 37 per cent. of the overall credit lines; (ii) internal governance and risk management mainly concerning governance and control procedures aimed at verifying full consistency with MiFID regulation, in the field of investments in financial instruments that affect customers; (iii) credit risk in terms of concentration of assets, concentration on Italian Government securities and at a cost of risk higher than the reference Belgian market average; (iv) operational risks, in particular on IT systems, and reputational impacts deriving from the events which concerned the parent company; (v) liquidity risks, in particular for short term liquidity, and in relation to the sustainability of deposit collection.

In relation to the subsidiary MP Banque:

- on capital requirements, in relation to Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar 2 capital requirement fully comprised of CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV.

The SREP Decision introduced the capital guidance (so called "Pillar 2 capital guidance") equal to 1 per cent., as requested to be fully satisfied with Common Equity Tier 1, in addition to the sole minimum OCR regulatory requirement in terms of CET1 and not in addition to the Tier 1 and Total Capital OCR regulatory requirements (for which accordingly the requirements remain unchanged compared to OCR ones). It should be noted that failure to comply with such capital guidance would not equal to a failure to comply with capital requirements.

Following the conclusion of the SREP process on the subsidiary MP Banque the ECB highlighted some weakness and focus profiles mainly relating to: (i) a certain weakness of the business model caused by the increased cost of risk in the matter of credit and a less than optimal cost income ratio; (ii) internal governance and risk management linked to deficiencies in the credit deliberation process and information flows towards the supervisory board; (iii) capital risks, associated with and consequent to a) credit risks associated with the quality performance of the impaired loans portfolio, b) risks associated with the measurement and monitoring of the *banking book* interest rate, c) operational risks associated with the number of loss events occurred throughout 2016 and still in progress as well as with the consequent higher exposure to reputational risks also due to the events which concerned the Bank; (iv) capital adequacy after the loss posted in the financial statement as at 31 December 2016 mainly referred to further and significant credit adjustments; (v) liquidity risk in relation to short term liquidity and sustainability of deposit collection.

Participation in ECB's 2018 stress test

By way of a letter sent on 27 June 2017, the ECB informed the Bank that in the course of the first six months of 2018, the Bank will be subject to the SREP stress test, the findings of which

will be factored in the overall assessment of the 2018 SREP. The SREP stress test, although containing some simplifications compared to the stress test conducted in 2016 according to EBA's EU-wide modalities, replicates in substance its content and purpose. Accordingly, the outcomes of the 2018 SREP stress test (as for the 2016 stress test) will be both factored in the preparation of the 2018 SREP Decision.

Anti-money laundering Bankit Inspection

During the month of June 2017, the anti-money laundering service has been subject to an on-site inspection from the Bank of Italy having as subject matter "Monte dei Paschi di Siena Group. Procedures in the context of identification and adequate enhanced review on politically exposed persons".

During the inspection the Bank of Italy has carried out an analysis of the organizational structures, the internal rules and the internal processes, with particular reference to the process of evaluation of the politically exposed persons and to the continuous monitoring, in addition to specific considerations on a sample of clients independently identified.

The inspection started on 5 June 2017 and ended on 6 July 2017. On 5 October 2017 the national supervisory authority has communicated the result of the inspection to the board of directors of the Bank, describing the goals of the on-site inspections that are carried out at system level, which are used as inspiration in order to suggest the best practices observed in the industry, confirming that it is not expected to be the commencement of any sanctioning procedure.

The supervisory authority notified the board of the result of the above mentioned inspection, underlying certain area of improvement that concern, in particular: the identification of the politically exposed persons; the risk profiling; the adequate verification; and the internal controls. The letter of response from the Bank with the relative mitigation actions is in the process of being predisposed. On 27 October 2017, the board meeting approved the contents of the reply letter for the Bank of Italy which will be sent by the terms thereof.

Restructuring Plan 2017-2021

On 26 June 2017, BMPS' board of directors approved the new economic, capital and financial targets for the Montepaschi Group, referred to the period 2017-2021 (the "**Restructuring Plan**") and designed in the context of the procedure relating to the Precautionary Recapitalisation requested by BMPS on 23 December 2016 and contemplated by article 18 of Legislative Decree 16 November 2015, no. 180 and article 18, paragraph 4, letter d), of regulation (EU) no. 806/2014 of the European Parliament and the Council of 15 July 2014.

The Restructuring Plan was notified to the European Commission which, on 4 July, issued a positive decision on the compatibility of the intervention with the EU legislative framework on State aid, applicable to the recapitalisation measures of banks in the context of the financial crisis.

The Restructuring Plan is an additional element characterising BMPS' recovery process, aimed at lowering its risk profile, enhancing the capital and liquidity position and restoring medium-long term profitability.

The Restructuring Plan 2017-2021 contains a set of forecasts and estimates based on the realisation of future events and actions to be undertaken, by directors and the management, inclusive of hypothetical assumptions subject to the risks and uncertainties which characterise, *inter alia*, the current macroeconomic scenario and the evolution of the legislative framework, relating to future events and actions which will not necessarily occur, on which directors and the management have no or only partial control, relating to the performance of the main capital and economic figures or of other factors affecting the evolution thereof (the so called hypothetic assumptions).

Due to the uncertainty associated with the realization of any future event, both in relation to the occurrence of the event and to the size and timing of its occurrence, deviation from final and preliminary values may be significant, even if the events envisaged in the hypothetic assumptions would occur.

The Restructuring Plan is consistent with the commitments given to the European Commission's Directorate General Competition (the **"DG Comp**"), provided for by the EU regime, and concerning various plan aspects, among which: (i) the full realization of burden sharing measures under article 22(2) of Decree 237 (the "**Burden Sharing**"); (ii) cost reduction measures; (iii) restrictions in the matter of advertising and business policy; (iv) assignment of assets, (in particular, Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A.); (v) risk containment measures; (vi) prohibition to carry out acquisitions; (vii) restrictions on payments of coupons under outstanding instruments and to execute liability management transactions; (viii) prohibition to pay dividends; (ix) restrictions on remuneration of employees.

Compliance with the commitments is assured through a monitoring trustee selected by the Bank, with the approval of the DG Comp. In particular, the first monitoring will be carried out during the last quarter of 2017 with reference to the data available as at 30 September 2017. The Issuer proposed – with favourable opinion of the DG Comp – the appointment of Degroof Petercam Finance as monitoring trustee (the latter already acted as monitoring trustee for the commitments of the Restructuring Plan 2013-2017). As at the date of this Prospectus the trustee has not yet started the monitoring over the compliance with the data as at 30 September 2017.

The Bank furthermore disclosed, contextually with the presentation of the Restructuring Plan, to have granted an exclusive option to Quaestio Capital Management SGR S.p.A., until mid-September 2017, for the acquisition of the servicing platform of BMPS' Impaired loans. Subsequently, on 2 October 2017, the BMPS' board of directors resolved to accept the binding offer of Quaestio and Cerved (see paragraph "*Assignment of the management platform of non-performing loans to Quaestio and Cerved ("Sirio")* below).

Assignment of the "Merchant Acquiring" Business and the equity interests held in Bassilichi S.p.A. and Consorzio Triveneto S.p.A.

On 30 June 2017, the assignment to CartaSi S.p.A. ("**CartaSi**"), a subsidiary of Istituto Centrale delle Banche Popolari Italiane S.p.A. ("**ICBPI**"), a company leader in the management of payment services at national and international level, of BMPS activities referred to the merchant acquiring business (the "**Merchant Acquiring**") was finalised. The transaction, which also provides for a ten-year business partnership, for the development and placement of payment products and services in support of customers, was finalized through the assignment of business unit for a consideration equal to Euro 536 million, subject to the usual price adjustment mechanisms.

Furthermore, on 3 July 2017 the assignment to ICBPI of the 11.74 per cent. equity interest held in Bassilichi S.p.A. – a specialized operator in the context of payments and business oriented services - and of 10.13 per cent. in Consorzio Triveneto S.p.A. was finalised. In relation to the assignment of Bassilichi S.p.A., it shall be specified that the equity interest in the company Fruendo, in which Bassilichi S.p.A. holds a 60 per cent. stake, a company active in the back-office services for the banking sector is not included in the assignment transaction, as well as other minor equity interests. In proximity of the closing of the transaction, the assets excluded from the acquisition by ICBPI were contributed to a newly established holding, Ausilia S.r.l., in the capital of which the Issuer holds a 10 per cent. stake, as well as ICBPI, while the remaining 80 per cent. of the share capital is held by banks and other financial intermediaries former shareholders of Bassilichi S.p.A..

The above transactions contribute to the capital enhancement process of the Montepaschi Group and fall within the commitments given to DG Comp in the context of the Restructuring Plan.

Measures implementing the Precautionary Recapitalisation and the Capital Enhancement

On 28 July 2017, the Ministry of Economy and Finance, with the Burden Sharing Decree, ordered the application of the Burden Sharing as well as the Bank's capital increase for an amount equal to Euro 4,472,909,844.60 with consequent issuance of 517,099,404 shares awarded, on 1 August 2017, to the holders of Burden Sharing Notes. In accordance with the provisions of article 23, subsection 3 of Decree 237, as well as article 2 of the Burden Sharing Decree, the Burden Sharing Notes have been converted into Bank's ordinary shares at the unitary price of Euro 8.65.

On 28 July 2017, the Recapitalisation Decree has also been published on the Official Gazette, providing for the Bank's Capital Increase for an amount equal to Euro 3,854,215,456.30, to service the subscription of 593,869,870 shares by the MEF executed on 3 August 2017. Pursuant to the Recapitalisation Decree, the shares reserved for the MEF are issued at the unitary price of Euro 6.49.

After the completion of the Burden Sharing and of the Capital Increase reserved for the MEF, BMPS share capital, as per the statement pursuant to article 2444 of the Italian Civil Code filed on 10 August 2017 and registered on 11 August 2017, is equal to Euro 15,692,799,350.97 and is represented by 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares held by Montepaschi Group companies after the perfection of the aforementioned capital enhancement interventions.

Voluntary public offering for exchange and settlement (the "**Offer**")

Decree no. 237 provides that – within 120 days from the publication of the Ministerial Decrees – the Bank or a company of the Montepaschi Group, in the name and on behalf of the MEF, may purchase the new shares that have been subject to the transaction between the Bank or a company of the Montepaschi Group and the shareholders that acquired such status following the application of the Burden Sharing, if certain conditions are cumulatively met:

"

(a) the transaction is aimed at settling or preventing a dispute concerning the commercialization of the securities involved in the application of the burden sharing

measures pursuant to article 22, paragraph 2, limited to those for which, in relation to the offer, there was an obligation to publish a prospectus and excluding those purchased by counterparties qualified pursuant to article 6, paragraph 2-*quater*, letter d) of Legislative Decree 24 February 1998, no. 58 or by professional clients pursuant to article 6, paragraphs 2-*quinquies* and 2-*sexies* of the same Legislative Decree, different from the issuer or companies of its Group, in absence of services supply or investment activities by the issuer or by companies of its Group;

(a-bis) the securities subject to conversion have been subscribed or purchased before 1 January 2016; in the event of purchase for no consideration, it is considered the moment in which the instrument was purchased by the deceased;

(b) the shareholders are not counterparties qualified pursuant to article 6, paragraph 2-*quater*, letter d) of Legislative Decree 24 February 1998, no. 58 or professional clients pursuant to article 6, paragraphs 2-*quinquies* and 2-*sexies* of the same Legislative Decree;

(c) the transaction provides that the issuer purchases from the shareholders in the name and on behalf of the MEF, the shares deriving from the application of the burden sharing measures pursuant to article 22, paragraph 2 and that the shareholders receive from the issuer, as purchase price, unsubordinated notes issued at par by the issuer or by companies of its group, for a nominal value equal to the price paid by the MEF according to letter d); such notes shall have a maturity similar to the residual maturity of the instruments and the loans being converted and a return in line with that of the unsubordinated notes issued by the issuer with similar characteristics as recorded on the secondary market during the period between the date of publication of the decree pursuant to article 18, paragraph 2 and the purchase of the shares according to this paragraph;

(d) the price for the purchase by the MEF of the shares deriving from the application of the burden sharing measures is transferred to the issuer in relation to the notes assigned by the latter to the shareholders; the price for the purchase of such shares is the lower of the price used to determine the number of shares to be assigned in the context of the conversion pursuant to article 22, paragraph 5, letter d) and the price corresponding to the price paid by the shareholder for the subscription or the purchase of the securities subject to conversion pursuant to article 22, paragraph 2 or, in the event of purchase for no compensation, the purchase price paid by the deceased;

(e) the transaction provides for the renounce by the shareholder to assert any claim in relation to the commercialization of the converted securities, in application to the burden sharing measures, pursuant to article 22, paragraph 2 in relation to the shares purchased by the MEF according to this paragraph."

The Offer is available only for the holders of UT2 Notes (as defined below) that have the characteristics described above and, to that end, the Bank predisposed a dedicated information document that CONSOB approved on 24 October 2017 (the "**Information Document**").

In this respect, on 5 October 2017 the Issuer published a press release pursuant to article 102 of the Consolidated Finance Act in which the characteristics of the Offer were outlined.

In particular, the Offer is brought in connection with all the 237,691,869 ordinary shares of the Bank (ISIN code, IT0005276776) arising out of the conversion, following the application of the Burden Sharing, of the subordinated bond issue €2,160,558,000 Floating Rate Subordinated Upper Tier II 2008-2018 (ISIN code IT0004352586) (the "**UT2 Shares**" and the "**UT2 Notes**") outstanding as at 3 October 2017, equivalent to 20.84 per cent. of the share capital of BMPS.

Under article 19(2) of Decree 237, the Offer is addressed to all holders of UT2 Shares, other than those who: (i) acquired the UT2 Notes from eligible counterparties, pursuant to article 6(2-*quater*)(d) of the Consolidated Finance Act, or professional clients, pursuant to article 6(2-*quinquies*) and (2-*sexies*) Consolidated Finance Act, other than the Issuer or any company of the Montepaschi Group, in the absence of a supply of investment services or investment business by the Issuer or any company of the Montepaschi Group; (ii) acquired or subscribed the UT2 Notes after 31 December 2015 (where the acquisition has taken place without valuable consideration, this refers to the time at which the UT2 Notes were acquired by the predecessor in title); (iii) qualify and/or have qualified since the date of acquisition of the UT2 Notes as eligible counterparties pursuant to article 6(2-*quater*)(d) of the Consolidated Finance Act, or professional clients pursuant to article 2-*quinquies*) and (2-*sexies*) of the Consolidated Finance Act (the "**Offer Recipients**" or the "**Recipients**").

The Recipients who tender all or some of their UT2 Shares into the Offer (the "**Tenderers**") will receive, as consideration and upon the terms and conditions set out below, senior debt securities issued by the Bank and due 15 May 2018, up to a maximum aggregate nominal amount of euro 1,536,000,000 (the "**Senior Debt Securities**" and the "**Maximum Aggregate Nominal Amount**", respectively).

Where based on the Tenderers received in the course of the tender period (as defined below), the aggregate nominal amount of the Senior Debt Securities to be offered in exchange as consideration under the Offer exceeds the Maximum Aggregate Nominal Amount of euro 1,536,000,000, the UT2 Shares tendered into the Offer shall be allocated on a pro rata basis, under which the Bank will –for and on behalf of the MEF – acquire from all Tenderers the same proportion of UT2 Shares that they tendered into the Offer (the "**Pro Rata Allocation**").

In the event that all the Recipients tender shares into the Offer and there is consequently a Pro Rata Allocation, when the maximum purchase consideration (equal to Euro 8.65) is applied, then the minimum number of UT2 Shares that the Bank acquires for and on behalf of the MEF from all the Tenderers shall be approximately 25 per cent. of the UT2 Shares tendered into the Offer. This percentage might be lower, as the estimate does not take into account holders of UT2 Shares who are not eligible to participate in the Offer pursuant to Decree 237.

In relation to the Pro Rata Allocation, the purchase of the UT2 Shares by the MEF under the Offer has been considered "State aid" by the European Commission. Therefore, the Bank (in its capacity as offeror) and the MEF are unable to increase the Maximum Aggregate Nominal Amount of the Senior Debt Securities.

The consideration of the Offer will be calculated in accordance with the criteria set out under Decree 237 for each Recipient, referring to the consideration paid by each Recipient to subscribe and/or acquire the UT2 Notes. For the purposes of calculating the purchase consideration of the UT2 Notes the Bank will have regard to the weighted average consideration at which those instruments are carried in the securities account of each Tenderer as at 31 December 2015, net of commissions and expenses.

On 30 October 2017, the MEF – for the purpose of purchasing the UT2 Shares – enacted the relevant ministerial decree.

The Offer has been carried out during the period, from 31 October to 20 November 2017.

During the tender period (31 October 2017 – 20 November 2017) no. 198,521,533 UT2 Shares, equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates (equal to a total of no. 237,691,869), have been validly tendered into the Offer.

As at the date of the Base Prospectus, on the basis of the Offer's final results, the MEF has purchased a number of UT2 Shares so as to hold a share capital of the Bank equal to 68.247 per cent..

Assignment of the management platform of non-performing loans to Quaestio and Cerved ("Sirio")

On 2 August 2017, the Bank's board of directors resolved to accept the binding proposal of Quaestio Holding SA ("**Quaestio**") and Cerved to purchase BMPS' impaired loans recovery platform and to enter into a multi-annual servicing agreement for the outsourced management of future non-performing flows of all Italian banks of the Montepaschi Group. The transaction provides for the establishment of a company ("**JV**") which will be 100 per cent. controlled by Quaestio and Cerved. JV, by virtue of enhanced governance rights in favour of Cerved, will be included in the consolidation perimeter thereof. Quaestio and Cerved, on behalf of the to-be-incorporated JV, entered into a binding agreement with BMPS for the purchase of BMPS' servicing platform, which will manage 80 per cent. of non-performing loans to be originated in the next 10 years. The servicing agreement does not include loans classified as non-performing as at 31 December 2016 and subject matter of the assignment plan of approximately Euro 28.6 billion.

The sale purchase agreement – which is expected to be entered into between the Issuer and JV at the end of the first quarter 2018 – is subject to the following conditions precedent: (a) the release of the authorisations requested by the competent supervisory authorities for the purpose of the performance of the sale purchase agreement and the servicing agreement; (b) the release – in favour of the Newco – of the authorisation pursuant to article 115 of the Consolidated Text of Public Safety Laws; (c) the completion of BMPS' capital increase envisaged in the Restructuring Plan on the terms and conditions set out therein; and (d) the completion of the securitisation of non-performing loans of the Montepaschi Group with subscription of mezzanine securities by the funds managed by Quaestio Capital Management SGR S.p.A..

Impacts of the Burden Sharing on FRESH 2008

The Burden Sharing Decree provides that – pursuant to article 22, paragraph 4 of the Decree 237 – contractual clauses or other entered into by the Issuer and concerning treasury shares or equity instruments and relating to the capital rights attached thereto which impede or limit eligibility within the Tier 1 Capital, become ineffective. Such last provision entails the ineffectiveness of some agreements and/or clauses entered into under the FRESH 2008 structure (for more information in relation to the agreements made in the context of the FRESH 2008, reference is made to the preceding paragraph FRESH 2008).

On 5 October 2017, the Bank's board of directors resolved, amongst the others, to:

(a) apply Decree 237 also to the FRESH 2008 transaction, revoking the relevant resolution adopted on 2 August 2017, which provided – on a theoretical basis and however subject to acquisition of the relevant authorizations from any competent authorities – for the possibility to execute a settlement agreement with the holders of FRESH 2008 Securities in a form whose preliminary outline had been made available by them;

(b) inform DG Comp, the ECB and the Bank of Italy about the adopted resolution;

(c) send a letter informing JP Morgan about the implementation of Decree 237 and the termination of both the usufruct agreement and the company swap agreement; and

(d) start discussions with the supervisory authorities on the relevant and consequent regulatory aspects. Although no specific authorization requirements are envisaged, the Bank will send an instance to the ECB for the authorisation to reclassify the above amount from AT1 to CET1.

As at 30 September 2017, the prudential treatment of FRESH 2008 has not been changed. On 20 October 2017, furthermore, the Bank sent two letters: i) one to JP Morgan in relation to the application of Decree 237, wherein the Issuer specified to deem terminated both the usufruct agreement and the company swap agreement; and (ii) by the other letter the Bank communicates that, as at 30 June 2017 – as also shown in the interim financial report as at 30 June 2017 – a capital deficiency event, as provided for in the 2008 FRESH securities regulation occurred (i.e. a reduction of the capital ratios below the minimum regulatory levels) since the Group's capital ratios were, on that date, lower than the coefficients provided for in article 92 of the CRR. Upon the application to FRESH 2008 of the Burden Sharing, discussions with the supervisory authority have been started with respect to the regulatory issues relating thereto.

Furthermore, the Bank has been informed by certain holders of FRESH 2008 notes of the filing of a judicial document before the Court of Luxembourg as outlined in press releases dated 17 November 2017 relating to a lawsuit filed against various counterparties (including the Bank) claiming damages of Euro 1 billion.

As at the date of this Base Prospectus, the Bank received the official notification of such action which does not quantify any alleged damage and requests the Court to state that Decree 237 does not apply and that a conversion event of the instruments did not occur with respect to a capital deficiency event. With the assistance of its lawyers, the Bank is actually evaluating the line of defense which seems the more appropriate considering its position on the matter.

Despite the Bank adopting its position following the discussions with the supervisory authorities on the implementation of Decree 237 and carrying out its own independent legal inspections together with its advisers, it cannot be excluded that the potential acceptance of the claim may entitle the bondholders to receive – subject to the occurrence of the conditions provided for by the conditions of the security – payments of interest under the FRESH 2008 notes, in addition to further damages actionable by the bondholders within the context of such lawsuit.

Renewal of the partnership with Compass

On 19 September 2017, BMPS and Compass S.p.A. agreed to renew the multi-annual partnership for the distribution of Compass S.p.A. loans through the 1,800-plus branches of the Montepaschi Group, the expiration of which was scheduled for 31 December 2017. The new

partnership agreement increases the commercial offer, furthermore providing, starting from the new year, the extension to the whole national territory of the financing through disposal of the one-fifth of the salary, with the assistance of Futuro S.p.A., an entity controlled by Compass S.p.A. and active in providing such type of funding.

Readmission of the BMPS share to trading

On 24 October 2017, CONSOB, by resolution no. 20167, arranged for the revocation of the resolution no. 19840 of 23 December 2016 related to the trading's temporary suspension upon Italian regulated markets, multilateral trading facilities and systematic internalisation systems of any title issued or warranted by the Bank and of any securities having as underlying asset titles issued by the Bank. On 25 October 2017, the BMPS share has been readmitted to trading on the "*Mercato Telematico Azionario*".

Resignation of the members of the board of directors and board of auditors

Upon completion of the Precautionary Recapitalisation process that – together with the application of the "sharing commitments" principle – has given a significant discontinuity in the ownership profiles of the Bank with the acquisition by the Ministry of Economy and Finance of the control in the Bank's capital share together with the entry of new shareholders, the members of the board of directors and of the board of statutory auditors resolved, on 7 November 2017, the resignations from their respective offices, effective on 21 December 2017 (after the registration at the Business Register of the deliberation referred to amendments of the by-laws proposed in extraordinary part of shareholders' meeting called on 18 December 2017).

Extraordinary and ordinary shareholders' meeting of 18 December 2017

On 18 December 2017 ordinary and extraordinary shareholders' meeting of the Bank approved:

(a) a reduction in share capital due to losses, pursuant to article 2446 of the Italian Civil Code, in the amount of EUR 5,364,181,090.83.
(b) amendments to articles 6, 10, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28 and 33 of the by-laws.
(c) the appointement of the new members (14) of the board of directors for the financial years 2017, 2018 and 2019;
(d) the appointement of the new board of the statutory auditors for the financial years of 2017, 2018 and 2019;
(e) compensations of the members of the board of directors and the board of the statutory auditors for the financial years of 2017, 2018 and 2019.

Ratings

On 12 July 2017, Moody's has confirmed BMPS' deposit and senior debt ratings as "B3", with negative outlook, and the short-term rating as "NP" (Not Prime). At the same time, the rating agency upgraded the bank's "ca" standalone baseline credit assessment (BCA) to 'caa1' following the completion of the Restructuring Plan.

On 11 August 2017, Fitch upgraded BMPS' long-term Issuer Default Rating ("IDR") to "B" from "B-" with stable outlook from 'Rating Watch Evolving', and confirmed the short-term

rating as "B", removing the 'Rating Watch Negative' outlook. At the same time BMPS' standalone creditworthiness expressed in the viability ratings ("VR") was upgraded to "b".

On 23 August 2017, DBRS upgraded its ratings on BMPS, in particular the senior long-term debt and deposit rating to "B" (high) from "B" (low) and the short-term debt and deposit rating to R-4 from R-5, changing the outlook from 'Under Review Developing' to stable.

Ratings Agencies	Long term rating	Outlook	Short term rating	Outlook	Last updated
Moody's	B3	Negative	NP[8]	-	12 July 2017
Fitch	B	Stable	B[9]	-	11 August 2017
DBRS	B (High)	Stable	R-4[10]	Stable	23 August 2017

4. PRINCIPAL COMPANIES OF THE MONTEPASCHI GROUP

BMPS, as the parent company of the Montepaschi Group, performs the functions of policy, governance and control of the controlled financial companies and subsidiaries in addition to its banking activities.

BMPS, as the bank that exercises the management and coordination activities of the Montepaschi Group, pursuant to the fourth paragraph of article 61 of the Legislative Decree 1 September 1993, n. 385, issues, in the performance of the activities of management and coordination, instructions to the companies of the Montepaschi Group, including execution of the instructions given by the relevant supervisory bodies and in the interest of the stability of the Montepaschi Group.

The list below sets out the main companies of the Montepaschi Group and their percentage ownership as at the date of this Prospectus.

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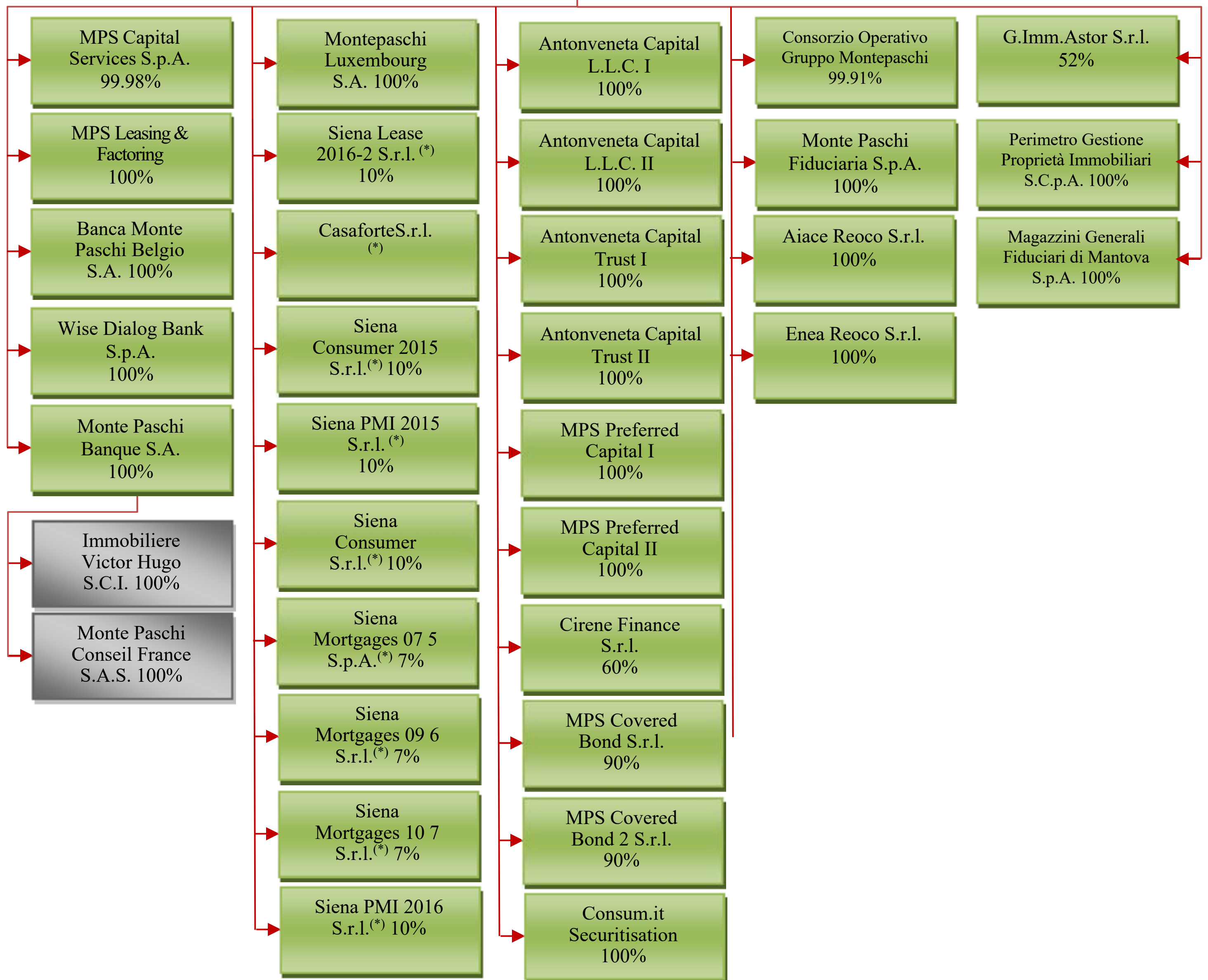
8 Pursuant to the rating scale of Moody's Investor Service, "NP" rating refers to issuers rated "Not Prime" do not fall within any of the "Prime" rating categories.

9 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.

10 Pursuant to the rating scale of DBRS, "R-4" rating refers to a short term security (or to a short terms securities portfolio) with a highly speculative grade whose short term redemption capacity is uncertain.



(*) Companies under *de facto* control

Direct subsidiaries

Indirect subsidiaries

Montepaschi Group Profile

As at 30 September 2017, the Montepaschi Group is an Italian banking institution with 24,781 employees, approximately more than 5 million customers, assets of around Euro 146 billion and significant market shares in all the areas of business in which it operates.

The Montepaschi Group's main activity is retail banking which involves the provision of banking services for individuals such as financial and insurance products, financial promotion, wealth management and third entities' securities offers. Other areas of business are: leasing and factoring; consumer lending; corporate finance and investment banking.

The following table shows a breakdown of the Issuer's branches by Region as 30 September 2017:

	Number	**Percentage on the total of the branches**
North	754	40.65%
Piemonte	42	2.3%
Valle d'Aosta	4	0.2%
Liguria	25	1.3%
Lombardia	259	13.9%
Trentino Alto Adige	3	0.2%
Veneto	247	13.3%
Friuli Venezia Giulia	50	2.7%
Emilia Romagna	124	6.7%
Center	696	37.4%
Toscana	383	20.6%
Marche	53	2.8%
Umbria	47	2.5%
Lazio	163	8.8%
South and Islands	410	22.0%
Abruzzo	40	2.2%
Molise	10	0.5%
Campania	104	5.6%
Basilicata	10	0.5%
Puglia	109	5.9%
Calabria	47	2.5%
Sardegna	14	0.8%
Sicilia	126	6.8%
Total	**1.860**	**100%**

Customers are divided by target segments to which an ad hoc service model is applied so as to best respond to the specific needs and demands expressed, and are served through an integrated combination of "physical" and "remote" distribution channels.

The Montepaschi Group mainly operates in Italy through, as at 30 September 2017, 1,860 branches, 237 specialised centres and 115 financial advisory branches.

The foreign network includes 39 branches and representative office boards, 4 of which operational branches (London, New York, Hong Kong and Shanghai), 2 banks under foreign law – Banca Monte Paschi Belgio, Monte Paschi Banque S.A. and another 10 representative offices located in various "target areas" (EU, Central-Eastern Europe, North Africa, India and China).

Organisational structure

BMPS carried out a significant organisational restructuring, with the aim of strengthening the sales and distribution functions as well as the integrated and coordinated supervision of governance and business support functions.

The initiatives undertaken by BMPS concern:

- The business functions
  - the credit division was strengthened by establishing a specific general division;
  - the specialisation of control of the various business segments was increased by establishing a retail and network division (for the retail and private segments, as well as the coordination of the sales and distribution network) and the corporate and investment banking division (for the corporate, key clients, international activities and private equity segments);
  - financial advisory activities were added to the organisational area set up to develop the new online bank (online bank development area).
- The governance, control and business support function
  - the general finance and operations division was established, to which the chief financial officer division and chief operating officer division will report;
  - the human resources, organisation and communications division was developed to promote effective interoperability between human resources management, business organisational structures and internal/external communications; and
- the risk division was reorganised with the creation of more cohesive controls of the activities of validation, monitoring and risk reporting.

Other organisational action was taken with objectives associated with business efficiency, organisational rationalisation and compliance with legislative provisions.

The changes involved:

- The head office units and regional coordination:

  the regional area sales and products office is divided into 3 separate units (retail sales and products, corporate sales and products and private sales and products) to achieve more effective specialist control over the reference markets and greater sales control with customers.
- The treasury, finance and capital management area organisation:

responsibilities and efforts on risk factors and business drivers (liquidity management, strategic risk governance and capital management) have been reallocated. In particular, an internal reorganisation was arranged, refocusing the risk factors area, with related strengthening of the rate risk and liquidity risk monitoring, simplification and standardisation of operating processes, with a view to greater efficiency and a clearer allocation of responsibilities and tasks between BMPS and MPSCS, preserving the latter's sales efficiency;

- The compliance area:

  the Group's FATCA contact (Foreign Account Tax Compliance Act) - the FATCA Officer - has been appointed to meet obligations relating to the reporting of US customer details to the relevant tax authorities, coordinating the roles established in the Group's companies and foreign branches in compliance with their obligations pursuant to the intergovernmental agreement between Italy and the United States to implement FATCA and similar intergovernmental agreements in relevant Group's jurisdictions.

5. FUNDING

General

During 2016 the Montepaschi Group successfully continued to employ various sources of funding, both on the retail domestic market and on international markets dedicated to qualified investors.

Retail domestic market

The Montepaschi Group issues various kinds of securities, including fixed rate bonds or floating rate bonds, zero coupons and light structured bonds with different maturities, placed to retail customers of the Montepaschi Group throughout its network of branches.

International markets

The Montepaschi Group has different international programmes dedicated to qualified investors.

On a short-term maturity basis, the Montepaschi Group has two certificate of deposit programmes issued under the BMPS London Branch "Euro-Certificate of Deposit Global Programme" and "French Certificats de Dépot" dedicated to French investors.

On a medium-term basis, the Montepaschi Group covers the funding requirements by issuing a variety of debt instruments such as fixed or floating rate notes or zero coupon notes both publicly and privately placed under its dedicated programmes; senior or subordinated unsecured notes issued under the EMTN "Euro 50 billion Debt Issuance Programme" and covered bonds issued under the Euro 10 billion Covered Bond Programme".

With regard to the issuances under the EMTN Programme, the Montepaschi Group issued, on 1 April 2014, Euro 1 billion.

With regard to the issuances under the Covered Bond Programme, while the Montepaschi Group issued on 20 October 2015, Euro 750 million worth of 6 year fixed rate covered bonds, and on 19 November 2015, Euro 1 billion worth of 10 year fixed rate covered bonds, for a total

aggregate amount of Euro 1,75 billion, in 2016 it carried out four additional transactions of "autocovered" bond for a total notional amount of Euro 2 billion. As at 30 September 2017, 13 issues were outstanding for a total aggregate notional amount of Euro 8,4 billion.

6. INFORMATION TECHNOLOGY

In recent years the Montepaschi Group has implemented a reorganisation of its information technology (IT) operations directed at promoting more uniformity of IT systems and structures within the Montepaschi Group. As part of this restructuring, a consortium was created to manage the Group's IT systems and serve the need of the various functions within the Montepaschi Group.

The consortium is currently engaged in several development projects principally for the areas of risk management, trading back office procedures, credit rating and scoring, customer service centres, new products catalogues, payment and settlement procedures and software enhancements for the international branches.

7. COMPETITION

The Montepaschi Group faces significant competition from a large number of banks throughout Italy and abroad.

A period of consolidation has created larger, more effective and competitive banking groups. Competition in both deposit-taking and lending activities has intensified, contributing to the narrowing of spreads between deposits and loan rates.

In attracting retail deposits and financing retail customers, the Bank primarily competes at the local level with medium-sized local banks, and to a lesser extent, with super-regional banks. The Bank's major competitors in other areas of the Italian banking market are Italian national and super-regional banks, such as UniCredit group, Intesa SanPaolo, Banco Popolare, UBI Banca and BPER group.

Foreign banking institutions operating in Italy, that may also have greater financial and other resources than the Montepaschi Group, are growing in number and are regarded as increasingly more effective competitors, mainly in corporate banking and sophisticated services related to asset management, securities dealing, brokerage activities and mortgage lending.

8. LEGAL PROCEEDINGS

Judicial and arbitration proceedings

Save as disclosed in this section, in the course of the twelve months preceding the date of this Prospectus there has been no governmental, legal or arbitration proceedings (including pending or threatened proceedings known to BMPS) which may have, or which had in the recent past, significant impacts on the Issuer's financial condition or profitability.

As at the date of this Prospectus there are various legal proceedings pending against the Bank, including civil, criminal and administrative actions.

Some of these proceedings derive from the extraordinary and exceptional context related to criminal investigations ordered by courts and to legal affairs involving the Issuer in 2012 and 2013 and which mainly relate to the financial transactions carried out to fund the acquisition

of Banca Antonveneta, various financial transactions carried out by the Bank, among which the transactions relating to the restructuring of the "Alexandria" notes and the "Santorini" transaction, previous capital increases carried out by the Bank in 2008 and 2011 and the FRESH 2008 transaction; these events also led to disciplinary procedures being filed by supervisory authorities against the management in office at the time of such events (which, should sanctions be imposed, would imply that the Bank will be held jointly liable with no certainty that the latter will be able to recover any amounts paid as a result of such obligation after the bringing of recourse actions) and certain legal actions brought against the Bank by consumer associations and individual investors who have subscribed for financial instruments in the context of the share issuances carried out by the Bank. This context also includes corporate liability lawsuits brought by the Bank against the Chairman of the board of directors and the General Manager in office at the time of events and suits for damages against Nomura and Deutsche Bank in connection with the restructuring of the "Alexandria" notes and the "Santorini" transaction, respectively.

In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, and concerning, *inter alia*, clawback actions, compound interest, placement of bonds issued by Governments and companies then defaulted, placement of other financial instruments and products, (ii) labour disputes, (iii) tax disputes and (iv) disputes arising from the Burden Sharing. In relation to the determination of the overall *petitum* of disputes legal proceedings pending against the Bank, as at the date of this Prospectus no claims for mis-selling have been filed by the holders of UT2 Notes in the context of the Burden Sharing.

The overall *petitum* of civil disputes to which the Montepaschi Group is a party as at 30 September 2017, is equal to Euro 4,419.8 million – of which around Euro 272.3 million for civil disputes relating to proceedings brought by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases (see Section "*Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*" below) and to which around Euro 4,147.5 million for disputes deriving from the conduct of ordinary business shall be added (see Section "*Disputes deriving from ordinary business*" below).

In addition to this *petitum*, 735 complaints have been filed relating to capital increase transactions, the allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS since 2008, for total amounts claimed equal to around Euro 651 million, where quantified, aimed at obtaining the restitution of invested amounts and/or compensation for monetary and non-monetary damages consequent to the alleged losses incurred. Of such requests around 10 per cent. turned into civil actions (for the great majority with intervention in the proceedings instituted by one single shareholder).

Such requests – individually or collectively brought through two professionals and ADUSBEF – although heterogeneous are mainly reasoned with generic references to the alleged infringement, by BMPS, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank since generic, ungrounded, non-supported by suitable documental evidences and in some instances, time barred. The residual *petitum* claimed by complainants who did not institute any judicial proceedings is equal to around Euro 589 million.

The overall *petitum* for tax disputes is equal to around Euro 130 million for levies and sanctions, while the *petitum* relating to labour disputes is equal to around Euro 119 million (inclusive also of 6 legal proceedings initiated by the current 37 employees of Fruendo S.r.l. and described in the following paragraph "*Labour disputes*"). In light of the estimates made on

the risks of adverse outcome in the aforementioned proceedings, as at 30 September 2017, "legal disputes" included under item "provision for risks and charges", amount to Euro 569.4 million, comprised of claw-backs for Euro 74.7 million and civil disputes for Euro 494.7 million of which 478 million related to the litigation deriving from the carrying out of the ordinary business. Furthermore, as at the same date, the "provision for risks and charges" includes tax disputes for Euro 18.5 million and labour disputes for Euro 49.3 million (inclusive also of 6 legal proceedings initiated by the current 37 employees of Fruendo S.r.l. and described in the following paragraph "*Labour disputes*").

Allocations to the "provision for risks and charges" have been made for amounts representing the best possible estimate relating to each dispute, quantified with sufficient reasonableness and, in any case, in accordance with the criteria laid down by the Issuer's policies.

Among the components of the overall "provision for risks and charges" are included, in addition to the allocations provided for "legal disputes", also allocations versus expected losses on estimated disbursements for client complaints.

The estimate of liabilities is based on the information available from time to time and implies in any case, due to several uncertainty factors characterising the different judicial proceedings, multiple and significant evaluation elements. In particular, it is sometimes not possible to produce a reliable estimate as an example and without limitation in case proceedings have not been instituted, in case of possible cross-claims or in the presence of uncertainties in law or in fact such as to make any estimate unreliable.

Accordingly, although the Bank believes that the overall "provision for risks and charges" posted in the Financial Statement should be considered adequate in respect of the liabilities potentially consequent to negative effects, if any, of the aforementioned disputes, it may occur that the provision, if any, may be insufficient to fully cover the charges, expenses, sanctions and compensation and restitution requests associated with the pending proceedings or that the Montepaschi Group may in the future be called to satisfy compensation and restitution costs and obligations not covered by provisions, with possible negative effects on the business and the economic, capital and/or financial condition of the Bank and/or the Montepaschi Group.

Disputes related to criminal investigations and legal affairs in 2012 and 2013

Following the aforementioned criminal investigations involving the Bank in 2012 and 2013, several criminal, sanctioning and civil proceedings were instituted by judges, supervisory authorities, the Bank itself, consumer associations and investors.

The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity which inspired the renovation actions undertaken by the management which took over from the previous management in office at the time of events, aimed at identifying the best initiatives for the protection of the Bank, its assets and image thereof, even through direct legal actions against the former top executives.

Criminal investigations and proceedings

(B) Acquisition of Banca Antonveneta and FRESH 2008

On 30 July 2013, the public prosecutor's office at the Court of Siena issued a "notice of completion of preliminary investigations", pursuant to article 415-*bis* of the Italian Criminal

Procedure Code and article 59 of Legislative Decree 231/2001, against certain directors, executives and members of the Bank's Board of Statutory Auditors in office at the time of events, and against the Bank itself. The allegations against the Bank as legal entity in the investigation phase (always in the context of the transactions aimed at finding the financial resources for the acquisition of Banca Antonveneta) included six administrative offences from crime (under Legislative Decree 231/2001) connected to alleged crimes committed by the management in office at the time of events.

The main offences charged against the Bank's management in office between 2008 and 2011 include the following: market manipulation (under article 185 of the Consolidated Finance Act), obstruction of the exercise of public supervisory functions (under article 2638 of the Italian Civil Code), false statements set out in prospectus (under article 173-*bis* of the Consolidated Finance Act), false corporate communications (under article 2622 of the Italian Civil Code), insider trading (under article 184, subsection 1., lett. b of the Consolidated Finance Act). In particular, charges mainly derive from: (i) dissemination of false information, suitable to significantly alter the price of the Issuer's shares in respect of the FRESH 2008 transaction; (ii) failed notification of material information to competent supervisory authorities, such as the issuance by the Bank of an indemnity side letter in favour of J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) in 2008 and in favour of The Bank of New York (Luxembourg) S.A. in March 2009 and the signing of some addenda to the usufruct contract entered into with J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc); (iii) failed disclosure on the payment of the usufruct fee to J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) in relation to the shares purchased thereby; (iv) communication, outside the normal exercise of the office, of the execution of the purchase agreement of Banca Antonveneta by the Bank; (v) inclusion of false information and the concealing of information in the prospectuses published on the occasion of the capital increases realised by the Bank in 2008 and 2011 with specific reference to the recognition of the various components of the "FRESH 2008" transaction and the placement of FRESH 2008, indirectly subscribed for by the Foundation through total return swap agreements, and (v) recognition, in the financial statement relating to the accounting period closed on 31 December 2008 and in subsequent communications addressed to shareholders, of material facts to representative of the truth, sufficient to mislead the addressees thereof.

In these proceedings, the Bank's defensive strategy was mainly based on the fact that the conduct of the management in office at the time of events had not been undertaken in the Bank's interest (nor in its favour) being so absent the pre-requirement for the liability pursuant to Legislative Decree 231/2001.

On 2 October 2013, public prosecutors filed an indictment, which instituted the criminal proceedings against certain natural persons that held executive positions or belonged to the Bank's Board of Statutory Auditors at the time of events, but not against BMPS. Against the legal person BMPS, on the contrary, on 10 April 2014 the public prosecutor's office at the Court of Siena ordered the dismissal of the allegation initially charged against it, in accordance with Bank's defensive strategy.

During these proceedings, the public prosecutor's office issued a request to indict the legal person J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc), for an administrative offence under Legislative Decree 231/2001 deriving from an alleged violation of article 2638 of the Italian Civil Code, namely obstruction of the exercise of public supervisory authority functions.

The first preliminary hearing against the former senior management, members of BMPS' Board of Statutory Auditors and J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) was held on 6 March 2014 and in such moment the Bank requested to join the proceedings as civil plaintiff, which has been subsequently upheld by the Preliminary Hearing Judge (PHJ) for all charges and all defendants for the purpose of the compensation of all non-monetary damages.

Further to objections made by certain defendants, at the hearing of 6 May 2014, the PHJ declared that the Court of Siena lacked territorial jurisdiction and the case documents were subsequently transferred to the public prosecutor at the Courts of Milan. The proceeding is still pending. In March 2016, the proceeding was combined with the criminal proceedings pending before the Courts of Milan relating to the "Santorini", "FRESH 2008" and "Chianti Classico" transactions; with respect to these proceedings J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) does not result as having been sent to trial.

For more information in this respect reference is made to Section (C) "*FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan*" below.

In the context of such proceedings, in April 2015, as regards the FRESH 2008 transaction, the Courts of Milan transmitted to the Courts of Rome the case documents relating to the offence of obstruction of the exercise of suspensory functions (article 2638 of the Italian Civil Code) chargeable to the members of the Issuer's Board of Statutory Auditors in office at the time of events (Tommaso Di Tanno, Leonardo Pizzichi and Pietro Fabretti); as regards these criminal proceedings the Issuer was notified that the Preliminary Investigation Judge at the Courts of Rome, on 14 July 2016, upheld the dismissal request for the positions above.

(C) *Restructuring of "Alexandria" notes*

In 2013 the public prosecutor's office at the Court of Siena instituted a criminal proceeding relating to the hypothesis of obstacle to the supervisory activity concerning the transactions related to the restructuring of the "Alexandria" notes, against top representatives of the Bank in office at the time of events. In the context of such proceedings, the first instance proceeding was closed with the conviction (issued on 31 October 2014 by the Courts of Siena) against Mr. Mussari, Mr. Vigni and Mr. Baldassarri. In this proceeding, the Bank's and consumer associations' request to appear as civil plaintiffs was denied.

Again with reference to the transaction related to the restructuring of the "Alexandria" notes, please also note that, following the notification – which took place on 3 April 2015 – of the decision to close the preliminary investigations pursuant to and to the effects of article 415-*bis* of the Italian Criminal Procedure Code, the public prosecutor's office at the Court of Milan filed, in the context of the proceedings in which they were accused of the various crimes of false corporate communications and market manipulation, the request for indictment against Mr. Mussari, Mr. Vigni and Mr. Baldassarri and two members of the management of Nomura with respect to the crimes laid down by article 2622, subsections 1, 3 and 4 of the Italian Civil Code and article 185 of the Consolidated Finance Act, committed in association by them, with conduct relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 in the matter of transnational crimes.

The allegations concern the hypothesis of crime resulting from the concealment of losses accrued in the Issuer's financial statement as of 31 December 2009 as a result of the investment

in the "Alexandria" notes through the execution of the restructuring transaction thereof and its accounting methods.

In relation to the crimes committed by the aforementioned individuals, the public prosecutor also requested the indictment of the Issuer and Nomura for the administrative offenses set out under articles 25-ter, letter c), and 25-*sexies* of Legislative Decree no. 231/2001. Due to serving of process formalities, Nomura was excluded as liable party from these proceedings, pursuant to Legislative Decree 231/2001, while against BMPS, the civil claims for damages proposed in respect of the liability of the entity pursuant to Legislative Decree 231/2001 have been denied with order of the PHJ issued at the hearing of 27 November 2015.

On 12 October 2015, the preliminary hearing of the criminal proceedings relating to the "Alexandria" transaction was held, which sees the Bank involved both as civilly liable party and injured party. With reference to this latter aspect, the Bank appeared as injured party against Mr. Mussari, Mr. Vigni and Mr. Baldassarri.

In March 2016, this proceeding was combined with the other legal action pending before the Court of Milan in relation to the "Santorini", "FRESH 2008" and "Chianti Classico" transactions.

For more information in this respect reference is made to Section (C) "*FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions - Criminal proceedings before the Courts of Milan*" below.

Finally, as regards the precautionary measures established for the possible compensation of monetary damages, it is worth noting that, in the context of the proceedings instituted before the Courts of Siena, on 16 April 2013, the currency police bureau of the tax police executed, in various Italian cities, a preventive seizure decree adopted with urgency by the Siena public prosecutor on 15 April 2013 against Nomura and some members of the Issuer's management in office at the time of events. In particular, against Nomura, the seizure concerned around Euro 1.8 billion. As also announced by the Siena public prosecutor, the seizure has been ordered for reasons of obstruction and confiscation by equivalent purposes in respect of the aggravated usury and aggravated fraud committed against the Issuer as well as money laundering and criminal association crimes in relation to the transactions related to the restructuring of the "Alexandria" notes. However, not having the Preliminary Investigation Judge (PIJ) at the Courts of Siena upheld the preventive measure, the public prosecutor's office filed an appeal against such decision before the Appeal Court which confirmed the PIJ decision.

After the further appeal brought by the Siena prosecutor's office, the Court of Cassation, second criminal section, cancelled with referral, with limitation to the fraud crime, the order of the Siena Appeal Court which had denied the appeal filed by the Prosecutor against the failed upholding of the urgent preventive seizure, ordered by the same Prosecutor. After the upholding of the appeal, the referral to the Siena Appeal Court was accordingly ordered for the matter to be re-examined, and it is currently pending.

(D) *"FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan"*

By decision of 13 January 2016, the public prosecutor's office at the Court of Milan ordered the notification to BMPS and other suspects of the notice of conclusion of preliminary investigations pursuant to and to the effects of article 415-*bis* of the Italian Criminal Procedure

Code concerning the investigation threads relating to the "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions. According to the press release disclosed on 14 January 2016 by the public prosecutor's office at the Court of Milan, all investigation threads relating to the aforementioned transactions have been completed.

With respect to the "FRESH 2008" transaction (carried out in the context of the fund raising operations for the acquisition of Banca Antonveneta) three BMPS officers and executives in office at the time of events were charged with several criminal offenses, such as: false corporate communications in relation to the 2008 financial statements (article 2622 Italian Civil Code), market manipulation in connection with the 2008 financial statements and the semi-annual financial statements as at 30 June 2008 (article 185 of the Consolidated Finance Act), obstruction of the exercise of supervisory functions of the Bank of Italy (article 2638 of the Italian Civil Code), false statements set out in prospectus (article 173-*bis* Consolidated Finance Act) with reference to the prospectuses relating to the two capital increases carried out in 2008 and 2011 and to the prospectuses relating to the offering of bonds and certificates carried out during the period 2008-2012. In relation to the latter, also the effects resulting from the incorporation by reference of certain accounting documents have been deemed relevant due to the incorrect recognition of, *inter alia*, the "FRESH 2008", "Alexandria" and "Santorini" transactions.

With reference to the "Santorini" transaction, two former officers and one BMPS executive, and six managers of Deutsche Bank – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2008, 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

With reference to the Alexandria transaction, three BMPS officers and executives in office at the time of events and two managers of Nomura – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

As mentioned above, this proceeding has been combined with the criminal proceeding pending before the Court of Milan and described in Section (B) "*Restructuring of "Alexandria" notes*" above, in the context of which the indictment was already requested with reference to the crimes related to 2009 financial statements. It has also been deemed to charge the same individuals with the crime of obstruction of the exercise of supervisory functions by CONSOB (article 2638 of the Italian Civil Code) with respect to the reporting of certain transactions carried out between BMPS and Nomura and involving government securities. With the same proceeding, the proceeding pending before the Courts of Siena and described under Section (A) "*Acquisition of Banca Antonveneta and FRESH 2008*" above was also combined.

As regards the "Chianti Classico" transaction, two officers of the Issuer in office at the time of events have been charged with the crime of obstruction of the exercise of public supervisory authorities' functions (article 2638 of the Italian Civil Code) due to the omission of some communications in relation to the same transaction to the Bank of Italy and CONSOB.

In relation to the crimes alleged against these individuals, the public prosecutor's office also served the notice of conclusion of preliminary investigations:

- to BMPS for the administrative offenses under articles 25-*ter* letter. b), 25-*ter* letter. s) and 25-*sexies* of Legislative Decree no. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code), obstruction of the exercise of public supervisory authorities' functions (article 2638 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act); and

- to Deutsche Bank, Deutsche Bank AG London branch and Nomura for the administrative offenses under articles. 25-*ter* letter. b), and 25-*sexies* of Legislative Decree no. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act).

The outcomes of the investigation revealed that, in the financial statements and financial reports of BMPS disclosed to the market between the financial statements as at 31 December 2008 and the quarterly reports at 30 September 2012, false data would have been exposed.

As regards the crimes related to the balance sheets as at 31 March 2012, 30 June 2012 and 30 September 2012, the suspects have been charged, having determined the conditions for approval by the new top executives of BMPS, due to the behaviours previously adopted by top managers.

By order of 13 May 2016, the PHJ authorized the filing and admissibility of the claims for damages of the civil plaintiffs against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001, having deemed recognisable to the civil plaintiff, in case of criminal proceedings involving the company and its employees, the protection of the compensation right against the entity and resulting in the compensatory requests existing in abstract, not being charged to the entities any joint liability in terms of wilful misconduct or negligence and being relevant an occasional relation between the harmful event and the functions exercised by the accused individuals, in the absence of objections concerning their own personal interests.

On 4 July 2016, with the approval of the public prosecutor's office, BMPS filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank pursuant to Legislative Decree 231/2001.

With the plea bargain, upheld by the Preliminary Hearing Judge on 14 October 2016, the Bank exited the proceedings as accused of the administrative offence subsequent to crimes committed by its own former executives, limiting the consequences to an administrative monetary sanction of EUR 600,000 and a confiscation for EUR 10 million.

On 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs served on the Bank the civilly liable summon in respect of the crimes charged to the indicted former directors and managers.

During the trial, by order of 6 April 2017, the Courts of Milan ruled on the exclusion request of civil plaintiffs filed by defendants and civilly liable parties, excluding certain civil plaintiffs.

The appearance as civil plaintiff of the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also denied on the assumption of a Bank's liability for complicity with defendants. To date, civil plaintiffs who appeared against the Bank are around 1,250.

On 12 May 2017 the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer being in office) has been requested in the context of new criminal proceedings before the Courts of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code), in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the above mentioned financial statements and reports.

In respect of these proceedings, where the Bank is identified as the offended party, the first hearing was held on 5 July 2017, during which some hundreds of individuals and some category associations asked to appear as civil plaintiffs. The PHJ deferred the case to 29 September 2017, for the decision on the requests, as well as for the combination with the proceedings pending against BMPS, as the accused party pursuant to Legislative Decree no. 231/2001 for the same events today charged to Mr. Profumo, Viola and Salvadori. At the hearing of 29 September 2017, no. 304 of the no. 337 damaged parties that made the relevant request were admitted. The others have been excluded due to procedural deficiencies. At such hearing, the proceeding pending against the Bank as administrative accountable entity was merged in the proceeding pending against the individuals. The court has then permitted the summons of the Bank as civilly liable party, deferring the proceeding to the hearings of 10 November 2017 and 24 November 2017, in order to permit the carrying out of the related notification.

Conversely, it is currently pending, before the public prosecutor's office at the Court of Milan, in the phase of the conclusion of the preliminary investigation, another connected criminal proceeding solely against Mr. Profumo and Mr. Viola for the alleged obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), in relation to the omission of information in cases considered relevant to resolve the matter of the accounting of the "Santorini" and "Alexandria" transactions. Such proceeding is pending also against BMPS for the connected and subsequent administrative offence pursuant to Legislative Decree no. 231/2001.

(E) *CONSOB verifications on the 2014 Financial Statement and the semi-annual financial report as at 30 June 2015: information pursuant to article 154-ter, subsection 7, of the Consolidated Finance Act in relation to the accounting recognition of the "Alexandria" transaction*

As regards the "Alexandria" transaction, it is worth noting that with resolution no. 19459 of 11 December 2015, CONSOB, after completing its investigations, found that the 2014 consolidated and individual financial statements and the semi-annual report as at 30 June 2015 were not compliant with the rules governing the drafting thereof and namely the application of IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open

balances" or "at closed balances") of the "Alexandria" transaction. As a consequence of the above, CONSOB asked the Bank to publicly disclose the following information: (i) a description of the international accounting standards applicable and the findings in this respect; (ii) an illustration of the deficiencies and criticalities found by CONSOB as regards the accounting accuracy of the consolidated and individual financial statement as at 31 December 2014 and the semi-annual financial report as at 30 June 2015; (iii) a suitable disclosure to represent the effects of the application of IAS 8 as regards the errors relating to the recognition, evaluation and presentation of the transaction entered into with Nomura providing an accounting representation of the transaction at closed balances with the recording of a credit derivative in accordance with the definition given by section 9 of IAS 39.

On 16 December 2015, the Issuer then published a press release, which can be seen on the website www.gruppomps.it to which reference is made, and setting out the information requested by the supervisory authority.

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As regards proceedings no. 3861/12 pending before the Courts of Siena, which sees Mr. Baldassarri and other individuals, among whom certain managers of the Bank and the founding partners of the Enigma group, charged with the offence of criminal association aimed at "aggravated fraud in detriment of the assets of BMPS" (in journals, the so called 5 per cent. Gang). For the sake of completeness, it is worth noting that the request for indictment has been served on the concerned parties and the preliminary hearing has been set for 5 April 2017. The notice scheduling the hearing was also served on the Bank as the offended party. At such hearing the Bank appeared as a civil plaintiff against the accused parties seeking compensation of monetary and non-monetary damages. The proceedings are still pending.

Bank of Italy sanctioning procedures

(A) *Sanctioning procedure following the 2011-2012 inspections of Bank of Italy on the financial risks and determination processes of risk-weighted assets*

After inspections conducted in the period 2011-2012 on the financial risks and determination processes of risk-weighted assets, mainly focused on BMPS' finance structures, the Bank of Italy imposed on 28 March 2013:

(a) to the members of the board of directors in office at the time of events (Mussari Giuseppe, Rabizzi Ernesto, Caltagirone Francesco Gaetano, Querci Carlo, Pisaneschi Andrea, Monaci Alfredo, Gorgoni Lorenzo, Campaini Turiddo, Borghi Fabio, De Courtois Frédéric Marie, Costantini Graziano, Capece Minutolo del Sasso Massimiliano), the members of the Board of Statutory Auditors (Di Tanno Tommaso, Turchi Marco, Serpi Paola), the General Manager and Chairman of the Steering Committee (Vigni Antonio) and the other members of the Steering Committee (Baldassarri Gian Luca, Massacesi Marco, Marino Antonio, Romito Nicolino, Rossi Fabrizio, Pompei Giancarlo, Barbarulo Angelo, Menzi Giuseppe), of the regime in the matter of containment of financial risks (article 53, subsection 1, lett. b), of the Banking Act);

(b) to the abovementioned members of the board of directors and the General Manager for deficiencies in the organisation and internal controls (article 53, subsection 1, lett. b) and d), of the Banking Act);

(c) to the abovementioned members of the Board of Statutory Auditors for deficiencies in internal controls (article 53, subsection 1, lett. b) e d), of the Banking Act); and

(d) to the Bank, as jointly liable party, monetary administrative sanctions pursuant to article 144 of the Banking Act for an overall amount of Euro 5,065,210 (see Supervision Bulletin no. 3, March 2013 of the Bank of Italy).

The Bank paid the above-mentioned sanctions as the jointly liable party and did not challenge such measure; the Bank commenced the preparatory activities for the exercise of the mandatory recourse actions against the individuals subject to sanctions with the possibility to stay such actions against top executives whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence or where no corporate liability action had been notified; and this with limitation to the time necessary to conclude all appeals provided for by the legislation in force.

Recourse actions against Mr. Mussari, Mr. Vigni and Mr. Baldassarri were not stayed in consideration of the institution of civil action against the first two, and in consideration of the criminal events which led to the application of personal precautionary measures against Mr. Baldassarri.

In March 2014, the recourse action against the three above-mentioned individuals was instituted before the Court of Florence (section specialised in corporate matters). On 20 February 2015, the Court declared its functional lack of jurisdiction and recognised the territorial jurisdiction of the Courts of Siena granting the parties with a legal term to resume proceedings. The case was resumed before the Courts of Siena on 7 May 2015. At the hearing of 26 October 2015, the proceeding was declared stayed; on 23 November 2015, the Bank appealed such order before the Court of Cassation pursuant to article 42 of the Italian Civil Procedure Code. By order filed on 7 March 2017, the Court denied the Bank's requests, deeming in the case at hand, existing the trial suspension pursuant to artt. 295 and 337 of the Civil Procedure Code while waiting for the ruling on the appeal proceedings of the sanctioning measures instituted by the defendants.

(B) *Bank of Italy's sanctioning procedure for the determination of the economic benefits recognised to former General Manager Mr. Antonio Vigni, upon early termination of the employment relation*

On 25 July 2013, the Bank of Italy notified certain members of the board of directors in office at the time of events (Capece Minutolo del Sasso Massimiliano, Costantini Graziano, Gorgoni Lorenzo, Mussari Giuseppe, Rabizzi Ernesto, Campaini Turiddo, de Courtois Frédéric Marie, Monaci Alfredo, Pisaneschi Andrea, Querci Carlo), the members of the Board of Statutory Auditors (Di Tanno Tommaso, Serpi Paola, Turchi Marco) and the Bank, as a jointly liable party, a sanctioning measure relating to the infringement of the provisions issued by the Bank of Italy in the matter of remuneration and incentive policies and practices within banks and banking groups as regards the members of the board of directors, as well as the infringement of the same aforementioned provisions and disclosure duties to the supervisory body by members of the Board of Statutory Auditors; the infringement related to the remuneration (equal to gross Euro 4 million) recognised to former General Manager, Mr. Antonio Vigni, upon termination of the office. Total sanctions imposed amount to Euro 1,287,330 (see Supervisory Bulletin no. 7, July 2013 of the Bank of Italy).

The Bank paid the above-mentioned sanctions as the jointly liable party and did not challenge such measure; the Bank commenced the preparatory activities relating to the exercise of the mandatory recourse actions against the individuals subject to sanctions with the possibility to stay such actions against top executives whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence or where no corporate liability action had been notified; and this with limitation to the time necessary to conclude all appeals provided for by the legislation in force.

The recourse action against the former Chairman of the board of directors, Giuseppe Mussari, was not stayed. In March 2014, the recourse action was brought before the Court of Florence (section specialised in business matter). By order dated 18 May 2015, the Court suspended the proceeding until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure, deeming the existence of a prejudicial relationship between the two disputes.

(C) *Bank of Italy's sanctioning proceedings relating to the "FRESH 2008" transaction for infringement of the provisions in the matter if regulatory supervision and informative supervision for failed communications to the supervisory body*

In relation to the Fresh 2008 transaction, on December 2012 the Bank of Italy commenced a sanctioning proceeding for infringement of the provisions in the matter of regulatory supervision for failed compliance with the overall minimum capital requirement at consolidated level as at 30 June 2008, and informative supervision for failed communications to the supervisory body in respect of the indemnity granted to The Bank of New York (Luxembourg) S.A. in March of 2009 the ("**2009 BoNY Indemnity**"), as well as additional documentation concerning amendments to the usufruct agreement with J.P. Morgan Securities Ltd. (now J.P. Morgan Securities plc) and the payment of fees thereto between July 2008 and April 2009; furthermore additional violations related to inaccurate regulatory disclosures and irregularities in accounting and financial reporting modalities have been charged. On 10 October 2013, the Bank of Italy notified to BMPS, as the jointly liable party, the sanctioning measure with which administrative sanctions were imposed on for a total of Euro 3,472,540 against Directors (Mussari Giuseppe, Caltagirone Francesco Gaetano, Rabizzi Ernesto, Borghi Fabio, Campaini Turiddo, Gorgoni Lorenzo, Querci Carlo, Pisaneschi Andrea, Coccheri Lucia, Stefanini Pierluigi) and Statutory Auditors (Di Tanno Tommaso, Pizzichi Leonardo, Fabretti Pietro) in office at the time of events and the former General Manager Antonio Vigni in addition to some company executives in office at the time of events (Morelli Marco, Pirondini Daniele e Rizzi Raffaele Giovanni) (see Supervisory Bulletin no. 10, October 2013 of the Bank of Italy).

The Bank did not challenge the measure and paid the above-mentioned sanctions, as jointly liable party. As for the preceding measures, the Bank commenced the preparatory activities for the exercise of the recourse actions granting the suspension of such actions - for the time necessary to bring all appeals provided for by the applicable legislation - against the individuals subject to sanctions whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence; no corporate liability action has been exercised and there are no indictment requests in the context of the related criminal proceedings pending before the Courts of Siena.

Therefore, the recourse action was not stayed against former Chairman, Giuseppe Mussari and former General Manager, Antonio Vigni, as well as against former members of the Board of

Statutory Auditors, Tommaso Di Tanno, Pietro Fabretti and Leonardo Pizzichi and the Head of Legal function in office at the time of events, Raffaele Giovanni Rizzi.

In March 2014, the recourse action against the three above-mentioned individuals was instituted before the Court of Florence (section specialised in corporate matters) which, on 21 July 2015, declared its functional lack of jurisdiction and recognised the territorial jurisdiction of the Courts of Siena granting the parties with a legal term to resume proceedings. On 26 October 2015, the proceeding was resumed before the Courts of Siena; on 23 February 2016, the proceeding was declared stayed. On 21 March 2016, the Bank appealed such order before the Supreme Court of Cassation pursuant to article 42 of the Italian Civil Procedure Code. The court, by decision filed on 11 October 2017, rejected such appeal. It is worth noting that, in the meantime, the criminal proceedings against former Statutory Auditors Di Tanno, Fabretti and Pizzichi and former Head of Legal function, Raffaele Giovanni Rizzi have been dismissed.

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For the sake of completeness, it is worth noting that, after the in-depth analysis conducted on the "FRESH 2008" transaction and after prudential evaluations associated with the granting by the Bank in March 2009 of the 2009 BoNY Indemnity, the Bank of Italy, on 7 May 2013, adopted a measure – pursuant to article 53 and 67 of the Banking Act – which excluded from supervisory capital the FRESH 2008 Shares for an amount of Euro 76 million since the granting of the 2009 BoNY Indemnity would produce in substance the same effects of a forward purchase commitment of such securities, with re-assumption of enterprise risk by the Issuer. Furthermore, in December 2013, CONSOB requested, pursuant to article 114, subsection 5, of the Consolidated Finance Act, to adjust, at the latest on occasion of the financial statement as at 31 December 2013, the net equity consolidated amount, similar to that made for the purpose of determining the supervisory capital.

CONSOB's sanctioning procedure

(A) *CONSOB's sanctioning procedure for irregularities in the drafting of the prospectus relating to the 2008 capital increase*

By letter of 22 April 2013, CONSOB instituted a sanctioning procedure for the infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the drafting of the prospectus relating to the public offer of subscription and admission to trading of the Bank shares deriving from the capital increase resolved by the shareholders' meeting of 6 March 2008.

The allegations mainly concern the omission of information on total return swap agreements (so called "TROR") entered into by the Foundation with third financial counterparties and structured to enable the same Foundation to subscribe, indirectly and without immediate payment, for a 49 per cent. stake of FRESH 2008, corresponding to the interest held by the entity in the Bank at that time. The disclosure deficiency on the TROR and their key features allegedly prevented investors from forming an informed opinion on the Bank's capacity to raise "new" resources without the external support of a third-party guarantor as well as on the prospective structure of the Bank's ownership, due to the eligibility for conversion of the FRESH 2008 into BMPS' shares. More in general, the materiality of omissions allegedly prevented investors from forming an adequate opinion on the Bank's capital and financial position, economic results and outlook.

Infringements have been charged to Directors and Statutory Auditors pro tempore of the Bank in office at the time of events and to the Bank as a jointly liable party pursuant to article 195, subsection 9, of the Consolidated Finance Act in force at the time. In the context of the proceedings, the natural persons involved filed various objections of a general nature and pertaining to the subjective and objective element of the offense that were charged, but not in relation to the Bank, since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18885 of 17 April 2014, CONSOB concluded that the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 450,000 to directors and statutory auditors pro tempore of the Bank allocated among the single individuals depended on the office held by each officer and the function actually performed within the Bank.

The Bank did not challenge the measure and paid the above-mentioned sanctions, as a jointly liable party. As for the preceding measures, the Bank commenced the preparatory activities for the exercise of the recourse actions granting the suspension of such actions - for the time necessary to bring all appeals provided for by the applicable legislation - against the individuals subject to sanctions whose conduct, in respect of the irregularities charged, was not found to be wilful or due to gross negligence, no corporate liability action has been exercised and there are no indictment requests in the context of the related criminal proceedings pending before the Courts of Siena. The Bank instituted recourse action before the Courts of Siena against former Chairman Giuseppe Mussari; on 25 June 2017, the proceedings have been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(B) *CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*

By letter of 22 April 2013, CONSOB instituted a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the drafting of the prospectus relating to the public offer of subscription and admission to trading of the Bank's shares deriving from the capital increase resolved by the shareholders' meeting of 6 June 2011.

The allegations concern the lack of disclosure relating to the TROR agreements, entered into by the Foundation in 2008 with third financial counterparties and the subsequent dealings occurring in 2011, and the omitted information relating to the granting by the Bank of the 2009 BoNY Indemnity due to its potential impacts. In fact, with the granting of such indemnity the Bank would have assumed obligations in favour of The Bank of New York (Luxembourg) S.A., aimed at holding it harmless with reference to possible claims deriving from actions brought by holders of FRESH 2008, in respect of the shareholders' meeting or the resolutions adopted to introduce some amendments to the terms and conditions of the notes, made necessary by the requests made by the Bank of Italy as part of the prudential evaluations associated with the proceedings concerning the eligibility for computation of BMPS shares issued for FRESH 2008. As a result of the 2009 BoNY Indemnity, as mentioned above, the Bank of Italy excluded from regulatory capital the FRESH 2008 Shares for an amount of Euro 76 million, referred to securities held by an investor who had expressed some formal objections prior to the shareholders' meeting and other shareholders who had voted against the resolutions in question.

Additionally, CONSOB considered that the four periodic fees paid by the Bank to J.P. Morgan between July 2008 and April 2009 pursuant to the usufruct agreement entered into between the parties in the context of the FRESH 2008 transaction, due to the characteristics of the obligations undertaken between the parties and a consequent different accounting and book classification of the shares subscribed for by J.P. Morgan, should have been recognised in a different manner, with direct effects on the Bank's net equity.

Accordingly, the Bank objected to the fact that, even subsequent to the effects on the prospectus of the incorporation by reference of the already published accounting documents, the erroneous recognition of (i) the usufruct fees; (ii) the effects of the 2009 BoNY Indemnity; and (iii) the transactions subject matter of restatement of 6 March 2013 ("Alexandria" and "Santorini"), would have prevented investors from reaching an informed assessment on the Bank's capital and financial situation, economic results and outlook.

Infringements have been charged to the directors and statutory auditors pro tempore of the Bank in office at the time of events and to the Bank as a jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not, since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18886 of 18 April 2014, CONSOB concluded that the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 700,000 to directors and statutory auditors pro tempore of the Bank allocated among the single individuals depended on the office held by each officer, as well as its duration and the function actually performed within the Bank.

The Bank paid the sanction and instituted a recourse action against the former Chairman Giuseppe Mussari before the Courts of Siena. On 17 June 2017, the case has been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(C) *CONSOB's sanctioning procedure for possible irregularities in the drafting of prospectuses relating to offers of other financial instruments issued by the Bank in the period 2008-2012*

By letter of 30 May 2013, CONSOB instituted a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the registration documents of the Issuer published in the period June 2008 – June 2012 incorporated by reference in 27 base prospectuses relating to the issuance of bond loans and certificates.

In these proceedings, the supervisory authority made objections similar to those made in the sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase as per Section (B) "*CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*" above. Even in this case, infringements were charged to directors and statutory auditors of the Bank in office at the time of events and to the Bank as jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not since the contested facts are ascribable to the conduct of single individuals which up to date

had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

With resolution no. 18924 of 21 May 2014, CONSOB concluded the sanctioning procedure imposing monetary administrative sanctions for an overall amount equal to Euro 750,000 to directors and statutory auditors pro tempore of the Bank allocated among the single individuals depending on the office held by each officer, as well as its duration and the function actually performed within the Bank.

The Bank paid the sanction and instituted a recourse action against the former chairman Giuseppe Mussari before the Courts of Siena. On 20 July 2017, the case has been stayed until the ruling on the appeal proceeding brought by Giuseppe Mussari against the sanctioning measure.

(D) *CONSOB's sanctioning procedure for irregularities in the drafting of the offering documents for the 2008 and 2011 capital increases and for public offers of financial instruments issued by the Bank due to facts emerged after the institution of the three preceding procedures*

By letter of 5 August 2013, CONSOB notified to have instituted another procedure in respect of irregularities emerging in the drafting of the offering documents for public offers of bonds and certificates and in respect of the prospectuses for the 2008 and 2011 capital increases subsequent to the supervisory activity conducted by its offices against the Bank and also after having received in June 2013 some disclosure from the same BMPS, containing the following documents: (i) the document signed on 1 October 2008 between the Bank and JP Morgan Securities Ltd. contextually with the amendments to the usufruct and swap agreements entered into on 16 April 2008 and agreed between the parties in accordance with what was requested by the Bank of Italy; and (ii) the document (so called termination agreement), entered into on 19 May 2009 between the same parties and aimed at the termination of the agreement under item (i) above.

According to CONSOB charges and in light of the new elements described above: (i) in financial statements as at 31 December 2008, BMPS recognised the capital increase reserved for JP Morgan Securities Ltd. as an asset, while, on the basis of the documentation gathered by the Authority and IAS-IFRS standards, it should have been posted as a financial liability; (ii) in the pro forma financial information as at 30 June 2007, which forms an integral part of the prospectus for BMPS's 2008 capital increase, the capital increase, reserved for JP Morgan, was erroneously recorded as shareholders' equity rather than as a debt instrument.

As a result, information would have been provided concerning economic, capital, even pro forma situations, affected by errors, since it is not compliant with Regulation EC no. 1606/2002: a) in respect of the case above identified sub (i), after the incorporation by reference of the 2008 financial statement, in the registration documents published in 2009 and 2010, incorporated by reference in no. 18 base prospectuses and relating to bond and certificate issuances and in the prospectus relating to the 2011capital increase; b) in respect of the case above identified sub (ii) in the prospectus relating to the 2008 capital increase for erroneous pro forma financial information as at 30 June 2007 included therein.

Such circumstances would allegedly constitute violations of article 94, subsections 2 and 3, of the Consolidated Finance Act, and article 5, subsection 1, of CONSOB Regulation No. 11971 of 14 May 1999, as well as article 113, subsection 1, of the Consolidated Finance Act.

Infringements have been charged to the directors and statutory auditors pro tempore of the Bank in office at the time of events and to the Bank as a jointly liable party. In the context of the proceedings, the natural persons involved filed various counterclaims, but the Bank did not since the contested facts are ascribable to the conduct of single individuals which until now had no implications for the Bank pursuant to the regime laid down by Legislative Decree 231/2001.

Based on trial findings, CONSOB deemed the conditions not satisfactory for the adoption of an additional sanctioning measure and, accordingly, ruled for the dismissal of the proceedings.

(E) *CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act (Market manipulation)*

As a result of the irregularities found in the recognition and accounting and financial statement representation of the FRESH 2008 transaction components, CONSOB on 28 June 2013 instituted a sanctioning procedure against the Chairman of the board of directors, the General Manager and the Chief Financial Officer, respectively Giuseppe Mussari, Antonio Vigni and Daniele Pirondini, in office at the time of events, for violation of article 187-*ter* of the Consolidated Finance Act. The proceedings have been brought against BMPS as a jointly liable party and also as a liable party pursuant to article 187-*quinquies* of the Consolidated Finance Act.

The allegations would concern the publication of false data in the semi-annual report as at 30 June 2008 as regards tier 1 capital, regulatory capital as well as capital ratios. The Bank filed counterclaims to exclude its liability as a legal entity pursuant to article 187-*quinquies* of the Consolidated Finance Act, using similar defensive arguments to those which led the Siena public prosecutor to dismiss the allegations against the Bank under Legislative Decree 231/2001.

With resolution no. 18951 18 June 2014, CONSOB concluded the sanctioning procedure pursuant to article 187-*ter* of the Consolidated Finance Act, against the above-mentioned three persons imposing €750,000 in administrative sanctions, and an ancillary interdiction mandatory administrative sanction, pursuant to article 187-*quarter*, subsection 1, of the Consolidated Finance Act equal to twelve months, which implies the temporary inability to assume administration, management and control functions in listed companies and companies belonging to the same group of listed companies.

With the same resolution, instead, the payment of the above-mentioned monetary sanctions imposed on the three individuals has been imposed on the Bank as a jointly liable entity, pursuant to article 6, subsection 3, of Law 89/1981, and an additional Euro 750,000 monetary sanction for the violation committed by the three above-mentioned individuals in favour of BMP has further been applied pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act.

The Bank paid the sanctions and appealed in accordance with the terms of law with reference to the limitation to the application of the sanction pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act. This appeal brought by the Bank before the Court of Appeal of Florence has been denied. As for the prior measures, the Bank commenced the preparatory activities to the exercise of the recourse actions against the persons subject to sanctions.

Against the three individuals subject to sanctions, recourse action has been brought before the Courts of Siena; on 25 June 2017, the trial has been stayed until the ruling on the appeal proceedings brought by the defendants against the sanctioning measure.

(F) *CONSOB's sanctioning procedure for alleged violation of article 115 of the Consolidated Finance Act*

With resolution no. 18669 of 2 October 2013, CONSOB imposed on BMPS Euro 300,000 in administrative monetary sanctions for alleged violation of article 115 of the Consolidated Finance Act in respect of a request for information, sent on 13 April 2012, concerning the FRESH 2003 securities and FRESH 2008 securities and the entering into by the Foundation of the "TROR" agreements with third financial parties for the indirect subscription of the securities in question. With decree of 6 June 2014, the Court of Appeal of Florence, after the appeal filed by the Bank, has reduced the formerly imposed administrative sanction to Euro 50,000.

(G) *CONSOB's sanctioning procedure for violation of article 149, subsection 3, of the Consolidated Finance Act*

By letter of 5 March 2014, CONSOB notified the Bank, as a jointly liable party, of an allegation letter relating to the violation of article 149, subsection 3, of the Consolidated Finance Act allegedly realised by the members of the board of statutory auditors in office at the time of events after the omitted communication to CONSOB of operational and organizational irregularities found in 2010 subsequent to verifications carried out by the internal audit function in the Bank's treasury finance process.

In line with the defence adopted by the Bank in the aforementioned sanctioning procedure brought by the Bank of Italy after its 2011-2012 inspections on financial risks and weighted assets determination processes, given the substantial coincidence of the underlying facts of the allegations, BMPS has not filed counterclaims.

By letter of 6 October 2014, CONSOB announced to have instituted the investigation phase of the decision after the conclusion of the investigation phase of deductions in the context of the same administrative procedure.

By letters dated 13 May 2015 and 11 June 2015, CONSOB's administrative sanctions office sent to the Bank a copy of the report, dated 16 February 2015, containing its justified decisions regarding the procedure under exam and the corresponding sanction.

By resolution no. 19390 of 11 September 2015, CONSOB concluded the sanctioning procedure imposing monetary sanctions for a total amount of Euro 90,000 on the members of the Board of Statutory Auditors in office at the time of events and the Bank, which paid such amount as a jointly liable party pursuant to article 195, subsection 9 of the Consolidated Finance Act in force at the time.

For the description of further sanctioning procedures brought by the Bank of Italy and CONSOB against the Issuer, reference is made to Section "*Sanctioning procedures*" below.

(H) *CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act in respect of the accounting recognition of the "Santorini" and "Alexandria" transactions*

CONSOB instituted a sanctioning procedure against Giuseppe Mussari, Antonio Vigni, Gian Luca Baldassarri, Daniele Pirondini and another manager of the Bank and contested the dissemination, through the financial statements as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011, of data deriving from the failed initial recognition at fair value and posting "at open balances" of the "Alexandria" and "Santorini" transactions, finding in this circumstance the dissemination of false information capable of providing false and misleading indications on BMPS shares in violation of article187-ter, subsection 1, of the Consolidated Finance Act; in particular a false recognition in the aforementioned financial statements of the size of net equity, result for the year and regulatory capital has been contested.

The Bank is involved in the procedure in its capacity as a jointly liable legal person pursuant to article 6, subsection 3, of Law no. 689/1981 and as an entity liable pursuant to article 187-*quinquies* of the Consolidated Finance Act for the facts committed by the aforementioned individuals with limitation to false and misleading information of the sole consolidated financial statement as at 31 December 2011 since: (i) for financial statements preceding 2011 the 5 year statute of limitation provided for by article 28 of Law no. 689/1981 would be applicable and, furthermore, (ii) starting from financial statement as at 31 December 2012 the Bank published the pro-forma data referred to the combined effect of a recognition "at closed balances" of both the "Santorini" and "Alexandria" transactions.

In the allegation letter of 13 December 2016, the supervisory authority specified that the allegations were expressed on the assumption that the regime of the so called "double track" sanctioning resulting from the joint reading of article 187-ter, subsection 1, 187-*quinquies* and 187- duodecies of the Consolidated Finance Act was in force and compatible with the Italian legal framework. As at the date of this Prospectus the proceedings are still pending.

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After having paid the administrative sanctions imposed by the supervisory authorities, the Bank exercises the mandatory recourse actions against the individuals subject to sanctions granting the suspension of such action against the individuals whose conduct (i) in respect of the irregularities contested, was not found to be wilful or due to gross negligence; (ii) no corporate liability action has been notified; and (iii) there are no indictment requests in the context of the related pending criminal proceedings; and this with limitation to the time necessary to bring all appeals provided for by the applicable legislation. Some of the concerned individuals, after the letters of formal notice were sent, did not fulfil the payment obligation, and accordingly the institution of civil actions aimed at recovering amounts paid was therefore necessary.

No warranty can be given on the outcome of such actions which may also be challenged by the concerned individuals, aimed at delaying recovery actions, for the purpose of allowing them to bring the appeals of the sanctioning measures provided for by the law. Such activities may affect the duration of legal proceedings and reduce the possibility to recover the amounts claimed.

Civil Proceedings

(A) *Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*

It should be noted that certain investors/shareholders of the Bank have started proceedings aimed at obtaining compensation for the damages incurred thereby due to the alleged inaccurate

disclosure given by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, as regards the alleged inaccuracy of the price sensitive information given from 2008 to 2015, as at the date of this Prospectus, have filed no. 17 claims for damages before the Courts of Siena, Bari, Milan and Florence. The plaintiffs in these civil actions are suing the Bank mainly seeking a declaration of the Bank's liability under article 94 of the Consolidated Finance Act and the cancellation of the subscription agreement of the capital increases on the basis of wilful misconduct and/or essential error under the Italian Civil Code. As at the date of this Prospectus the overall *petitum* of the above mentioned proceedings amounts to around Euro 272.3 million, of which 226.1 million referable to the three main claims described below.

As at the date of this Prospectus, various claims have been brought by investors individually, through consumer associations or legal advisers (735, of which 69 intervened in the proceedings instituted by Marangoni Arnaldo and described below) for a total of around Euro 651 million of the claimed amount, where quantified, referred to alleged losses associated with the aforementioned events. About 10 per cent. of such requests have then turned into civil proceedings (mostly with the intervention in the proceeding promoted by a sole shareholder).

Such claims have been brought individually or collectively through two professionals and ADUSBEF and although heterogeneous, they appear reasoned by generic references to the alleged violation, by the Bank, of the banking legislation with reference to the matter of disclosure and therefore have been rebutted by the Bank since deemed generic, ungrounded, unsupported by suitable documentary evidence and in some cases time barred. The amount of the residual *petitum* claimed by plaintiffs who did not bring legal actions is equal to around Euro 589 million.

For the sake of completeness, it should be noted that as at the date of this Prospectus, the Bank has recently been served with a writ of summons by which Alken Fund SICAV and Alken Luxembourg SA filed a suit before the Court of Milan against the Issuer, Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori for the purposes of claiming damages deriving from losses allegedly incurred following the investments carried out by the abovementioned funds relating to the purchase of BMPS' shares on the secondary market and the subscription of BMPS' 2014 and 2015 capital increases from January 2012 to September 2016 when the abovementioned funds liquidated entirely their positions thereof. Subsequently, the plaintiffs claim damages of at least Euro 434 million in relation to the allegedly false and misleading information associated with the erroneous accounting treatments of "Alexandria" and "Santorini" transactions as contained in the public financial information and financial statements, as well as into the prospectuses relating to 2014 and 2015 capital increases. The Issuer has been claimed liable pursuant to article 94 of the Consolidated Financial Act, in addition to the actions of the abovementioned directors and statutory auditors pursuant to the article 2049 of the Italian Civil Code. In this respect the Bank is evaluating, with the assistance of its lawyers, the line of defense which seems the more appropriate and the related actions.

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Please find below a description of the three most relevant disputes brought by shareholders and/or investors of the Bank, in relation to which the aggregate petita is equal to around Euro 226.1 million.

(i) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Marangoni Arnaldo +124*

In July 2015, Arnaldo Marangoni sued the Bank claiming to have purchased shares between 2008 and 2013, both during the 2008 and 2011 capital increases, and on the electronic stock market on the basis of the alleged false disclosure given by the Bank on its capital, economic, financial, profit and management situation. During the trial through voluntary intervention, another 124 individuals came forward with the same contestations (although the respective positions are not fully homogeneous). The 124 interveners requested: (i) the declaration of falsehood of the individual financial statements, quarterly and semi-annual reports, the 2008 and 2011 capital increase prospectuses, and the price sensitive press releases relating to 2008, 2009, 2010, 2011 and 2012 of BMPS and, accordingly, (ii) BMPS conviction to pay damages. Opponents seek compensation of pecuniary and non-pecuniary damages for a *petitum* equal to around Euro 97 million. The action has been referred to the Panel of Judges for decision on the preliminary exceptions submitted by the Bank. It is worth noting that one of the interveners relinquished his request, and accordingly the *petitum* decreased to around Euro 89 million.

(ii) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Coop Centro Italia S.c.p.a.*

By writ of summon dated 26 July 2016, Coop Centro Italia s.c.p.a. sued the Bank, together with CONSOB, before the Court of Florence (section specialised in corporate matters), for the hearing of 20 January 2017, claiming damages for an aggregate of Euro 85.5 million due to an alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for Euro 20.3 million in respect of the 2008 capital increase and Euro 9.2 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of the Consolidated Finance Act or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of the Consolidated Finance Act, for Euro 56 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB, liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit to be determined during the trial. On the hearing of 12 October 2017 the judge reserved his position in relation to the preliminary requests.

(iii) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Coofin S.r.l.*

By writ of summon dated 26 July 2016, Coofin S.r.l. sued the Bank, together with CONSOB, before the Courts of Florence (section specialised in corporate matters), at the hearing of 20 January 2017, claiming overall damages of Euro 51.6 million due to alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for approximately Euro 11.5 million for the 2008 capital increase and Euro 6.1 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of Legislative Decree no. 58/98 or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of Legislative Decree no. 58/98, for Euro 34 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the authority and

those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit to be determined during the trial. The next hearing is set for 13 March 2018 for the admission of preliminary evidence.

(B) *Corporate liability actions brought by the Bank for the "Alexandria" and "Santorini" transactions*

On 1 March 2013, the Bank instituted two separate proceedings for compensatory damages before the Courts of Florence (section specialised in corporate matters). In the first proceeding, related to the "Santorini" transaction, the Bank brought a corporate liability action pursuant to article 2392, 2393 and 2396 of the Italian Civil Code against the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Deutsche Bank for complicity in the non-fulfilments and/or offenses attributable to Antonio Vigni, asking for the joint conviction of the defendants for an amount not lower than Euro 500 million, then better specified during the trial.

In the second proceeding, in connection with the "Alexandria" transaction, the Bank brought a corporate liability action pursuant to article 2393 and 2396 of the Italian Civil Code against the former Chairman of the board of directors, Giuseppe Mussari, and the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Nomura for complicity in the non-fulfilments and/or offenses attributable to the two former company officers, seeking the joint conviction of the defendants for an amount not lower than Euro 700 million, then better specified during the trial. Nomura filed, on a conditional basis, a transversal request against Mr. Mussari and Mr. Vigni, from whom it seeks to be held harmless and indemnified in case the requests expressed by the Bank against it are upheld. A similar request has been filed by Mr. Mussari against Nomura, Mr. Vigni and Mr. Gian Luca Baldassarri, the summon to trial of whom was authorised with measure of 19 April 2014.

The corporate liability actions, initially authorized by the board of directors on 28 February 2013, were subsequently ratified by the Bank shareholders' meeting held on 29 April 2013.

The decision to institute the aforementioned corporate liability actions, also enforcing the non-contractual liability of the two investment banks, has been adopted in consideration of the opportunity to sue, in one single venue, both the former Bank's officers who had realised or contributed in the realization of the aforementioned financial transactions, and the two banking counterparties for having contributed in the non-fulfilments and/or unlawful acts put in place by the aforementioned Bank officers.

It is worth noting that the Bank, in its initial briefs commencing proceedings, expressly reserved the right to enforce, in another venue, the possible liability of Mussari, Vigni and other individuals, for other acts and/or transactions, as well as against Mr. Gianluca Baldassarri, former head of the Finance Area, in respect of the same transaction, as well as possible invalidity profiles of the agreements at the basis of the challenged financial transactions, including after the conclusion of the audits in progress and the developments in the enquiries of the investigating judges.

The Foundation, Coordinamento delle Associazioni per la Difesa dell'Ambiente e la Ttela dei Diritti di Utenti e Consumatori ("**CODACONS**") and the Associazione Difesa Consumatori ed Utenti Bancari, Finanziari ed Assicurativi ("**ADUSBEF**") all intervened in both lawsuits in support of the Bank's positions.

As regards the action brought by BMPS against Antonio Vigni and Deutsche Bank, on 19 December 2013, a settlement agreement was reached between the Bank and Deutsche Bank regarding, *inter alia*, also the claim for damages (for more information in this respect reference is made to Chapter 5, Section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2013 – "Santorini" Transaction – settlement agreement*"). It is worth noting that this settlement agreement is limited to the internal liability share attributable to Deutsche Bank. In the action the Bank specified that, as a result of the transaction with Deutsche Bank, it obtained an economic benefit of Euro 221 million, accordingly asking the judge to take such amount into account in the determination of the quantum of the damages due by the defendant Vigni compared to the overall damage incurred thereby, subject to prior determination of the liability share ascribable in abstract to Deutsche Bank.

Accordingly, BMPS' liability action brought against Antonio Vigni as well as any other claim against other parties jointly liable with reference to the "Santorini" transaction remained unaffected. Such latter proceeding has ended, in the first instance, with the conviction of Antonio Vigni and compensation for pecuniary damage in favour of the Bank. With appeal suit, Mr. Vigni appealed the decision and introduced the appeal proceeding the first hearing of which was held on 13 April 2017 with deferral to 8 June 2017 for closing arguments, and then the case was retained for decision.

It is worth noting that Nomura, on the very same 1 March 2013 – but after the institution of the above mentioned corporate liability and damage action by the Bank before the Courts of Florence – instituted an action for declaration before the English Commercial Court (2013 Folio 292) seeking, *inter alia*, the declaration of the validity of the contracts relating to the restructuring of the "Alexandria" notes and the lack of Nomura's contractual liability or the lack of unjust enrichment. The Bank requested this case to be stayed in light of the risk of partial overlapping with the proceedings already instituted in Italy which, by admission of the same Nomura, have been instituted before the English one.

The Commercial Court did not uphold this request and accordingly the trial continued. The Bank appeared for these proceedings on 12 March 2014 enforcing the invalidity and ineffectiveness of the agreements relating to the transactions associated with the restructuring of the "Alexandria" notes seeking the restitution of the amounts quantified as Nomura's unjust enrichment, plus interest quantified in the measure of the ordinary trade receivable rates, and not to be held bound to pay any other amounts, or by any other obligations in respect of the aforementioned contracts, the full restitution of the amounts paid for the performance thereof.

It is worth noting that, in the context of the closing of the Alexandria transaction which occurred on 23 September 2015, the damage claim launched by the Issuer against Nomura in March 2013 before the Court of Florence has been settled. The settlement refers only to Nomura's liability share, without any prejudice to the corporate liability action against the former Chairman and former General Manager, and without prejudice to any other BMPS claim against other parties, external to Nomura, possibly jointly liable with respect to the "Alexandria" transaction. The settlement agreement also closes the proceeding brought by Nomura before the English court.

The liability action then continues against the former Chairman (who sued Mr. Baldassarri) and the former General Manager. Nomura remained part of the trial since it was addressee of indemnity requests by the former Chairman.

The case has been closed by the Court of Florence (decision n. 2755/2017, on 7 August 2017) as a consequence of the joining by BMPS as damaged party in the criminal proceeding pending before the Court of Milan. The Bank intends to promote the social responsibility action, authorized in the past by the shareholders' meeting, by starting a new civil proceeding.

Besides adhering to the actions brought by the Bank, the Foundation also instituted two independent suits, on one side, against Mr. Mussari, Mr. Vigni and Nomura and, on the other side, against Mr. Vigni and Deutsche Bank, seeking in both cases a declaration of liability of the defendants pursuant to article 2395 of the Italian Civil Code for the direct damage allegedly suffered by the Foundation for having subscribed for BMPS' capital increase approved in 2011, at a price different from that which would have been correct, had the "Alexandria" and "Santorini" restructuring been duly represented in BMPS's financial statements.

As regards the proceeding instituted by the Foundation in respect of the "Santorini" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 333.6 million on account of pecuniary damage and Euro 47.5 million on account of non-pecuniary damage), Mr. Vigni has been authorised to sue the Bank by virtue of an indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship. The Bank, appearing for the proceeding to rebut the claims against it, preliminarily objected to the lack of jurisdiction of the Courts of Florence, deeming competent the Courts of Siena as the labour judge. Mr. Vigni adhered to such objection and hence relinquished the case against the Bank. The Judge then ordered the dismissal of the case between Mr. Vigni and the Bank. To the extent known to the Bank, the proceeding is currently pending between the Foundation and the defendants.

As regards the proceeding instituted by the Foundation in respect of the "Alexandria" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 268.8 million on account of pecuniary damage, then increased to Euro 329 million in accordance with the conclusions of the plaintiff's technical advisor, and Euro 46.4 million on account of non-pecuniary damage): (i) Mr. Vigni has been authorised to sue the Bank by virtue of the aforementioned indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship relation; (ii) Mr. Mussari has been authorised to sue the Bank as liable, pursuant to article 2049 of the Italian Civil Code, for the fact that some managers are allegedly liable for the realisation of the transaction carried out with Nomura. The Bank was then served the writs of summon in its capacity as third party sued by the aforementioned defendants in the proceedings autonomously brought by the Foundation and appeared for trial rebutting the requests filed against it. Furthermore, with subsequent authorised brief, Nomura extended its requests against the Bank, asking to determine the liability share ascribable to the latter and to be held harmless thereby for the liability share exceeding that ascribable thereto. However, the settlement agreement entered into between the Bank and Nomura on 23 September 2015 provides - *inter alia* – for such request to be relinquished. For more information on this settlement agreement, reference is made to section "*Banca Monte dei Paschi di Siena S.P.A. Major Events – Recent developments –2015 Alexandria' Transaction – settlement agreement*" of this Prospectus.

Even in this case Mr. Vigni relinquished the trial against the Bank as a result of the functional incompetence objection of the Courts of Florence, while the recourse/indemnity action brought by Mr. Mussari against the Bank continued. As at the date of this Prospectus the technical consultancy ordered by the judge is in progress.

* * * * *

In the event that the conducts of the management in office at the time of events were relevant under a criminal point of view and in the context of any actions already instituted, the Bank also assessed whether to appear as the civil plaintiff at the criminal proceedings seeking restitutions and/or compensations (pursuant to article 185 and 187 of the Italian Criminal Code). Specifically, the Bank appeared as the civil plaintiff, in the context of the criminal proceedings pending before the Courts of Milan – in which the Nomura, Fresh, Santorini, Alexandria/Nomura, Chianti Classico cases have been combined – against Vigni, Mussari, Pirondini and Baldassarri seeking to obtain compensation for all pecuniary and non-pecuniary damages, however, with the order dated 6 April 2017 it has been excluded on the assumption of its joint liability with the defendants.

On 1 October 2016, a decree ordering a trial before the Courts of Milan – second criminal section for the hearing of 15 December 2016 was issued.

At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs sued the Bank as a civilly liable party in respect of the crimes charged to the indicted former directors and managers.

In the course of the proceedings, by order of 6 April 2017 the Courts of Milan ruled on the exclusivity request of civil plaintiffs filed by the attorneys of the accused persons and civilly liable parties, excluding some civil plaintiffs. To date, civil plaintiffs that appeared against the Bank are in aggregate around 1,250.

To date, a precise monetary figure relating to the overall compensatory requests and accordingly the economic burden the Bank will have to bear cannot be predicted, since many civil plaintiffs' requests are not quantified and such quantification shall wait for the developments of the trial.

It is worth noting that on 12 May 2017, the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) has been requested in the context of a new criminal proceeding before the Court of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the above mentioned financial statements and reports.

In relation to such proceeding, in which the Bank is identified as the offended person, the first hearing was held on 5 July 2017, during which several hundred individuals and some professional associations requested to join the proceeding. The judge for the preliminary hearing has deferred the hearing to 29 September 2017, in order to consider such requests as well as for the conjunction with the proceeding pending against BMPS as defendant pursuant to Legislative Decree 231/2001 for the same alleged conducts as Profumo, Viola and Salvadori. At the hearing of 29 September 2017, no. 304 of the no. 337 damaged parties that made the relevant request were admitted. The others have been excluded due to procedural deficiencies. At such hearing, the proceeding pending against the Bank as administrative accountable entity

was merged in the proceeding pending against the individuals. The court then permitted the summons of the Bank as civilly liable party, deferring the proceeding to the hearings of 10 November 2017 and 24 November 2017 in order to permit the carrying out of the related notification.

Among the no. 304 civil parties admitted, no. 294 served the writ of summon upon the Bank as civilly liable. At the hearing held on 10 November 2017 wherein the Bank appeared as civilly liable, Mr. Salvadori's attorney, has argued that the request for the referral of the trial for is client is null and void as his imputability could have been given only for the crime under the article 2622 of the Italian Civil Code and not for the crime under the article 185 of the Consolidated Finance Act. Relating to such point, the same attorney has also objected to the lack of competence of the Milan judicial authority. The public prosecutor – while taking part against the territorial competence matter – has agreed with the assumption of the voidance request as argued by Mr Salvadori's attorney who, at this point, required the transmission to his office of the entire proceeding – instead of Mr. Salvadori only - started on 12 May 2017 against Mr Profumo, Mr Viola and Mr Salvadori in order to avoid any fragmentation and for the purpose of restarting such proceedings as a single proceeding. The PHJ reserved his decision thereon which will be issued at the next hearing set on 24 November 2017. Should the decision reject the request, the hearing will continue with the discussion among the parties on the next 1, 15 and 22 December.

Conversely, it is currently pending, before the public prosecutor's office at the Court of Milan, in the conclusive phase of the preliminary investigation, another connected criminal proceeding solely against Mr. Profumo and Mr. Viola for alleged obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), in relation to the omission of information in cases considered relevant to resolve the matter of the accounting of the "Santorini" and "Alexandria" transactions. Such proceeding is therefore pending also against BMPS for the subsequent administrative offence pursuant to Legislative Decree no. 231/2001.

In the context of such proceedings the Bank is identified as the offended person. For more information reference is made to section "*Criminal investigations and proceedings*" above.

Disputes arising from the Burden Sharing

At the beginning of September 2017, an holder of Burden Sharing Notes (for a nominal amount lower than Euro 50,000) filed an appeal before the Court of Genova pursuant to article 700 Italian Civil Procedure Code requesting, through emergency injunction, to order to the Bank to refrain from listing the Burden Sharing Shares on the market and to respect the guarantees provided by the Bank in favour of the holders of Burden Sharing Notes pursuant to the original structure of the issuance.

According to the plaintiff: (i) the Decree 237 shall not apply to securities regulated by the Delaware law (which does not provide for any mandatory conversion scenario); (ii) the provisions of Decree 237 are in contradiction with the EU legislation on bank recovery resolution as the conversion into shares of the subordinated notes held by the plaintiff would have had a worse impact on the relevant holder than the one such holders may have had in case of winding-up of the Bank (the so called no creditors worse off principle); (iii) the Decree 237 is uncostitutional as unlawfully retroactive; (iv) termination due to excessive onerousness shall apply; (v) the listing of the shares arising out of the conversion – determining the allocation of an ISIN code for all the shares of the Bank (despite the current situation, in which a specific ISIN code is allocated for the shares arising out of the conversion) – would render impossible

to re-establish the previously existing situation (as the plaintiff announced its will to request it in the relevant proceeding).

BMPS joined the proceeding challenging, as a preliminary matter, the lack of jurisdiction of the ordinary court (being the claim exclusive jurisdiction of the administrative court) and as a subordinated preliminary matter, the lack of jurisdiction of the Court of Genova (being competent for the dispute the Court of Florence, Section specialized in Corporate Matters). On the merit, BMPS has pointed out the inadmissibility and the viciousness of both the prima facie case and the exigent circumstances of the matter, demanding to reject such request.

On 17 October 2017, after the hearing for discussion held on 29 September 2017, the Judge dismissed the petition thereof. With regard to the preliminary matters challenged by the Bank, the judge rejected the lack of jurisdiction and the subordinated preliminary matter related to the lack of jurisdiction of the Court of Genova. The judge considered the precautionary question to be abstractly admissible. On the merit, the Judge deemed that the precautionary question was completely inadequate under the *periculum* profile, stating that – among the others – the listing of the shares resulting from the conversion of the Burden Sharing Notes will not produce any damage – further to the hypothetical damages arising from the conversion – to the holder whose subordinated notes are converted in Burden Sharing Shares. As at the date of the Prospectus, no complaint has been raised.

Disputes deriving from ordinary business

While carrying out its ordinary business, the Montepaschi Group, similarly to the other banking groups, is involved in various judicial proceedings concerning, *inter alia*, allegations in the matters of: claw-back, compound interest, placement of bond securities issued by governments and companies then defaulted, placement of schemes and financial products, which, the latter types show a consistent overall decrease and are not material in terms of *petitum* and related civil funds.

With respect to the proceedings regarding bankruptcy claw backs, the reform that has been implemented since 2005 has reduced and limited the scope of insolvency claw backs, especially those concerning direct payments in accounts. For those still eligible for proposal – or already pending at the date of entry into force of the reform – the Bank uses all available arguments to defend its position.

With respect to disputes concerning compound interests, interest and conditions – with a *petitum* quantified in Euro 387.6 million as at 30 September 2017 – since 1999 there has been a progressive increase of claims brought by account holders for the retrocession of interest expenses due to quarterly compound interest. In such cases, plaintiffs also contest the legality of the interest rate and the calculation method for the fees. In this latter respect, the interpretation introduced by the Supreme Court's, with effect from 2010 in the matter of usury - on the basis of which the maximum overdraft fees, even before the entry into force of Law 2/2009, had to be taken into account in the calculation of the global effective rate (GER), in contrast with the guidance of the Bank of Italy – is frequently the basis for lawsuits brought by customers. Most of the cases involve claims related to the balances of current accounts, but increasingly frequent are disputes concerning compound interests, referring to the legitimacy of the so-called "French compound interests" of mortgage loans, and the violations of Law 108/1996 on usury, on maturing loans.

In the matter of compound interests, the recent reform of article 120 of the Italian Banking Act, as amended first by Law no. 147 of 27 December 2013 and, then, by Law no. 49 of 8 April 2016, introduced relevant novelties in the matter of computation of interests and prohibition of their capitalization (such as, *inter alia*, the provisions according to which: (i) interests accrued in a current account or in a payment account (both in favour of the Bank and in favour of the account holder) are calculated with the same frequency in any case not lower than one year and that (ii) accrued interests do not give rise to further interests, except for delay interests, and are calculated exclusively on capital and, in case of opening of credit lines settled in the current account, for overdrafts even in the absence of a credit line or in excess of the credit line).

The overall *petitum* for disputes deriving from the carrying out of the Montepaschi Group's ordinary business is equal as at 30 September 2017 to Euro 4,147.5 million.

As explained above, in light of the estimates made on the risk of unfavourable outcome in the proceedings under this section, provisions have been made for legal disputes in the overall "provision for risks and charges" equal to Euro 478 million as at 30 September 2017.

Civil disputes

Please find below the most relevant proceedings in terms of *petitum* (exceeding Euro 30 million) and relating state of the case as at the date of this Prospectus.

(A) *Civil dispute instituted by the extraordinary administration of SNIA S.p.A. before the Courts of Milan*

The action, brought by the Extraordinary Administration of SNIA S.p.A. ("SNIA") against the former directors, statutory auditors and (direct and indirect) shareholders of the same company (including BMPS), seeks the declaration of the defendants' joint liabilities for damages, originally not quantified, allegedly caused to the company. The action is grounded on intricate and complex corporate matters which concerned the company in the ten-year period between 1999 and 2009 which, as far as the Bank and other appearing parties are concerned, pivot around the company's demerger in 2003.

SNIA contested to the Bank, in its capacity as an indirect shareholder and a member of a shareholders' agreement of the controlling entity, to have a controlling and coordination position over it and to have adopted a conduct which would have caused damages to the company's assets, and, specifically: 1) the design and realisation of a distraction spin-off of the company, at the detriment of the shareholders and the creditors of the company; 2) the drafting and approval of untrue financial statements starting from financial year 2000, and, in particular, the drafting and approval of the financial statement 2002, since allegedly untrue and considered as a reference capital representation for the purpose of the spin-off, and the subsequent financial statements; 3) the origination of an environmental damage subject matter of claims by the Ministry of Environment and for Protection of the Land and Sea and the Ministry of Economy and Finance and of two distinct administrative managements (Commissioner of the Lagoon of Grado and Marano and Commissioner of the Sacco River; the "**Administrative Managements**"), now dissolved, and exercised in the context of the admission to liability in the insolvency procedures of SNIA and one subsidiary. During the trial, in support of the plaintiff's requests, the aforementioned Ministries appeared ad *adiuvandum*.

The *petitum*, not determinable in origin, on occasion of the clarification of requests was quantified, for a portion of the contested conducts, against the Bank and other defendants, in

Euro 572 million, with further damages allegedly incurred and the requested compensation which remained undetermined.

With decision no. 1795/2016 of 10 February 2016, the Courts of Milan, having declared – *inter alia* - the inadmissibility of the interventions of the Ministries of Environment and Economy, rejected the claims of the extraordinary administration against the various parties, including the Bank, convicting the plaintiff to refund trial costs.

With separate writs of appeal, notified in March, the ministries on the one hand and the extraordinary administration on the other filed an appeal against the first instance ruling, repeating the grounds for the appeal and the arguments already expressed before the Court.

With its writ of appeal, SNIA asked the conviction of BMPS and the other defendants to pay, on a joint and several basis or, subordinately, on a partial basis, a) the amount of Euro 3.5 billion, conditional on the definition of the objection proceedings to liabilities of SNIA brought by the Ministries together with the aforementioned extraordinary administrators and pending before the Courts of Milan (or the different amount established during the trial, even in equity pursuant to article 1226 of the Italian Civil Code, or, subordinately, after quantification by CAE); b) the amount of Euro 572 million for damages so called "instantaneous" from spin-off (or Euro 388 million, or the different amount established during the trial, even in equity pursuant to article 1226 of the Italian Civil Code, or after quantification by CAE, with legal interests even compound interests and money revaluation of the amount due upon actual payment).

At the same time, with its writ of appeal, the ministries asked for the reform of the Court decision, asking for the ad adiuvandum intervention to be declared inadmissible and their exclusion illegitimate, ordering the referral of the trial to the first instance judge, for having him uphold the conclusions already expressed for the upholding of SNIA requests.

At the hearing of 19 July 2016, relating to the appeal filed by the Ministries, the Court of Appeal – having acknowledged the pending of the "parallel" proceeding brought by SNIA S.p.A.'s extraordinary administrators – deferred the hearing to 4 October 2016 for the purpose of combining the two appeals. The first hearings have been set – respectively – for 15 July and 4 October 2016. In the course of the latter hearing the Judge ordered that the appeals be combined and deferred, through reserve, its decision on the request to suspend the execution of the first instance decision. On 21 October 2016, the Court lifted its reservation and suspended the execution of the appealed decision. The next hearing is set for 20 June 2018 for closing arguments.

A.1) *Dispute filed by shareholders*

By a writ of summon notified on 15 November 2017, four natural persons, acting as BMPS shareholders, filed a claim against the Bank and two other banks – which are also parties of such criminal proceeding – in front of the Court of Milan to request the condemnation in solid of the repayment of the alleged damages quantified at Euro 21.5 million as monetary damages and Euro 0.9 million as non-monetary damages. In particular, the plaintiffs, referring to the disclosure information issued by the Bank from 6 February 2013 in respect of facts and imputations arising from the criminal proceeding brought in front of the Court of Milan against the former managers of the Bank and of the others defendants – proceeding from which they were excluded as civil parties – claim for the reimbursement of the monetary damages deriving from the value' depreciation of the BMPS' shares owned by them on 31 December 2007

compared to the value of the same shares as at 6 February 2013 which is the publication date of the press release attesting to the occurrence of mistakes in the financial figures of the Bank relating to previous financial years.

The plaintiffs advance of such claims under articles 2049 and 2622 of the Italian Civil Code in relation to the crimes of false corporate communications together with other crimes committed by the managers of the defendants, as well as for the crimes actionable pursuant to the Legislative Decree no. 231/2001. The plaintiffs further claim for non-monetary damages under articles 185 of the Italian Criminal Code and 2043 of the Italian Civil Code. The hearing for the appearance is dated 10 April 2018. The Bank will appear by the terms, challenging the plaintiffs' claims. As at the date of the Prospectus, no provisions have been made in relation to such dispute.

A.2) *Appeal filed by the Ministry of Environment against BMPS before the State Council*

The Ministry of Environment filed an appeal against the Bank, as well as against other companies, for the voidance/reform of decision no. 3447/2016 rendered by the Regional Administrative Court of Lazio. Such decision was given in the context of a proceeding instituted before the Regional Administrative Court of Lazio by BMPS against the measure prot. no. 14568 of 24 July 2015, by which the Ministry of Environment ordered some companies, amongst which was BMPS, since deemed for various reasons involved in the pollution produced by the Caffaro industries in the three SIN Lagoon of Grado and Marano (Tor Viscosa), Basin of the Sacco River (Colleferro) and Brescia Caffaro (Brescia), to "adopt with immediate effect all appropriate initiatives to control, limit, remove or otherwise manage any damage factor in the above sites … complying with the clearance programme of the Extraordinary Administration or provision of this Ministry" pursuant to article 305 subsection 2 lett. b of Legislative Decree 152/2006.

With decision no. 3447/2016, the TAR voided the ministerial measure and convicted the Ministry to pay trial expenses. The appeal has been filed without requesting the appeal decision to be stayed and, to date, the public hearing on the merits has not been scheduled yet.

(A) *Civil dispute brought by Fatrotek S.r.l. before the Courts of Salerno*

This action, where BMPS is sued together with other credit institutions and companies, concerns the declaration of alleged monetary and non-monetary damages suffered by the plaintiff company after an alleged illegitimate reporting to the central credit bureau. The action is currently in the investigation phase and the Judge, having ordered the renewal of the expert appraisal, withheld the case also to allow the parties to assess possible settlement agreements. The relating *petitum* is equal to Euro 157 million.

(B) *Civil dispute instituted by the bankruptcy receivership of Medeghini S.p.A. in bankruptcy before the Courts of Brescia*

The action concerns the claim for damages brought by the bankruptcy receivership of the company for certain banking transactions in the context of the capital increase carried out in 2007 by the subsequently failed company. In particular, the receivership complaints about the merely fictitious nature of the capital increase, since, as a consequence of a series of accounting movements, the amount destined thereto would have been transmitted to the company's accounts only formally, without turning into an effective capital increase.

During the trial an expert appraisal has been ordered at the end of which the expert appointed by one of the parties deemed established and documented a damage of around Euro 2.8 million, but does not specify whether such damage is to be ascribed to a conduct of the Bank or whether, instead, the damage is caused by the failed company directors against all creditors through the continuation of the business.

The case was officially deferred to 8 March 2018 for closing arguments. The *petitum* is equal to around Euro 155 million.

(C) *Arbitration instituted by Elipso Finance S.r.l. before the Milan Arbitration Chamber*

This arbitration concerns the indemnity claim consequent to alleged irregularities or documental deficiencies relating to loans originated and assigned by the Bank to the plaintiff's company. The competence of the Arbitration Chamber derives from a clause contained in the assignment agreements.

The arbitration panel ordered an expert appraisal which was completed and, subsequently, closing arguments were filed. On 14 June 2016, the partial award has been read which rejected the plaintiff's requests. The action is in progress for the issuing of final awards. The *petitum* is equal to Euro 100 million.

(D) *Civil dispute instituted by De Masi S., Agriter S.r.l., De Masi G., Rottura, De Masi A, Chidem S.r.l., Retificio De Masi S.r.l., De Masi S.p.A., De Masi Costruzioni S.r.l., Zin.Cal. S.r.l., De Masi Agricoltura S.p.A., Calfin S.p.A. and Di Gioia before the Courts of Palmi*

This action, where BMPS is sued together with other credit institutions, concerns the declaration of alleged damages suffered for the debiting of allegedly usury interests. On 24 April 2015, a letter of intents for the settlement of the financial and judicial dispute between "Gruppo De Masi" and the concerned credit institutions has been signed by the Ministry of Economic Development. As at the date of this Prospectus no settlement proposal was reached. The action, after various measures were adopted by the various investigation Judges who took over the trial, has been deferred to 30 November 2017 for the decision on the revocation of the technical expert admission order. The *petitum* is equal to Euro 100 million.

(E) *Civil dispute instituted by the bankruptcy receivership of the company Antonio Amato & Company Molini Pastifici S.p.A. in liquidation before the Courts of Naples – section specialised in corporate matters*

This action was brought by the bankruptcy receivership of the company against the former directors and statutory auditors of the subsequently failed company and against the Bank together with other credit institutions for the compensation of alleged damages, quantified in the difference between the procedure's assets and liabilities, deriving, *inter alia*, from a pool loan granted by lending institutions which would have delayed the emergence of the insolvency state of the subsequently failed company, worsening its state of financial distress. The case is under preliminary investigation.

The next hearing will be held on 23 November 2017 also to assign the mandate to the court appointed expert. The *petitum* is equal to Euro 90 million.

(F) *Disputes instituted by the extraordinary administration of Antonio Merloni S.p.A. before the Courts of Ancona and the Court of Appeal of Ancona*

These are two bankruptcy claw-back actions, brought principally pursuant to article 67, subsection 1, no. 2 of Bankruptcy Law and subordinately pursuant to article 67, subsection 2, of Bankruptcy Law, concerning current account movements relating to portfolio disposal transactions. The *petitum* amounts to overall Euro 82 million, of which around Euro 28 million relating to the first action, currently under preliminary investigation before the Courts of Ancona. The other action, with *petitum* equal to around Euro 54 million, has been decided with judgment rejecting the plaintiff's request, convicting the latter to refund expenses. The extraordinary administration procedure filed an appeal, currently pending before the Court of Appeal of Ancona.

As at the date of this Prospectus, a settlement agreement has been finalised, regulating all the litigation pending between the extraordinary administration procedure, the guarantor Antonio Merloni and the creditor banks and providing, *inter alia*, for the relinquishment of the action by the extraordinary administration procedure.

(G) *Dispute instituted by the extraordinary administration of Antonio Merloni S.p.A. before the Courts of Rome*

This civil dispute is brought by the extraordinary administration bodies against the directors and statutory auditors of the same solvent company and against the external audit firm and some banks part of the pool of lending banks, among which BMPS.

The plaintiff seeks the compensation of alleged damages deriving from restructuring activities and pool lending granted by the defendants, among which the Bank, when the company Merloni S.p.A. was in a state of acclaimed and irreversible crisis.

The proceeding is still in the initial stage, preliminary investigations having not started yet. Following several deferrals, the next hearing is set for 6 November, 2017.

The procedural fulfilments to relinquish the action brought by the Extraordinary Administration against the Bank has been finalised, thanks to a settlement agreement that has regulated the aggregate active and passive litigation pending between the extraordinary administration procedure, the guarantor Antonio Merloni and the creditor banks, notwithstanding the request of the Extraordinary Administration, no payment by the Bank was due under such settlement agreement. The overall *petitum* against the various defendants is equal to around Euro 323 million.

(H) *Civil disputes instituted by Riscossione Sicilia S.p.A. before the Courts of Palermo*

By writ of summon dated 15 July 2016, Riscossione Sicilia S.p.A. sued the Bank before the Courts of Palermo for contractual liability.

Riscossione Sicilia S.p.A.'s claim, as set out in the writ of summon, falls within the realm of the complex relations between the Bank and the plaintiff, originating from the transfer to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by BMPS in Monte Paschi Serit S.p.A. (then Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia S.p.A., in relation to the contractual provisions relating to such disposal, asked for the Bank's conviction, under its contractual liability for alleged contingent

liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A., provided that BMPS would have undertaken to guarantee the consistency of the assets of the investee company and to hold Riscossione Sicilia harmless for and against any possible contingent liability.

The *petitum* is equal to overall Euro 106.8 million. The next hearing has been deferred to 12 February 2018, for the admission of evidence.

With the petition filed on 30 November 2016 the BMPS asked the Courts of Palermo to order Riscossione Sicilia to immediately pay the amount of Euro 40 million, plus interest and expenses, due to the failed payment by the defendant of certain overdue instalments relating to two loan agreements. With decree issued on 17 January 2017 the Courts of Palermo ordered Riscossione Sicilia to pay the plaintiff the amount of Euro 40.7 million. The petition, together with the decree and the writ of execution for the amount for which interim execution was granted, has been notified to Riscossione Sicilia on 8 February 2017.

With writ of summon notified on 11 March 2017, Riscossione Sicilia filed an appeal against such injunctive relief asking for the withdrawal thereof and, as cross-claim, the conviction of the Bank to the payment of an amount of around Euro 66 million.

At the basis of its appeal Riscossione Sicilia alleged to be owed the amount of Euro 106.8 million by the Bank by virtue of some representations and warranties contained in two share assignment agreements with which the BMPS had assigned to Riscossione Sicilia the full share capital of the company Serit – Sicilia S.p.A.. In the writ of summon, Riscossione Sicilia acknowledged the circumstances according to which its requests are already the subject matter of another action pending before the same Courts.

BMPS duly appeared for trial asking for the rejection of the opponent's claims. The trial is in the initial stages and at the hearing of 9 October 2017, the Court, after denying the request of the opponent in relation to the combination of the proceeding with the one previously instituted, has made a reserve with reference to the requests made during the hearing by the parties, and namely, the granting of the enforceability of the injunctive decree, requested by the Bank and the stay of proceedings requested by the opponent.

For the sake of completeness it is highlighted that, on 19 October 2017 Riscossione Sicilia S.p.A. appealed against the decision issued by the Court of Palermo on 6 October 2017 – by which the court rejected the injunction pursuant article 700 of the Italian Civil Procedure Code promoted by Riscossione Sicilia S.p.A. against the suspension of the credit facility notified by the Bank. The discussion hearing will be held on 24 November 2017.

(I) *Civil dispute instituted by De Luca Aldo and De Luca & c. sas before the Courts of Spoleto*

By writ of summon notified on 5 August 2015, De Luca Aldo on his own account and the limited partnership De Luca S.a.s. sued the Bank before the Courts of Spoleto claiming that the reporting to the central credit bureau made by the Bank resulted in damages which would have led to the financial crisis of the various companies of the De Luca group represented by the loss of assets, alleged in the overall amount of around Euro 193.9 million, also on account of image damage.

At the hearing of 1 April 2016, the Bank insisted on the ritual and merits prejudicial exceptions already raised in the appearing writ and the judge granted a term for responses deferring the

proceeding to the hearing of 4 November 2016. After such hearing the Judge retained the case. The trial which stayed for the death of the plaintiff De Luca Aldo notified on 27 March 2017, as at the date of this Prospectus has not been resumed by his heirs.

(J) *Civil dispute instituted by FDG S.p.A. in liquidation in E.A. before the Courts of Novara*

In this action, the plaintiff sued the pool of 8 lending banks, besides the Bank and the former Banca Antonveneta to seek the declaration of liability of the officers who participated in the drafting of the restructuring agreement and in association with the directors and liquidators of the company for violation of the provisions of artt. 216 and 217 of Bankruptcy Law, asking for the conviction of the pool of banks, on a joint and several basis, to compensate damages. The *petitum* is equal to around Euro 46 million. The decision was in favour of the Bank in the first and second instance and the action is currently pending before the Supreme Court of Cassation upon a petition filed by the extraordinary administration. The Bank duly appeared for trial.

(K) *Civil dispute instituted by Edilgarba s.r.l. before the Courts of Milan*

Edilgarba sued BMPS complaining about the BMPS' non-fulfilment of the obligations deriving from the land loan agreement entered into on 13 September 2006 between Edilgarba and Banca Antonveneta (subsequently BMPS). Edilgarba seeks compensation for alleged damages incurred (quantified at around Euro 28.5 million), as well as the damages to its image and commercial reputation (quantified as a minimum of Euro 3 million).

During the trial an expert appraisal had been ordered, and then supplemented, which established that the actual damage deriving from the transaction incurred by Edilgarba, which shall take into account the costs borne by the plaintiff, is equal to Euro 12 million, the receivable owed to the same bank by the funded company to Euro 10.6 million and the value of a mortgaged area estimated as Euro 6.6 million at the time of the renegotiation of the mortgage is to date equal to Euro 2.6 million. The action has been deferred to 5 December 2017 for closing arguments. The *petitum* amounts to around Euro 31.5 million.

(L) *Civil dispute instituted by Mr. Giosuè Pagano and Lucia Siani pending before the Court of Appeal of Salerno*

By decision of 12 March 2012, the Court of Salerno rejected the plaintiffs' requests, that asked for the conviction of BMPS and for the compensation of Euro 30 million and Euro 15 million in favour of the plaintiffs, for alleged liability of the Bank for the bankruptcy of a company, of which the plaintiff was the sole director and the other plaintiff the guarantor. The plaintiffs filed an appeal against such decision repeating the requests filed in the first instance proceeding and asking for the decision to be reformed and for the Bank to be convicted to the compensation for damages, to be liquidated in Euro 30 million and Euro 15 million.

By order of 14 October 2013, after retaining the case at the hearing of 3 October 2013, the Court of Appeal of Salerno rejected the suspension request of the enforceable nature of the first instance decision and set for closing arguments the hearing of 6 October 2016, subsequently postponed to 1 March 2018.

(M) *Civil dispute instituted by Keo Lab S.r.l. before the Courts of Milan*

Keo Lab S.r.l. sued the Bank complaining of the unjustified and unreasonable withdrawal of some credit lines previously granted thereto. In particular, the plaintiff asked for the compensation of all damages incurred, quantified at around Euro 41 million.

With decision no. 11900 of 9 October 2014, the Courts of Milan fully rejected the plaintiff's request, also requiring it to pay trial expenses.

Keo Lab S.r.l. appealed the decision before the Court of Appeal of Milan. The Bank then appeared in the second instance proceedings. Closing arguments were filed, on 20 December 2016, and the action has been retained for decision.

(N) *Civil dispute instituted by Formenti Seleco S.p.A. in extraordinary administration before the Courts of Monza*

Formenti Seleco S.p.A. in extraordinary administration instituted a proceeding – against a group of banks, amongst which is the Issuer – seeking compensation for damages associated with abusive granting of credit. The *petitum* in this action is around Euro 45 million. The Courts of Monza, with procedural justification, rejected the plaintiff's claims. Subsequently, Formenti Seleco appealed the decision before the Court of Appeal of Milan which, in turn, rejected the plaintiff's claims. The latter appealed the decision before the Supreme Court of Cassation which, with decision 11798/2017, confirmed the decision of the Court of Appeal of Milan, upholding only in part the appeal reason relating to the sharing of first instance trial expenses; the Court accordingly referred the case to the Court of Appeal of Milan for the sole decision on expenses. The measure of the Court of Appeal rejecting the principal request for conviction of the Bank, (with others) to the payment of the amount of Euro 45.6 million has then become definitive.

(O) *Civil dispute instituted by Serventi Micheli Terzilia + Others against Zenith Bankruptcy, BMPS + other credit institutions before the Courts of Parma*

In this action, the directors of failed Zenith S.p.A. – sued by the bankruptcy receiver with liability action pursuant to article 146 of Bankruptcy Law – in turn summon to court the Bank and other credit institutions seeking a declaration of their exclusive and/or joint liability, since they would have substituted themselves to the directors carrying out actions allowing for the return and/or acquisition of guarantees for the considerable amount of credits claimed. The action, after the judge has rejected investigation requests, has been deferred to 11 December 2018 for closing arguments. The *petitum* is equal to around Euro 26.5 million.

(P) *Civil dispute instituted by Società Agricola Baiardi Gianfranco before the Courts of Arezzo*

In this action, the company accuses the Bank of the failed granting of a loan – upon which, due to the Bank's conduct, it legitimately relied not permitting it, by so doing, to finance already started development projects and causing relevant damages. The action, after the judge has rejected the parties' investigation requests, has been deferred for closing arguments from 31 October 2017 to the hearing of 28 November 2017. The *petitum* amounts to around Euro 28.4 million.

(Q) *Civil dispute instituted by the bankruptcy of Exefus S.p.A. before the Courts of Milan*

This action concerns the retrocession request of amounts credited to the company's current accounts and corresponding to the realisable value of insurances and securities in the name of the failed company and pledged in favour of the Bank. The overall *petitum* amounts to around Euro 26.8 million. During the trial, expert appraisal had been ordered. The hearing for closing arguments, already set for 31 October 2017, has been postponed, upon the joint request of the parties, to 27 February 2018 to allow for the finalisation of a settlement agreement on the action.

(R) *Civil dispute instituted by Congregazione Religiosa delle Suore Ancelle Divina Provvidenza before the Courts of Trani*

The *petitum* for this action is equal to around Euro 20 million and concerns complaints on the terms and interests applied to current accounts relations. At the hearing held on 3 May 2017 closing arguments have been filed and the judge retained the case to prepare a settlement agreement to be proposed to the parties. At the hearing of 3 May 2017, already set for the clarification of conclusion, the judge reserved the decision upon a possible settlement proposal to be submitted to the parties. However, the judge lifted the reserve and decided not to submit to the parties any settlement proposal. As a consequence, the judge scheduled the hearing for specification of a final conclusions on 26 September 2018.

(S) *Summon to criminal proceeding of the Bank, as civilly liable party, by the Bankruptcy receivership of the company I.L.C.AM. before the Courts of Bari*

With decree summoning the civilly liable party, notified on 2 December 2014, the bankruptcy receivership of the company I.L.C.AM., in liquidation, appeared as civil plaintiff in criminal proceeding no. 3999/12 against, in particular, the former manager of the Bari Branch of the Bank, seeking his conviction and the compensation of the damages incurred by such company for the criminal offences ascribed thereto and summoned the Bank as a civilly liable party. From allegations (bankruptcy involving fraud) it can be inferred that the aforementioned accused person, with the contribution of others, withdrawn from the company the overall amount of around Euro 25.1 million.

In the context of such criminal proceeding, on 19 September 2017, a law enforcement officer has been interviewed in relation to the recollection of the banking transactions subject to the investigation activity. The next hearing, set for 28 November 2017, will focus on the examination of the expert of the Public Prosecutor.

(T) *Civil dispute instituted by the receivership of CO.E.STRA. S.p.A. before the Courts of Florence*

This action is instituted by CO.E.STRA. SpA against the Banks participating in the pool, on a joint and several basis, and seeks the declaration of the Banks' liability for having caused/worsened the company's distress by "abusively" granting credit in the context of the restructuring agreement, with subsequent obligations on the side of the Banks to compensate for the damages incurred by creditors asking for the conviction to pay the amount of Euro 34.7 million and subordinately Euro 4.1 million plus revaluation etc. At the hearing for closing arguments, held on 27 April before the Judge Mrs. Biggi, and scheduled after the hearing held on 1 March 2017 where the Judge ruled on investigation requests, the proceeding has been retained for decision.

(U) *Civil dispute in relation to UT2 Notes*

By a writ of summon dated 14 November 2016 a proceeding against the Bank related to Euro 498,200 UT2 Notes was started. The plaintiff claimed that the Bank – during the placement of such notes – violated the relevant applicable regulations, with particular reference to the Consolidated Finance Act and the provisions of the Italian Civil Code related to good faith, fairness and vitiated consent.

However, the plaintiff declared the subsequent assignment of the notes for a counter value of Euro 346,500.00 and – therefore and in addition to the above – requested that BMPS is condemned to pay for a loss of Euro 151,700.00 (arising out of the assignment of the notes) and the damage suffered in connection with the lower coupon yield of the notes over the years than the one that would be guaranteed by a normal BTP investment of equal duration, for a total demand that amounts to Euro 180,000.00.

In this respect, the plaintiff has no title to adhere to the Offer following the assignment of the UT2 Notes during the first months of 2016 (i.e. before the date of publication of Decree 237 and the Burden Sharing).

Furthermore, by a new writ of summon dated 20 October 2017, a new proceeding against the Bank was brought in front of the Court of Ascoli Piceno. The plaintiffs claim that the purchases of subordinated bonds Upper Tier II 2008/2018 – in August 2012 – were not supported by adequate disclosure information provided for by the Bank and that, in promoting and placing such product, it breached the specific sector regulation due to the failed compliance with the investors' risk profile.

The plaintiffs also claim that they were convinced –in July 2016 – to disinvest such bonds suffering a loss equal to Euro 6,163.59 and, consequently, they request to be refunded for such amount.

In this respect, it has to be noted that the plaintiffs are not entitled to adhere to the Offer as they sold the bonds attached thereon in 2016 prior to the publication of the Decree 237 and the implementation of the Burden Sharing.

(V) *Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code*

During 2016, the Board of Statutory Auditors received several complaints, even qualified complaints pursuant to article 2408 of the Italian Civil Code.

For the latter, the shareholder status of each representative was verified, based on which it was possible to exclude the satisfaction of the conditions laid down by to article 2408, subsection 2 of the Italian Civil Code and, therefore, they were not complaints submitted by a majority of qualified shareholders.

In particular, it is worth noting that:

With multiple letters received by the Board of Statutory Auditors between April and August 2016, Giuseppe Bivona, who stated that he was the legal representative of Bluebell Partners Limited, headquartered in London, noted that during the shareholders' meeting held on 14 April 2016 the Bank did not properly provide responses to the set of questions submitted in writing by shareholders pursuant to article 127-*ter* of the Consolidated Finance Act.

In this regard, after detailed investigations carried out through in-depth analyses on all points raised by Shareholder Bivona, the Board of Statutory Auditors believed it could exclude the grounds of the complaint since "as things currently stand and on the basis of the information collected, the objections set forth therein were found to be groundless".

In this regard, the relative investigation report specifically prepared by the Statutory Auditors was sent to CONSOB, as expressly requested by the supervisory authority, to which the shareholder had also sent the same complaint.

With a letter of 21 July 2016 and a subsequent addendum dated 31 August 2016, shareholder Prof. Carmelo Catalano expressed his disapproval of the methods for disclosing and implementing the Restructuring Plan approved by the Bank on 29 July 2016. With an identical letter of 3 September 2016, Shareholder Raffaele Postiglione joined in this complaint.

Subsequently, shareholder Catalano, with letters of 22 November 2016 and 29 November 2016, contested, based on several, detailed arguments, the 2016 Transaction – of a Euro 5 billion capital increase - which, at that time, the Bank was attempting to carry out. It is worth noting that the same text as Prof. Catalano's complaint of 29 November 2016 was also signed, by sending single separate complaints, by Shareholders: Grazia Calvino, Francesco Camarda, Michele Caponio, Francesco Dandrea, Silvio Dandrea, Irma De Rosa, Raimondo Domenico, Alessandro Franceschi, Rosa Gatta, Giovanni Napolitano, Giuseppe Napolitano, Andrea Peri, Francesco Pilato, Lina Platia and Raffaele Postiglione.

In addition, it is worth noting that various other parties forwarded just as many complaints to the Board of Statutory Auditors identical to that sent on 29 November 2016 by Shareholder Catalano, but such parties did not provide the certification attesting their shareholder status which had been requested them; other parties instead simply sent a copy of the complaint sent by Shareholder Catalano, without even including their personal data or signing it.

With limitation to these last two cases, the Board of Statutory Auditors decided that these complaints could not be accepted.

Moving on to the content of the petitions containing the single text which, in essence, comes from Shareholder Catalano, the Board of Statutory Auditors conducted a specific investigation based on which the Statutory Auditors reached the conclusion that they had not identified in them the presence of deeds contrary to the law referred to the Bank and its directors, and they deemed that what was indicated by the shareholders referred instead to the sphere of strategic and operational decisions made by the Bank itself and, therefore, did not fall within the scope of the specific responsibilities of the Control body, except for aspects concerning compliance with regulations, which in any event have been observed.

Nonetheless, the statutory auditors considered that, since the Euro 5 billion capital increase transaction (actual subject of the above-mentioned complaints) was not completed successfully, as announced by the Bank in a notice released on 26 December 2016 (once it had acknowledged the impossibility of completing the capital strengthening transaction), there is currently a substantial loss of interest in the facts subject to the request for investigation by the above-mentioned shareholders since, in any event, what was alleged could not generate any effects on current relations.

(W) *Lastly, two separate complaints sent on 2 November 2016 and 10 December 2016, respectively, were received from Shareholder Marco Geremia Carlo Bava*

In the first (2 November 2016), the shareholder referred to the occurred withdrawal (formalised on 31 October 2016) by Corrado Passera of his alternative proposal to the so called "Rock Transaction" which BMPS was carrying out at that time.

With the second complaint (10 December 2016), not classified by the shareholder itself pursuant to article 2408 of the Italian Civil Code, but also pertaining to the same transaction, he criticised in particular the news leak that occurred on 9 December 2016 about the ECB's decision, which was later announced, not to extend the deadline set for the Euro 5 billion capital increase, in addition to several technical and execution-related procedures for that transaction.

With respect to the arguments put forward, the statutory auditors agreed with the Shareholder on the seriousness of the episode linked to the December 2016 news leak, so much so that the Board of Statutory Auditors formally ensured that the Bank would decide to submit a report to the judicial authority. On the other hand, with respect to the other aspects of Mr Bava's complaint, the Board believed that it could rule out the soundness of the shareholder's claim since, as things currently stand and on the basis of the information in the hands of this body, the generic arguments presented are not pertinent to the control function of the body to which such complaints were addressed.

On 22 February 2016, the board of statutory auditors received a complaint pursuant to article 2408 of the Italian Civil Code sent by the Buon Governo Association, formed by small shareholders of the Bank and concerning an alleged interrelation between the current amount of impaired loans and the "*mala gestio*" in the lending process. The Board however deemed that, in light of the evidence emerging from the various verifications conducted by the CEB as part of the AQR and SREP processes, no aspects have been found that may confirm the allegations of the claimants. Such complaint has been mentioned in the report of the board of statutory auditors attached to the Financial Statement 2015.

By letter of 5 April 2017, the same association asked for a formal, complete response to the request expressed on 22 February 2016 which, as mentioned, was included in the 2015 Report and repeated the preceding request (dated 17 January 2017) referring to the content and the number of communications transmitted by the board of statutory auditors to the Bank of Italy in application of the Italian Banking Act, in the period between 1 January 2010 and the time that the letter was sent.

A response to the letter of 17 January 2017 had been provided on 15 February 2017, specifying that the requests referred to the communications sent to the Bank of Italy may not be satisfied due to the confidential nature of such documents which in fact exclusively pertain to the privileged relations in place between the board of statutory auditors and supervisory authorities.

With regards instead to the letter of 5 April 2017, qualifying as a complaint pursuant to article 2408 of the Italian Civil Code, the board responded on 11 April 2017 confirming that the 22 February 2016 complaint already received a response in the report of the board of statutory auditors attached to the Bank's Financial Statement as at 31 December 2015, while as regards the 17 January 2017 requests, repeated on 5 April 2017, it has been confirmed that the same may not be satisfied due to the mentioned confidentiality reasons.

Anti-money laundering

As at the date of this Prospectus twelve judicial proceedings are pending before the ordinary judicial authority in opposition to sanctioning decrees issued by the MEF in the past years

against some employees of BMPS and the Bank (as a jointly liable party for the payment) for infringements of reporting obligations on suspicious transactions pursuant to Legislative Decree no. 231/2001. The overall amount of the opposed monetary sanctions is equal to Euro 4,618,471.68 of which Euro 1,536,047.12 was already paid.

The Bank's defence in the context of such proceedings aims, in particular, at illustrating the impossibility to detect, at the time of events, the suspicious elements of the transactions/ subject matter of the allegations, usually emerging only after an in-depth analyses carried out by the tax police and/or the judicial authority. The upholding of the Bank's position may entail the avoidance by the Courts of the sanctioning measure imposed by the MEF and, in case the payment of the sanction has already been executed, the recovery of the related amount.

For the sake of completeness it is worth noting that as at the date of this Prospectus twenty four administrative proceedings are pending – in addition to the twelve in respect of which the opposition proceeding are in progress – instituted by the competent authorities for the alleged violation of the anti-money laundering regime. The overall amount of the *petitum* related to the above mentioned administrative proceedings is equal to Euro 73,530,832.81.

Labour disputes

As at the date of this Prospectus the Bank is a party in around 647 judicial proceedings both active and passive of labour nature concerning, *inter alia*, appeals against individual dismissals, declaration requests of subordinate employment relations with indefinite duration, compensation for damages due to professional setbacks, requests for higher positions and miscellaneous economic claims.

Provisions were created to pay the costs associated with these proceedings, based on an internal assessment of the potential risk. The provisions the Bank created regarding this type of litigation are comprised within the "provision for risks and charges" which amounts to around Euro 49 million as at 30 September 2017.

It has to be further specified that, after the transfer of the back-office activities business unit to Fruendo S.r.l. occurred in January 2014 which concerned 1,064 resources, 634 employees (then were reduced to 489 as a results of renouncement/conciliation and deaths) sued the Bank before the Courts of Siena, Rome, Mantua and Lecce seeking, *inter alia*, the continuation of the employment relationship with the Bank, subject to prior declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

As at the date of this Prospectus for one plaintiff a first instance action is pending with a hearing set for 23 February 2018, while for the other 488 first and/or second instance decisions already intervened with an unfavourable outcome for the Bank and consequent entitlement for the same employees to be rehired.

In particular, a first instance judgement was already issued for no. 145 employees (by the Courts of Lecce and Rome) that the Bank has already challenged and/or has reserved to challenge by the ritual terms in front of the competent Court of Appeal with hearings scheduled on 26 February 2018 and 26 November 2019. A second instance judgement has instead already occurred for no. 343 employees (by the Courts of Appeals of Florence, Rome and Brescia) against which the Bank has already promoted the challenge in front of the Supreme Court.

As at the date of this Prospectus, no. 72 employees (later reduced to 31 after no. 28 renouncements to be ratified in accordance with the law and no. 13 reconciliations) over no. 488 entitled, notified an act of precept by which they have demanded to be reinserted into the labour sole book ("*Libro Unico del Lavoro*") of the Bank and for restoring their contribution and insurance position, both opposed by the Bank with appeals in front of the labour section of the Court of Siena. At the latest hearings held on 11 October 2017, the trials have been referred for the discussion on 19 January 2018 and 14 February 2018.

For the sake of full disclosure, it is worth noting that both the Bank and Fruendo have filed a petition in the Court of Appeals in Rome, Lecce and Brescia for referral to the European Court of Justice of preliminary matters that are essential for the purposes of ruling. In particular, an assessment was requested regarding the conformity to EC Directive 2001/23 of article 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, to which the appealed judgments conform, and whether:

- the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code and therefore would require the consent of the concerned workers; and

- the automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code would not be permitted and therefore the consent of the concerned workers would be required if, in the case of a transfer of an economic entity carrying out banking back office activities, the transferring Bank would maintain ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

As at the date of this Prospectus the 488 people entitled to be rehired at the Bank, 72 employees (then reduced to 31 following 28 renouncements to be ratified in accordance with the applicable regulations and 13 occurred conciliations) notified writs of execution seeking to be re-entered in the Bank's Single Labour Book and to reinstate their assurance and contribution position, to which the Bank appealed before the Courts of Siena Labour Section. At the latest hearings held on 11 October 2017, the discussion has been deferred to 19 January 2018 and 14 February 2018.

Even if the Bank's opposition were not to lead to the results hoped for, to date no economic impact is expected for the Issuer deriving from the integration of arrears of salaries for the employees re-instated in office, having all plaintiffs retained the remuneration treatments granted within BMPS upon assignment of the business unit, and instead not having been subject to the salary decreases applied to MPS employees, by virtue of the trade union agreements of 19 December 2012 and 24 December 2015.

Given the above, the Bank, jointly with Fruendo S.r.l., is analysing the issues arising from the possible unfavourable ruling in the labour disputes.

Please finally note that 32 employees filed a complaint for the offence of failed malicious execution of judicial measure (article 388 criminal code). In the context of the criminal proceedings 567/17 instituted before the Criminal Courts of Siena, after the mentioned complaint, the public prosecutor filed a dismissal request against accused persons Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco which was challenged by the

claimants. At the panel hearing of 12 July 2017, aimed at ruling on the opposition to the dismissal request, proceedings have been deferred to 20 September 2017, due to irregularities in the serving of process. At the hearing of opposition to the dismissal request, the Court reserved the decision and communicated that such reserve would have been resolved within five days, such measure being transmitted with certified email (PEC). The judge for the preliminary hearing of Siena, in resolving the reserve formulated at the hearing of 20 September 2017, decided, with ordinance to the prosecutor, for further investigations, setting the term of 120 days for the carrying out of such investigations. Such ordinance has been notified to the accused individuals on 2 October 2017.

Furthermore, it is worth noting that during 2017, 52 employees of Fruendo S.r.l. (then reduced to 37 following renouncement/conciliation) have sued the Bank before the Court of Siena (with 6 separate proceedings) in order to demand the continuation of the working relationship with the Bank, following the declaration of illegal interposition of workforce ("*illecita interposizione di manodopera*"), so called "*appalto illecito*" (which has no criminal implications) in the context of services disposed through outsourcing from the Bank to Fruendo S.r.l., with hearings, as to date, set on 27 October 2017 and on 6 December 2017.

The amount of the *petitum* and of the related Fund for the Risks and Liabilities referred to in the labour litigation above described is also inclusive of such judicial claims.

In such case as well, the potential negative outcome of the proceeding would determine, as of today, the restoration of the employment relationship with the Bank without liabilities for the previous wage differences, since such appellants were continuously employed with Fruendo S.r.l. and have maintained the wage treatment granted by BMPS in the context of the transfer of the business unit.

For more information on the transfer of the back-office activities business unit to Fruendo S.r.l. reference is made to section "*Banca Monte dei Paschi di Siena S.p.A. – Major Events – Recent Developments – 2015 – Outsourcing of back office services*" of this Prospectus.

Finally, it is worth noting that, in relation to the Restructuring Plan, the evolution of the expenses related to the employees does not provide for the re-integration of those individuals that have summoned the Bank, in relation to the transfer of the back-office unit to Fruendo S.r.l. occurred in January 2014. Such circumstance is explicitly emphasised in the text of the commitment, with specific reference to the interested target, as well as number of employees and cost/income ratio. As a consequence of the above, in the event that the Bank, following an adverse judgement, were constrained to re-integrate the employees related to such litigation, the Bank will have discretion, with the agreement of DG Comp, to consequently adjust such target.

Sanctioning procedures

<u>*Bank of Italy*</u>

Bank of Italy's sanctioning procedures in the matter of anti-money laundering and transparency of transactions and banking and financial services

Following the Bank of Italy's inspections between September 2012 and January 2013, the supervisory authority launched a sanctioning procedure in April 2013 against the members of the board of directors and Board of Statutory Auditors in office at the time of the events, several

officers of the company and BMPS, as jointly liable parties, for irregularities in the transparency of transactions and banking and financial services and lack of fairness in the relations between brokers and clients (article 53, subsection 1, letters b) and d), article 67, subsection 1, letters b) and d), Title VI of the Banking Act and its implementing regulations) in particular with reference to the repricing modalities of credit assets and the definition of fee structures resulting from the removal of the maximum overdraft fee for loans and overdrafts. Furthermore, a sanctioning procedure against BMPS for irregularities concerning anti-money laundering and, in particular, for lack of customer due diligence, was also launched.

As regards the sanctioning procedure in the matter of anti-money laundering, the Bank of Italy deemed concluded the procedure, without imposing any sanctions.

In relation to the transparency of transactions and banking and financial services, the Bank of Italy imposed Euro 130,000 in sanctions against the former General Manager of BMPS and former Chief Compliance Officer in office in the reference period. The Bank has not appealed the decision and has proceeded with the payment of sanctions as a jointly liable party. The former Chief Compliance Officer has appealed the decision of the Regional Administrative Court of Lazio. On 26 February 2016, the Bank filed with the Court of Siena a recourse action against the former General Manager Antonio Vigni. On 14 November 2016, the Courts stayed the action until the definition of the appeal proceeding instituted by Mr. Vigni against the sanctioning procedure, deeming a prejudicial correlation existing between the two disputes.

Bank of Italy's sanctioning procedure concerning incorrect reporting on Government bonds

In December 2012, the Bank of Italy launched sanctions in respect of reporting errors on a portfolio of Government bonds dating back to 2011; the procedure has been launched against the Directors, Statutory Auditors and General Manager of BMPS in office as at 30 June 2011. No sanctions have been applied to the Issuer as at the date of this Prospectus.

<u>*CONSOB*</u>

CONSOB's sanctioning procedures for failed compliance with the provisions in the matter of a public offer of financial instruments and rules concerning the provision of investment services

Subsequent to investigations carried out in 2012, on 19 April 2013 CONSOB notified the opening of two proceedings concerning failed compliance with (1) the provisions in the matter of a public offer of financial instruments (article 95, subsection 1, lett. c), of the Consolidated Finance Act and article 34-decies of the Issuers regulation) with reference to the conduction of the public offer of the product "Casaforte classe A" as part of the "Chianti Classico" transaction; and (2) the rules concerning the provision of investment services (article 21, subsection 1, lett. a) and d), and subsection 1-*bis,* lett. a), of the Consolidated Finance Act; article 15, 23 and 25 of the Joint Regulation Bank of Italy/CONSOB of 29 October 2007; article 39 and 40 of CONSOB regulation no. 16190 of 29 October 2007; article 8, subsection 1, of the Consolidated Finance Act). Specifically, as regards the procedure in sub (2), objections have been raised concerning: (i) irregularities relating to the conflict of interest regime; (ii) irregularities relating to the suitability assessment of transactions; (iii) irregularities relating to pricing procedures of products issued thereby; and (iv) disclosure of untrue or partial data and information.

The violations have been charged by CONSOB mainly against the members of the Bank's board of directors and Board of Statutory Auditors in office at the time of events, as well as against certain company officers. The Bank, as jointly liable party for the payment of sanctions,

pursuant to article 195, subsection 9, of the Consolidated Finance Act, intervened in the various phases of the proceeding, transmitting to the supervisory authority accurate counterclaims for each allegation.

As regards the first proceedings in sub (1), with resolution no. 18850 of 2 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 43,000, on the General Manager then in office and some managers of the Issuer's corporate structures and did not find any violation on the side of the members of the board of directors and Board of Statutory Auditors in office at the time of events. The measure has not been challenged by the Bank.

As regards the second proceedings in sub (2), with resolution no. 18856 of 9 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 2,395,000 on officers and managers of the Bank's corporate structures. The measure has been appealed by the Bank before the Court of Appeal of Florence, which substantially denied the objections submitted by the same Bank and some sanctioned persons, with the sole exception of the upholding of one single objection relating to the position of a manager addressee of a sanction equal to Euro 3,000. After this the overall sanctions amount has been reduced to Euro 2,392,000. The appeal with the Supreme Court of Cassation is pending.

Both measures have been notified to the Bank, in its capacity as joint obligor, and the total amount of sanctions has been paid thereby in light of the joint obligation provided for by article 195, subsection 9, of the Consolidated Finance Act in force at the time.

The Bank commenced the preparatory activities to the exercise of the recourse actions under the terms of law, evaluating the filing thereof in relation to the bringing of appeals by the individuals subject to sanctions against the measures and also in relation to the position of those individuals found to have acted with wilful misconduct or gross negligence, those in respect of which a corporate liability action has been brought, there are indictment requests in the context of criminal proceedings or significant disputes are pending.

As regards the proceedings in sub (1), a recourse action has been brought against Mr. Vigni; the action, instituted before the Courts of Siena, has been deferred to 18 January 2018 having the Courts order the conduction of the assisted negotiation procedure.

As regards the proceedings in sub (2), a recourse action has been brought before the Courts of Siena against Mr. Mussari, Mr. Vigni and Mr. Baldassarri; on 23 April 2017, the action has been stayed until the ruling on the appeal proceedings brought by the defendants against the sanctioning measure.

Competition and Market Authority ("AGCM") Proceedings I794 of the AGCM – Remuneration of the SEDA service

On 21 January 2016, the AGCM opened proceedings I794 against ABI in respect of the remuneration of the SEDA service. Such proceeding was subsequently extended (on 13 April 2016) to the eleven most important Italian banks, amongst which was BMPS. According to AGCM the interbank agreement for the remuneration of the SEDA service may represent an agreement restricting competition pursuant to article 101 of the Treaty on the Functioning of the European Union, since it would imply "the absence of any competitive pressure", with a consequent possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers.

The proceeding was closed by AGCM measure of 28 April 2017, notified on 15 May 2017. The authority resolved (i) that the parties (including BMPS) have put in place an agreement restricting competition, in breach of article 101 of the Treaty on the Functioning of the European Union (TFEU), (ii) that the same parties should cease the conduct in place and file a report illustrating the measures adopted to procure the ceasing of the infringement by 1 January 2018 and should refrain in the future from putting in place similar behaviours, (iii) that by reason of the non-seriousness of the infringement, also in respect of the legislative and economic framework in which it has been implemented, no sanctions are applied.

BMPS challenged the measure before the TAR, the appeal has been filed and notified and the order setting the hearing is being awaited. The appeal does not suspend the execution of the measures provided by the authority.

Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds

On 25 January 2017, the AGCM opened proceedings PS 10678 against Diamond Private Investment S.p.A. (DPI) for two infringements of the Consumer Code (Legislative Decree 206/05) in the sale thereby of investment diamonds. The proceeding was extended, on 27 April 2017, to BMPS and another bank. BMPS has in place with DPI a reporting agreement and AGCM deemed the latter to have carried out an active role in the promotion and sale activity of investment diamonds.

On 26 July 2017, the AGCM deemed BMPS and the other bank involved in the proceeding not chargeable for one of the two infringements; therefore in relation to BMPS, the proceeding continued only for the residual infringement related to lack of transparency on contractual and documents and advertisings. Such proceeding ended by a measure dated 30 October 2017, in which the authority recognised the occurrence of an unfair commercial practice under the Legislative Decree 206/05 and, consequently, ordered sanctions for all parties involved thereon; BMPS has been charged with a sanction of Euro 2 million. The Bank is carrying on the challenge against such measure in front of the administrative regional court (TAR Lazio), provided that the payment deriving from such measure will be executed by 30 days as set thereon, making use of a fund risk set out in advance for this specific purpose.

Privacy

In April 2015 the tax police, lieutenant unit of Sant'Angelo dei Lombardi, served on BMPS two formal written notices for the alleged violation of articles 161 and 162, subsection 2-*bis* of Legislative Decree no. 196/2003 relating to the Data Protection Code inviting to pay a reduced sanction equal to Euro 128,000; the notice was served on the Bank in its role as "data controller" in the context of the activity carried out by a former financial advisor, against whom a criminal proceeding was instituted for the crimes committed during such activity, as well as jointly liable party. BMPS asked the data protection authority to dismiss the proceedings because the alleged events were ascribable only to the personal liability of the financial advisor without any involvement of the Bank in any respect whatsoever. As at the date of this Prospectus, the proceeding is still in progress. The maximum applicable sanction, should the authority deem the verifications grounded, amounts to Euro 624,000.

The tax police, lieutenant unit of Molfetta, in May 2015 served on the Bank a formal written notice for the alleged violation of articles 33 and 162, subsection 2-*bis* of Legislative Decree 30 June 2003, no. 196 "Data Protection Code". The administrative offence element of the

proceedings provides for a maximum sanction of Euro 240,000. The notice was served on the Bank as joint obligor for the facts ascribable to an employee, who was charged with having processed customers' personal data omitting to comply with the security measures provided for by article 33 of the aforementioned "Code". On 4 June 2015, the Bank sent the data protection authority a defensive brief in which it requested the dismissal of the proceeding due to it being unrelated to the events. As at the date of this Prospectus, the proceeding is still in progress.

Judicial proceedings pursuant to Italian Legislative Decree 231/2001

In the context of a proceeding instituted by the public prosecutor's office at the Court of Forlì against several natural persons and three legal persons for money laundering and obstacle to the exercise of public supervisory functions, the Bank was charged with three administrative offenses from crime: obstruction of the exercise of public supervisory functions pursuant to article 2638 of the Italian Civil Code, money laundering pursuant to article 648-*bis* of the Italian Criminal Code and transnational criminal association (article 416 of the Italian Criminal Code).

In particular, the public prosecutor believes that the employees of the Forlì branch of the Bank, subject to the direction and supervision of people in senior positions within the Bank, have committed, in the interest and to the advantage of the Bank, the above described crimes.

According to the indictment, the commission of these offenses would have been possible due to the breach of the direction and supervision obligations for the adoption and effective implementation by the Bank, prior to the commission of such offenses, of an organisation, management and control model suitable to prevent crimes such as those at hand.

BMPS' activities, subject to disputes, which are within the time period 2005-2008, relate to operations carried out by the branch of Forlì, on behalf of the Cassa di Risparmio of San Marino, on a management account opened with the Bank of Italy – Branch of Forlì on behalf of BMPS.

In consideration of the particular location within the Republic of San Marino, the Cassa di Risparmio of San Marino had in fact required the Forlì branch of BMPS to use such account to meet its cash demands, through the cash deposit/withdrawal operations at the relevant branch of the Bank of Italy.

Such operations, characterised by a strong movement of cash, and the anomalies charged by the judicial authority on the registration in the single digital archive (Archivio Unico Informatico - AUI) of the relating transactions, which at that time, considering unequivocal legislation on the relations between Italy and the Republic of San Marino, led BMPS to consider the Cassa di Risparmio of San Marino as a "licensed intermediary", representing the basis of the allegations against to Bank.

According to the judicial authority, such operations would have been put in place to prevent the identification of the criminal origin of such amounts, as well as the traceability of all hidden exchange operations related to illicit amounts.

In particular, the employees of the Forlì branch have been jointly charged with the crime of obstructing the functions of public supervisory authorities, money laundering, violation of the Italian anti-money laundering regime and criminal association in relation to the transnational crime pursuant to Law 146/2006, the commission of which is assumed to have been permitted

because of the breach of the direction and supervision obligations by the Bank in the alleged absence of a suitable and effective organisational model.

The conduct put in place by employees, according to the opinion of the judicial authority, would have permitted to conceal the commission of money laundering offenses, not to acquire accurate information on the actual beneficiaries of such transactions nor on the real characteristics, purpose and nature of the related accounting movements with effects on the recordings in the AUI. The Bank's defence in these proceedings seeks to prove the non-existence of the crimes at the basis of the allegations against it and to demonstrate the adoption and effective implementation, yet at the time of events of an organization, management and control model suitable to prevent crimes such as those at hand.

The Preliminary Hearing Judge at the Court of Forlì ordered the indictment of the defendants, among which was BMPS, for profiles of administrative liability of entities.

At the hearing of 12 February 2015, the Court of Forlì, having examined the considerable preliminary objections presented by the attorneys of the indicted persons, denied its jurisdiction to know the case at hand, deeming competent, in respect of the allegations concerning the Bank, the Courts of Rimini.

The Courts of Rimini, with order of 3 March 2015, raised on the matter a negative conflict of territorial jurisdiction transferring the acts necessary for the decision with respect to the identification of the competent Courts to rule on the precautionary measures imposed on some accused persons, to the Court of Cassation. The Court of Cassation decided that, with respect to the confirmation of the precautionary measures submitted to its assessment, the competent court is the Court of Forlì. The PHJ of the Courts of Rimini, given the need to define the venue to continue the trial, at the preliminary hearing of 28 April 2016, denied its territorial competence to rule on the merits, in favour of the Court of Forlì, raising negative conflict of jurisdiction and ordering the transmission of documents to the Court of Cassation to rule on the conflict. On 13 December 2016, the Court of Cassation hearing was held for the resolution of the conflict, and ruled that the competence lies with the Court of Forlì, before which the hearing of oral argument, set for 1 December 2017, will be held.

Following the compulsory charges ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the suspects for the administrative offences pursuant to article 25-ter, lett. b) and article 25-*sexies* of Legislative Decree 231/2001.

In such matter, relating to the process of accounting of the "Santorini" and "Alexandria" transactions following the restatement occurred in 2013, the public prosecutor's office at the Court of Milan requested to drop the charges made in respect of Mr. Profumo, Mr. Viola and Mr. Salvadori. Such request was not granted. The above mentioned officers have been charged along with the Bank, as administrative accountable entity pursuant to Legislative Decree 231/2001.

At the preliminary hearing of 29 September 2017, to the pending proceeding against the Bank as administrative accountable entity was merged in the one pending against the individuals.

For the sake of completeness, it is worth noting that it is pending, within the public prosecutor's office at the Court of Milan, also the proceeding for administrative offences pursuant to Legislative Decree 231/2001, in relation to the criminal proceeding commenced against Mr.

Profumo and Mr. Viola for the hypothesis of obstruction of the exercise of supervisory functions (article 2638 Italian Civil Code), which is currently in the phase of the conclusion of the preliminary investigation.

Disputes with CODACONS

Action brought by BMPS before the Courts of Rome

By writ of summon of 5 March 2014, BMPS instituted before the Court of Rome a legal action against CODACONS, its legal representative and an external consultant of this association seeking their joint conviction to compensate the damages that have been and may be suffered (in future) by the Bank as a result of various conducts unjustly detrimental to the Bank's reputation. In particular, among the unlawful conducts at the basis of the action, there would be CODACONS publication of multiple press releases since the beginning of 2013, in which it claimed that the Bank had applied erroneous accounting treatment to the transactions related to the restructuring of the "Santorini" transaction and the "Alexandria" notes, as well as the unlawful resorting to the State aid procedure executed through the New Financial Instruments. Pecuniary damages of Euro 25 million and non-pecuniary damages of Euro 5 million have been claimed. The first hearing, set in the writ of summon for 20 November 2014, has been deferred to 14 January 2015. The defendants appeared for trial also raising counterclaims for damages, quantified by one of the defendants in approximately Euro 23 million and alleging the existence of a conflict of interest in the institution of the judgment such as to legitimate the appointment request of a special receiver pursuant to article 78 of the Italian Civil Procedure Code. The Judge set the next hearing for final arguments, on 17 January 2018.

Action brought by CODACONS before the Administrative Regional Court of Lazio

By appeal pursuant to article 117 of Legislative Decree no. 104/2010 of 29 May-3 June 2015 against CONSOB and BMPS, CODACONS asked the Administrative Regional Court of Lazio to declare void, resolutions no. 0040843 of 20 May 2015 and no. 0041466 of 22 May 2015 with which CONSOB has approved the prospectus (and the relevant Supplement) of BMPS's capital increase and made a number of additional requests aimed at impeding CONSOB from authorising the resolved capital increase transaction. As a precautionary measure, the applicant also requested the adoption of single-judge measures pursuant to article 56 of Legislative Decree 104/2010 in order to obtain the cessation of those acts allegedly detrimental to the interests of depositors and shareholders. The initiative is based on an alleged insufficient investigation operated by CONSOB with respect to the transaction with Nomura and the related legal matters. The Bank appeared for trial and asked for the dismissal of all CODACONS requests, as did the CONSOB.

In order no. 2520/15, the Panel rejected the precautionary requests. CODACONS appealed the Administrative Regional Court order before the Council of State, while the Bank appeared for trial in support of the measure adopted by the TAR.

In decision no. 8750/15, the Administrative Regional Court rejected CODACONS appeal ordering the applicant to pay trial costs. On 1 July 2015, the State Council rejected the request for precautionary measures and postponed the hearing to 3 March 2016 for discussion. With decision of 21 July 2016, the State Council rejected the appeal and convicted CODACONS to pay trial costs. By petition of 18 September 2016, CODACONS asked for the revocation of the decisions of the State Council.

Action brought by CODACONS before the Administrative Regional Court of Lazio

With the appeal of 24 February 2017 against the Presidency of the Council of Ministers, the Minister of Finance, CONSOB, Bank of Italy and BMPS, CODACONS asked the Administrative Regional Court of Lazio to declare the voidance of the acts and measures with unknown details adopted by the Minister of Finance in implementation of the provisions of Decree no. 237 of 21 December, 2016, including the decree with unknown details adopted, following the approval by the Bank of Italy, by the Minister of Economy and Finance that granted the State guarantee to support the liquidity of BMPS, for the part in which it is not provided a compensation for all the investors that already suffered damages caused by losses in the share title of BMPS as a consequence of the illegal actions and/or omissions of the executives of the banking Group, Giuseppe Mussari, Antonio Vigni and Gianluca Baldassari, respectively, former president, former director and former responsible for the finance department of BMPS, today defendants in the criminal proceeding being held before the Court of Milan, Proc. No. 15171/2016. The Bank has joined such proceeding.

Tax disputes

The Bank and the main Group companies are involved in a number of tax disputes. As at the date of this Prospectus around 60 cases are pending, for approximately Euro 130 million for taxes and sanctions. The value of disputes also includes that associated with tax verifications closed for which no dispute is currently pending since the tax authority has not yet formalised any claim or contestation.

Pending disputes with a likely unfavourable outcome are of a limited number and amount (lower than Euro 8 million) and are guarded by adequate allocations to the overall Provision for Risks and Charges.

Please find below an overview of the most significant pending proceedings in terms of *petitum* (over Euro 10 million as taxes and penalties), and the main investigations in progress, which may have a potential impact but are not included in the pending proceedings.

Pending disputes

Revaluation substitute tax

On 21 December 2011, two tax assessment notices were served on MPS Immobiliare, with regard to IRES and IRAP, respectively, issued based on the findings of a 2006 tax police audit report.

The dispute regards the correct determination of the calculation base for substitute tax on the payment of the revaluation surplus pursuant to Law 266/2005. The relevant liability (higher taxes and sanctions) is equal to Euro 31 million approximately. On 15 October 2013, the District Tax Court of Florence entirely upheld the arguments presented by the company, completely overruling the above tax claims also in light of similar case law decisions on the matter, some of which have become final after the tax authority's failure to appeal them before the Supreme Court. The tax authority lodged an appeal against the District Tax Committee's decision. Such appeal was rejected on 28 September 2015 by the competent Regional Tax Committee, which confirmed the favourable first instance decision. Against the second instance decision the tax authority filed an appeal before the Court of Cassation and the Bank filed a counterclaim.

The risk of an unfavourable outcome in the case has been assessed by the company and its advisers as remote.

Deductibility and pertinence of some costs of the former consolidated company Prima SGR S.p.A.

BMPS is involved in the proceedings instituted by – at the time of events – the investee company Anima SGR S.p.A. against the allegations moved by the Regional Tax Office of Lombardy against Prima SGR S.p.A. (a company already included in the tax consolidation, now merged by incorporation into Anima SGR S.p.A.) for lack of competence or pertinence of some costs deducted in tax years 2006, 2007 and 2008.

The Regional Tax Office of Lombardy claimed in aggregate, Euro 20.6 million for taxes and sanctions: (i) for financial year 2006 taxes of around Euro 4.3 million and sanctions of around Euro 5.1 million; (ii) for financial year 2007 taxes of around Euro 2.8 million and sanctions of around Euro 3.6 million; (iii) for financial year 2008 taxes of around Euro 2.1 million and sanctions of around Euro 2.7 million.

The tax assessment notices were challenged before the Provincial Tax Committee of Milan. On 17 September 2015, the Tax Committee partially upheld the appeal concerning year 2006, while on 13 October 2015, it fully upheld the Bank's appeal regarding tax years 2007 and 2008.

As at the date of this Prospectus, the Financial Administration lodged an appeal against the decisions concerning financial years 2006, 2007 and 2008. For the sake of completeness, it is worth noting that, as concerns 2006, the Bank itself lodged an appeal against the decision issued by the Provincial Tax Committee in respect of the allegations on which the ruling was unfavourable for the Bank.

Furthermore, in respect of financial year 2006, on 2 May 2017, the Regional Direction of Lombardy notified a partial self-protection measure with which, upholding the request brought by the Bank, the sanctions relating to one of the allegations in the dispute have been disregarded and overall sanctions have been re-determined, for an amount of around Euro 3.9 million (instead of 5.1 million). Accordingly, net of the taxes already paid on a definitive basis, for around Euro 0.6 million, with reference to one allegation which was not challenged during the trial, the overall amount due to taxes and sanctions is reduced from Euro 20.6 million to Euro 18.8 million.

According to BMPS and its consultants, the risk of a negative outcome for this dispute shall be qualified as likely in respect of Euro 1.8 million and possible in respect of Euro 17 million.

Deductibility of the capital loss posted by the former consolidated company AXA MPS Assicurazioni Vita in respect of the securities held thereby in Monte Sicav

BMPS is involved in the legal action instituted by the investee company AXA MPS Assicurazioni Vita (a company already included in the tax consolidation) against the complaints lodged by the Regional Tax Office of Lazio regarding the tax treatment of the write-downs carried out in respect of the units held in the Luxembourg-based open-ended investment company Monte Sicav.

In particular, the Tax Office claimed that the qualification of the securities issued by Monte Sicav Equity was not correct (i.e. series or mass issued securities), and that such securities

should have instead been qualified as equity interests and consequently been governed by the relevant regime. More specifically, the auditors maintained that the adjustments in value of Monte Sicav Equity's securities could not be entirely deducted in the financial year during which they had been posted, i.e. 2004, as was done by the company.

As a consequence, the Regional Tax Office of Lazio included the entire amount of value adjustments posted and deducted by AXA MPS Assicurazioni Vita within the tax base, claiming that the company shall pay higher taxes and sanctions for Euro 26.2 million.

The tax claims were challenged by AXA MPS Assicurazioni Vita and BMPS before the District Tax Committee of Rome, which has entirely rejected the petitions lodged by the two companies. Such decision was further confirmed on appeal, when the first instance judgment was totally upheld by the Regional Tax Committee of Lazio. The proceedings are currently pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case can be qualified as likely for Euro 3 million and possible for Euro 23.2 million.

Without prejudice to the *petitum* limits of these legal actions, it should however be noted – in light of the similarities of claims with those described above – that, in line with the claims relating to tax period 2004, the tax authority claimed that the value adjustments posted by AXA MPS Assicurazioni Vita for Monte Sicav's shares could not be deducted entirely for the tax period 2003 either. The tax claim was challenged by AXA MPS Assicurazioni Vita before the District Tax Committee of Rome, which entirely rejected the petition. The first instance judgment was promptly challenged but in its decision of 26 May 2015 (filed on 17 June 2015) the competent Regional Tax Committee rejected the appeal. These proceedings are also pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case is to be qualified as likely for Euro 1 million and possible for around Euro 6.5 million.

It is worth noting that the impact on BMPS of the liabilities (if any) arising from the above proceedings depends on the involvement (if any) of BMPS deriving from the guarantee clauses set out in the assignment agreements of AXA MPS Assicurazioni Vita.

Maritime leasing

MPS Leasing & Factoring S.p.A. has been served a number of tax assessment notices regarding the previous use of maritime leasing agreements, which can be qualified as a typical case of "abuse of rights". In such notices, the tax authority included the difference between the ordinary rate currently in force and the VAT flat-rate within the tax base, as clarified by Ministerial Circular no. 49/2002. The proceedings pending to date regard tax years 2004 to 2010 (excluding 2005, in respect of which a final decision has been taken), for an amount of approximately Euro 11.6 million. As at the date of this Prospectus the judgments handed down at the various stages of the dispute for years 2004 to 2010, were favourable to the company, except for year 2006, in respect of which the petition was partially upheld on appeal. The company and its advisers believe that there is a remote risk of a negative outcome in the case in respect of all disputes in general. With regard to the claims for year 2006 alone, upheld by the Appeal Court and regarding a potential liability (in terms of taxes and sanctions) of approximately Euro 165 thousand, the risk has been deemed to be possible.

Investigations in progress

Tax audit in progress on the Consorzio Operativo Gruppo Montepaschi

On 27 April 2016, the Siena tax police, started a tax audit against the subsidiary Consorzio Operativo Montepaschi Group, for the purpose of direct taxes, VAT and IRAP, for the period between 1 January 2011 and 27 April 2016.

At the end of the verification, on 20 October 2016 a written allegation notice had been notified to the company, with which, for financial years 2011 to 2015, higher taxes were contested for Euro 17.5 million, for IRES and IRAP purposes, and for Euro 9.1 million for VAT purposes, plus the related legal sanctions, that are not quantified.

On 13 December 2016 the company, with a view of business cost effectiveness, although still convinced of the correctness of its behaviours, adhered to the assessment proposal with adhesion prepared by the same Financial Administration solely as regards financial year 2011. The proposal, in relation to certain VAT determinations, carried out its effects also with reference to financial years beyond those subject matter of the investigation. In particular, such agreement provided: (i) for the cancellation of all contestations for IRES and IRAP purposes for 2011 for an overall amount of Euro 11.7 million of tax, (ii) the partial acquiescence to VAT contestations referred to 2011, for a tax deficiency equal to Euro 7.9 million, (iii) the cancellation of VAT contestations related to periods beyond 2011, equal to Euro 1.2 million of tax, (iv) the almost full cancellation of sanctions (save for those specified below). The above mentioned adhesion entailed the payment of higher VAT, interests and sanctions to a reduced extent for an overall amount equal to Euro 9.3 million (of which Euro 7.9 million for tax deficiency and Euro 1.4 million for sanctions and interests). In this respect, it is worth noting that, by virtue of a specific agreement entered into on 6 December 2016 with the relevant contractual counterparties (involved in the transactions subject matter of the VAT contestations), the company has started the activities for the recovery against such counterparties, by way of recourse, an amount of around Euro 5.4 million, reducing by so doing the overall charges deriving from the above adhesion (Euro 9.3 million) to an amount of around Euro 3.9 million. As regards 2011 VAT contestations which were not included in the aforementioned adhesion, on 22 December 2016 the Financial Administration notified a sanctioning deed, for an amount of around Euro 0.4 million, in respect of which the company filed a defensive brief on 16 February 2017.

In conclusion, as a consequence of the aforementioned adhesion (specifically for the cancellation of certain contestations for VAT purposes which also concerned tax periods subsequent to 2011), higher taxes disputed in the context of the written allegation notice, as a consequence of the aforementioned verification activity were reduced to an overall amount equal to Euro 5.8 million (for IRES and IRAP). To the same written allegation notice are associated potential sanctions (relating to IRES, IRAP and VAT) for an estimated value of an additional Euro 2.6 million. The company, assisted by its consultants, is assessing the appropriate initiatives in protection of its interests and believes that the matters the subject of the allegation in the context of the above mentioned tax investigation do not have a perpetual effect on the years following 2015.

Tax audit in progress on Consum.it S.p.A.

On 23 May 2017, the tax authority, Tuscany Regional Direction, started a verification on the incorporated Consum.it S.p.A., for IRES, IRAP, VAT and withholding tax purposes for tax

period 2014. Upon conclusion of such verification, on 25 September 2017, a formal notice of assessment was notified to the Bank, which challenged an IRAP tax deficiency of about Euro 123,000.

Tax audit in progress on the 2012 tax return

Finally, it is worth noting that on 22 December 2016, the Revenue Agency, Regional Direction of Tuscany, has sent a request of clarification to the Bank in relation to the integrative tax return for tax period 2012, to which the Bank has duly responded on 31 January 2017. Following such request, on initiative of the same Regional Direction, on 13 September 2017, a meeting was held which discussed all the aspects relating to the correct fulfilment of the legal requirements in relation to the matter of the withholding agent connected to the FRESH securities (Floating Rate Equity Linked Subordinated Hybrid Preferred Securities), issued in the context of the complex recapitalisation carried out during 2008, the relevant income effects being represented by such integrative tax return. Following the meeting, the relevant minutes of fair hearing were released, which represented the necessity of additional investigations on the matter. On 15 September 2017, the Regional Direction sent an enquiry which required further clarification and extended the pending investigation to the period from 2008 to 2014 (included). On 11 October 2017, the Bank, with the support of its advisors, filed its defensive memorandum aimed at underlying the reasoning supporting the correctness of its action.

Subsequently, within the context of a complex technical discussion, the regional office has supposed the failed deduction's application to the payments executed in favour of the counterparty – at least over a part thereof – and the Bank restated the reasons behind the fairness of its conduct. As at the date of this Prospectus the verification is on-going and no relevant hypothesis has been formalised.

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With the exception of the foregoing, during the 12 months preceding the date of this Prospectus, there were no governmental proceedings, legal or arbitration (including proceedings pending or threatened of which BMPS is aware) that may have or has had in the recent past a material impact on the financial situation or the profitability of the Issuer.

Management of the Bank

The Bank is managed by a board of directors tasked with the strategic supervision. The board of directors in office consists of 13 members. Each member of the board of directors meets the requirements prescribed by the BMPS by-laws.

The chief executive officer is appointed by the board of directors.

Under the Italian civil code, the Bank is required to have a board of statutory auditors.

Board of directors

The board of directors was appointed by the ordinary shareholders' meeting of 18 December 2017 and such appointment will expire on the date of the shareholders' meeting approving the financial statements for the year ending on 31 December 2019.

The board of directors is currently made up as follows.

Name	Position	Date of birth
Stefania Bariatti(**)	chairman	28 October 1956
Antonino Turicchi	deputy chairman	13 March 1965
Marco Morelli	director	08 December 1961
Giuseppina Capaldo (**)	director	22 May 1969
Maria Elena Cappello (**)	director	24 July 1968
Marco Giorgino (**)	director	11 December 1969
Fiorella Kostoris (**)	director	5 May 1945
Roberto Lancellotti (**)	director	21 July 1964
Nicola Maione(**)	director	9 December 1971
Stefania Petruccioli (**)	director	5 July 1967
Salvatore Fernando Piazzolla (**)	director	5 March 1953
Angelo Riccaboni (**)	director	24 July 1959
Michele Santoro (**)	director	28 March 1955
Giorgio Valerio (**)	director	13 July 1966

Notes:

(**) Independent director pursuant to the Consolidated Finance Act and the Corporate Governance Code of Listed Companies (the "Corporate Governance Code").

Each member of the board of directors must be suitable for carrying out the assignment. For the purposes of the "suitability" of the bank esponents, meet the requirements as prescribed by law and by BMPS' by-laws. For the purposes of the"suitability" of the the bank exponents, in addition to the requirements of integrity, (that are the same for all the members), and to professional and independence features (that instedad are graduated according to the proportionality principle), these exponents shall meet the requirements of competence and fairness, also in respect to the timeframe needed to fulfil their mandate. Requirements has been carefully evaluated by the Supervisory Authorities (European Central Bank and Bank of Italy) in accordance with its supervisory provisions and notified to the public pursuant to the Issuers' Regulations and to the self-regulatory code. The members of the board of directors are all domiciled for their position at the Bank's registered office.

The following table sets out the positions of members of administrative, management and supervisory bodies held by the current members of the Bank's board of directors and the qualifying shareholdings (i.e., shareholdings exceeding 3 per cent. of share capital in companies with listed shares and 10 per cent. in non-listed companies) they currently hold or which they held in the five years prior to the date hereof.

Name	Position held	Status of position	Company in which owned shares	Status of ownership
Stefania Bariatti	**chairman of the board of directors of SIAS S.p.A.**	**Current**		
	director of ASTM S.p.A.	**Current**		
	sole director of Canova Guerrazzi s.s.	**Current**		
	director of Centro Nazionale di Prevenzione e Difesa Sociale CNPDS	**Past**		
Antonino Turicchi	**director of Autostrade per l'Italia S.p.A.**	**Current**		
	director of CAI (Compagnia Aerea Italiana) S.p.A.	**Current**		
	director of Leonardo S.p.A.	**Current**		
	chairman of STMicroelectronics Holding N.V.	**Current**		
	manager of Direzione VII - Finanze e privatizzazioni of MEF	**Current**		
	chairman of the board of directors of Alstom S.p.A.	**Past**		
	chairman of the board of directors of Alstom Power Italia S.p.A.	**Past**		
	chairman of the board of directors of Alstom Grid S.p.A.	**Past**		
	director of Alstom Ferroviaria S.p.A.	**Past**		
	director of Alitalia S.p.A.	**Past**		
	director of Atlantia S.p.A.	**Past**		

Marco Morelli	**deputy chairman of the executive committee of Onlus Foundation Gino Rigoldi**	**Current**		
	director of AXA MPS Assicurazioni Vita S.p.A.	**Past**		
	director of AXA MPS Assicurazioni Danni S.p.A.	**Past**		
	chairman of Widiba S.p.A	**Past**		
	Vice chairman of Bank of America Merrill Lynch for Europe, Middle-East and Africa	**Past**		
	chief executive officer of Bank of America Merrill Lynch Italy	**Past**		
	deputy general manager and deputy chief executive officer of Gruppo Intesa Sanpaolo	**Past**		
Giuseppina Capaldo	**director, member of audit committee and chairman of compensation committee of Ferrari N.V.**	**Current**		
	director, member of control and risk committee and related party transaction committee of Salini-Impregilo S.p.A.	**Current**		
	director of Credito Fondiario S.p.A.	**Current**		
	director and member of compensation and nomination committee of Exor S.p.A.	**Past**		
	director of Ariscom Compagnia di Assicurazioni S.p.A.	**Past**		
	member of committee of Vi.se.s. o.n.g.	**Current**		
	director of Istituto Pasteur - Fondazione Cenci Bolognetti	**Past**		
Maria Elena Cappello	**director and member of the internal control and risk committee of Prysmian S.p.A.**	**Current**		
	director and chairman of the Remuneration and Designation Committee of Saipem S.p.A.	**Current**		

	director and member of the internal control committee of Italia Online S.p.A.	**Current**		
	director of FEEM Fondazione Eni Enrico Mattei	**Current**		
	director of A2A S.p.A.	**Past**		
	director and chairman of the remuneration and nomination committee of SACE S.p.A.	**Past**		
	Member of supervisory board of A2A S.p.A.	**Past**		
	chief executive officer and deputy chairman of Nokia Siemens Networks Italia S.p.A. (today Nokia)	**Past**		
	chief executive officer and deputy chairman of Nokia Siemens Networks S.p.A. (today Nokia)	**Past**		
Marco Giorgino	**chairman of Vedogreen S.r.l.**	**Current**		
	Director and chairman of the control and risks committee of GE Capital Interbanca	**Past**		
	chairman of Opera SGR	**Past**		
	director of Greenitaly1	**Past**		
	director of Prisma SGR	**Past**		
	director of SSBT	**Past**		
	director and chairman of the Control and risks committee of Emoi S.p.A.	**Past**		
	director of Duemme Servizi Fiduciari	**Past**		
	Chairman of surveillance body of Banca Esperia	**Past**		

	Chairman of surveillance body of Duemme SGR	**Past**		
	Chairman of surveillance body of Esperia Fiduciaria	**Past**		
	Chairman of surveillance body of Fondamenta SGR	**Past**		
	Chairman of surveillance body of Prisma SGR	**Past**		
	statutory auditor of Banca Popolare di Vicenza	**Past**		
	statutory auditor of GE Capital Interbanca	**Past**		
	statutory auditor of GE Capital Finance	**Past**		
	statutory auditor of GE Capital Servizi Finanziari	**Past**		
Fiorella Kostoris	**-**			
Roberto Lancellotti	**Senior partner McKinsey & Company inc. Italy**	**Past**		
Nicola Maione	**director of ENAV S.p.A.**	**Current**		
	director of Prelios Credit Servicing S.p.A.	**Past**		
Salvatore Fernando Piazzolla	**director of AXA Assicurazioni Italia**	**Past**		
	chairman of the board of directors of AXA Assicurazioni Servizi	**Past**		
	deputy chairman of AXA Equitable	**Past**		
Stefania Petruccioli	**director of Dé Longhi S.p.A.**	**current**		
	director of Interpump Group S.p.A.	**current**		

	director of RCSMediaGroup S.p.A.	**current**		
	director of Best Union Company	**current**		
Angelo Riccaboni	**member of the board of auditors of Bank of Italy**	**Current**		
	chairman of Fundacion PRIMA	**Current**		
	director of Fondazione Smith Kline	**Current**		
	chairman of Fondazione Sclavo	**Current**		
Michele Santoro	**-**			
Giorgio Valerio	**director of MyBeauty S.p.A.**	**Current**		
	member of the investment committee of Enovia S.p.A.	**Current**		
	director and member of the control and risk committee, the nominating and compensation committee and the Related Party committee of Massimo Zanetti Beverage Group S.p.A.	**Current**		
	director of Niuma s.r.l.	**Current**		
	director and member of the control and risk committee of Telecom Italia SpA	**Past**		
	director of Gruppo Argenta S.p.A.	**Past**		
	director of Prelios S.p.A.	**Past**		
	director of Primi sui Motori S.p.A.	**Past**		
	Director of Lastminute.com Group N.V.	**Past**		

	director of Dada S.p.A.	Past		

The business address of each member of the board of directors is Banca Monte dei Paschi di Siena S.p.A., Piazza Salimbeni 3, 53100, Siena, Italy.

The board of directors meets regularly at the Bank's registered office. Meetings of the board of directors are convened on a monthly basis upon request of the chairman. Meetings may also be convened upon reasonable and detailed request of at least three directors or upon written request of the board of statutory auditors or at least every statutory auditor addressed to the chairman. Meetings may be held in person or through video-conference. The quorum for meetings of the board of directors is a majority of the directors in office. Resolutions are adopted by the vote of a majority of the directors attending the meetings.

Chief Executive Officer

The chief executive officer carries out its functions within the limits of the delegated powers and in the manner determined by the board of directors. The chief executive officer also holds powers to be exercised as a matter of urgency by the chairman of the board of directors, in the event of an absence or impediment of him or any substitute.

The address of the CEO for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

General Manager

The current general manager is Marco Morelli who was appointed by the board of directors on 14 September 2016. Marco Morelli has also been appointed as chief executive officer. The general manager is appointed by the board of directors which may also remove or suspend from his office.

The General Manager attends the meeting of the board of directors but has no right to vote on proposed resolutions at such meetings.

The general manager undertakes all operations and acts which are not expressly reserved for the board of directors or the executive committee. He oversees and is responsible for the overall administration and structure of the Bank and implements resolutions of the board of directors. He participates in meetings of the board of directors and proposes matters to the board of directors for approval, including matters relating to loans, the coordination of activities of the Montepaschi Group and the employees.

The address of the general manager for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

Financial Reporting Officer

On 26 November 2016, the board of directors appointed Nicola Massimo Clarelli as financial reporting officer, pursuant to article 31 of the by-laws.

Managers with strategic responsibilities

The table below sets forth the names of the current management of the Bank with strategic responsibilities, together with their positions.

Name	Position	Date of birth
Marco Morelli	general manager	08 December 1961
Angelo Barbarulo	deputy general manager	17 November 1954
Antonio Nucci	deputy general manager and chief commercial officer	13 June 1955
Giampiero Bergami	head of corporate	27 February 1968
Pierfrancesco Cocco	chief audit executive	07 June 1954
Eleonora Cola	head of retail	18 July 1965
Ilaria Dalla Riva	chief human capital officer	20 November 1970
Enrico Grazzini	chief operating officer	14 August 1954
Fabrizio Leandri	chief lending officer	21 April 1966
Francesco Renato Mele	chief financial officer	10 February 1969
Fausto Moreni	head of organization and operations	31 March 1971
Marco Palocci	head of external relations	02 December 1960
Riccardo Quagliana	head of group general counsel	04 April 1971
Andrea Rovellini	chief risk officer	15 February 1959
Lucia Savarese	head of non performing loan	30 March 1964
Emanuele Scarnati	head of performing loan	11 August 1965
Federico Vitto	head of wealth management	14 November 1968

The address of the managers with strategic responsibilities of the Bank for the duties they discharge is: Piazza Salimbeni 3, Siena, Italy

Board of Statutory Auditors

The board of statutory auditors is composed of three standing members and two alternate members. Statutory auditors are appointed by the ordinary shareholders' meeting for a three years term and may be re-elected. The shareholders' meeting also sets the remuneration of the statutory auditors for their entire term.

The board of statutory auditors is required to verify that the Bank complies with applicable law and its by-laws, respects the principles of correct administration, and maintains an adequate organisational structure, internal controls and administrative and accounting systems. The board of statutory auditors has a duty to shareholders to whom they report at the annual general shareholders' meeting approving the financial statements.

The members of the board of statutory auditors are required to meet at least once every 90 days and take part in meetings of the board of directors, the shareholders' meetings and meetings of the executive committee.

The board of statutory auditors was appointed by the ordinary shareholders' meeting of 18 December 2017 and such appointment will expire on the shareholders' meeting called to approve the 2019 financial statements.

The following table sets out the positions of members of administrative, management and supervisory bodies held by the current members of the Bank's board of statutory auditors:

Name	Title	Position held
Elena Cenderelli	chairman of the board of statutory auditors	-
Raffaella Fantini	auditor	auditor of SO.G.IM S.p.A.
		auditor of ICCAB S.r.l.
		auditor of Ecuador S.p.A.
		auditor of Minerva Immobiliare S.r.l.
		auditor of BP Real Estate S.p.A.
		auditor of Istituto Nazionale Previdenza Giornalisti Italiani
		auditor of Coni Servizi S.p.A.
Paolo Salvadori	auditor	chairman of the board of statutory auditors of AXA MPS Assicurazioni Vita S.p.A.
		chairman of the board of statutory auditors of AXA MPS Assicurazioni Danni S.p.A.
		chairman of the board of statutory auditors of Sevian S.r.l.
		auditor of AXA Italia Servizi S.c.p.a.
		chairman of the board of statutory auditors of Immobiliare Due Ponti S.p.A.
		chairman of the board of statutory auditors of MA Centro Inossidabili S.p.A.
Daniele Federico Monarca	alternate auditor	auditor of ICM Industrie Costruzioni Maltauro S.p.A.
		director of BFC Blue Financial Communication S.p.A.
		chief executive officer of Pigreco Corporate Finance S.r.l.
		chairman of the board of statutory auditors of Advalora S.p.A.
Carmela Regina Silvestri	alternate auditor	chairman of the board of statutory auditors of Sansedoni S.p.A.
		chairman of the board of statutory auditors of Valorizzazioni Immobiliari S.p.A. in liquidation

Statutory Auditing

Pursuant to article 30 of the Bank's by-laws, the ordinary shareholders' meeting appointed, on 29 April 2011, EY S.p.A., as independent auditors for a nine-year period (2011-2019) pursuant to articles 13 and seq. of the Legislative Decree no. 39 of 27 January 2010 (the "**Decree 39**") and article 2409-*bis* of the Italian civil code.

The statutory audit shall be performed by an independent auditor meeting the requirements established by law.

Conflict of Interest

BMPS is an Italian bank with shares listed on regulated markets and as such deals with any conflicts of interest of the members of its administrative, management and supervisory body in accordance with the requirements of article 2391 ("*Directors' interests*") and article 2391-*bis* of the Italian Civil Code ("*Related party transactions*"), article 53, paragraph 4 ("*Regulatory supervision*") and article 136 ("*Obligations of bank corporate officers*") of the Italian Consolidated Banking Law and the regulatory provisions on related party transactions adopted by CONSOB with Resolution no. 17221 of 12 March 2010 ("*Regulation on Related Party transactions*") and by the Bank of Italy on 12 December 2011 ("*Circular 263/2006—Update no. 9 on risk and conflicts of interest with respect to affiliated parties*").

In the context of these requirements, the board of directors has adopted, on 12 November 2014, a global policy for transactions with related parties and affiliated parties and the obligations of bank representatives (the "**Global Policy**"), which set out in a single document the provisions related to the conflicts of interest for the Montepaschi Group, without prejudice to the provisions of the Italian Civil Code. The Global Policy was approved by the board of directors after receiving the prior favourable opinion of the related party transactions committee (consisting of independent directors) and the board of statutory auditors.

In particular, the Global Policy set out the principles and rules for the Montepaschi Group in order to control the risk arising from the potential conflict of interests with certain individuals which are close to the Bank's decision-making centres. The Global Policy provides for, *inter alia*, the establishment, composition and functioning of the related parties committee, the borders of the related parties and affiliated parties, the authorisation of transactions with related parties and affiliated parties and the cases of exclusion from decision-making procedures with respect to such transactions.

In addition, having importance in this respect are certain provisions in the Bank's by-laws which require specific information flows in the case of interests held by members of the administrative, management and supervisory bodies which are designed to ensure the independence of directors and statutory auditors. Article 17 of BMPS's by-laws requires the board of directors to promptly report on a timely basis to the board of statutory auditors on any transactions in which its members have an interest, on their own behalf or on behalf of third parties, while the obligation still remains for each director to inform the other directors and the board of statutory auditors of any interest which they may have in a specific transaction of BMPS, on their own behalf or on behalf of third parties, as required by article 2391 of the Italian Civil Code. In addition to requiring compliance with the provisions of article 136 of the Consolidated Banking Act, article 21 of BMPS's by-laws expresses the obligation for the members of the board of directors and the executive committee to inform the board of directors and the board of statutory auditors as to any affairs in which they personally have an interest

or which regards entities or companies of which they are directors, statutory auditors or employees, unless Group companies are concerned.

Article 15 of BMPS's by-laws states that the directors shall not hold positions as members of the board of directors, the management board or the supervisory board of competitor banks. Article 26 of BMPS's by-laws states that the members of the board of statutory auditors shall not hold other positions in other banks (not belonging to the Montepaschi Group or subject to joint control) and may only hold positions in control bodies in other Group companies or in companies in which BMPS holds, directly or indirectly, a strategic interest.

To the best of BMPS's knowledge and belief, as of the date of this Prospectus there are no conflicts involving the members of its administrative, management and supervisory bodies, current or potential, between their obligations towards the Bank and their private interests and/or their obligations towards third parties, other than those occurring within the context of specific resolutions adopted by BMPS in accordance with the mentioned article 2391 of the Italian Civil Code and article 136 of the Italian Consolidated Banking Law. Given the BMPS's business, the private interests that can occur relate mainly to transactions which entail financing and loans typical of the bank business.

The means by which the board of directors is appointed, as governed by BMPS's by-laws, ensures that directors fulfil the independence requirements. More specifically, pursuant to article 15, when the board of directors is appointed, each list filed by shareholders would have a number of candidates, specifically indicated, fulfilling the independence requirements established for the statutory auditors by the law and the additional independence requirements prescribed by the corporate governance code, not lower than two and at least equal to 1/3 of the candidates in the list. Pursuant to article 3 of the corporate governance code, the board of directors has the duty to assess the independence of its non-executive members when they are appointed and on an annual basis.

As prescribed by the corporate governance code, the supervisory provisions on the organization and corporate governance of banks issued by the Bank of Italy (as amended by the title IV, chapter 1 of the Circular no. 285 of 17 December 2013), the board of directors performs the self-assessments at least annually.

The main transactions concluded with related parties are described in the consolidated financial statements as at 31 December 2016 and in the Consolidated Interim Report as at 30 September 2017, published and available on the Bank's website www.gruppomps.it.

Main Shareholders as at the date of this Prospectus

Shareholders	**% share capital on overall share capital**
Italian Ministry of Economy and Finance	52,184%
Assicurazioni Generali S.p.A. (indirectly through subsidiaries)	4,319%
Banca Monte dei Paschi di Siena S.p.A.	3,181%

As at the date of this Prospectus, pursuant to article 93 of the Consolidated Finance Act the Issuer is controlled by the Italian Ministry of Economy and Finance, following the subscription

of the share capital increase reserved to the MEF pursuant to the Decree of 23 December 2016, no. 237 and its related ministerial Decree adopted on 27 July 2017.

CREDIT AND COLLECTION POLICY

Policy for the Granting, Managing and Recovery of Credits

1. PROCEDURE FOR THE GRANTING OF MORTGAGES

Pursuant to Article 38 of the Consolidated Banking Act, the Bank of Italy, in compliance with the decisions of the Credit and Savings Interdepartmental Committee (CICR), defines the maximum amount of loans by the identification of such amount with reference to the value of the mortgaged properties or of the cost of works to be executed on such properties, and defines the cases in which loans may be granted when there are prior mortgage registrations.

Accordingly, pursuant to the commercial directives of the Montepaschi Group, the Loan to Value is equal to 80 per cent. of the costs for the construction/restructuring or of the appraised value (*valore di perizia*) of the real estate asset backing the loan.

The 80 per cent. limit for the granting of loans is enhanced to 100 per cent. if the mortgage loan is backed by additional securities such as: bank guarantees (*fideiussioni bancarie*), policies (*polizze fideiussorie*) granted by insurance companies, securities granted by public guarantee funds (*fondi pubblici di garanzia*), security associations on bank loans (*consorzi di garanzia fidi*) and security co-operatives on bank loans (*cooperative di garanzia fidi*), transfers of receivables to the State as well as transfers of annuities (*annualità*) or of subsidies due by the State or public entities (*contributi a carico dello Stato o di enti pubblici*) or pledges over governmental bonds or debentures which have been issued.

If there are any guarantors of additional securities, these guarantors are obviously subject to evaluation as well.

Mortgage loans for the purchase of real estate assets used as a first home are generally mortgaged with a first-ranking mortgage. In any case the existence of prior-ranking mortgages does not prevent the granting of a (supplementary) mortgage loan (*mutuo suppletivo*) provided that the principal amount outstanding on the loans, added to the amount of the new mortgage loan, does not exceed 80 per cent. of the value of the real estate asset secured pursuant to the security created under the loan.

Real estate assets subject to registration of the mortgage shall be insured against fire and explosion for an amount equal to the appraised value or to the cost of construction (*ricostruzione a nuovo*) increased by 20 per cent.. Other forms of insurance (such as life insurance on the borrower) are optional.

The procedure for granting mortgage loans (*mutui di credito fondiario*) is carried out using the mortgage loan approval procedure, which allows the entire loans procedure to be followed ending with the final disbursement of funds.

The approval procedure (*iter istruttorio*) consists in a series of phases (requirements) and requires that these are carried out in the following precise order:

(a) Risk-assessment procedure (*istruttoria di rischio*)

(b) Loan Proposal and Approval (*proposta e delibera di fido*)

(c) Technical procedure (*istruttoria tecnica*)

(d) Legal procedure (*istruttoria legale*)

Once the procedure has been completed, the application is submitted to the competent decision-making body for approval.

1.1 ***Risk-assessment procedure (Istruttoria di rischio) – Analysis of the solvency of individuals***

The procedure to assess the solvency of the client and of any co-obligors consists in the following phases:

- Examination of negative information
  - Searches with the registry office (Anagrafe) for any negative events or irregularities (anomalie di rapporto) (also archives)
  - Public database searches for proceedings for non-payment of cheques, promissory notes or drafts (Protesti) and any encumbrances (Pregiudizievoli)
  - Search of "Non-performing Status" ("*Status Sofferenza*") on the System.

If any of the above events are discovered, the procedure cannot move forward without the intervention of a competent board as indicated by the Law.

- Search of the Central Risk Register
  - Analysis of the relevant data in the Central Risk Register managed by the Bank of Italy to verify the applicant's aggregate debt exposure and any irregular behaviour
  - The analysis is also expanded to include any related guarantees
- Assignment of client risk rating
  - Rating di Istruttoria for a new borrower or Integrated Score for a new customer (see par. 1.4 below)
  - Credit Bureau Score
  - Combination of the scores on the risk assessment Grid
- Determination of Disposable Income
  - Information on family income obtained from the applicant's pay slips or income tax-returns (dichiarazione dei redditi) if the applicant is a subordinate employee1
  - Information on outstanding financial obligations (impegni finanziari in corso) and evaluation of the consistency of the declarations with the data obtained from credit data bases
  - Evaluation of the debt to income ratio;

Following the evaluation phase applicants are assigned one of three overall risk ratings (High, Medium, Low Risk).

1.2 ***Loan Proposal and approval (proposta e delibera di fido)***

The proposal phase consists in the gathering of all the necessary information for the loan description and assessment. The scope of the resolution (*competenza di delibera*) is defined according to the results of the 'Integrated Score' defined by the combination of the demand risk scoring (considering applicant sociological risk and loans features risk) and the affordability scoring (considering applicant capability of revenues, saving and assets growing). In particular, automatic approval is provided if, in addition to a low counterparty risk, the request is not characterized with any parameters, considered internal risk riser like, for example, the following:

- non resident applicant;
- Maximum amount of Euro 200,000;
- negative information received on the Risk-assessment procedure (such as negative credit boreau score, bad loans from the Central Risk Register, etc);
- Loan to Value not higher than 80 per cent.;
- The duration of the mortgage loan added to the age of the borrower does not exceed 75 years.

If automatic approval is not feasible, the competent decision-making body is selected according to the rules described in the Law.

1.3 ***Technical procedure (istruttoria tecnica) – valuation of the real estate asset***

The procedure continues with the technical and legal valuation of the property backing the loan by means of:

- Valuation of the preliminary deed of purchase and sale of the property, related project and estimated budget;
- Appraisal of the property (*perizia di stima*) performed by a surveyor appointed by the bank;
- Analysis of all the documentation available at the land registry archives.

In particular, starting January 2008, an appraisal (*perizia tecnica*) shall be performed by an independent surveyor for mortgage applications for any purpose. Independent surveyor means a person having the necessary qualifications, skills and experience to perform the appraisal, who has not taken part in the decision-making procedure in relation to the loan and is not involved in monitoring of the loan.

The above appraisal shall be carried out on the basis of the current value (*valore intrinseco*) of the property for which the loan is requested, without having regard to the creditworthiness of the borrower. Exclusively in the case of *mutui fondiari* to be granted to individuals, the above appraisal is performed after approval of the mortgage.

In particular:

(a) *applications for an amount higher than Euro 5,000,000*: the technical procedure and the appraisal will be performed by the bank's surveyor or by a surveyor chosen from the names in the list of the first category (*prima fascia*).

(b) *applications for an amount between Euro 2,500,000 and Euro 5,000,000*: the appraisal shall be made by a surveyor chosen from the names in the list of the first category (*prima fascia*) surveyors (qualified to also carry out mortgages' restrictions and divisions).

(c) *other applications other than those listed in sub-paragraph a) and b) above*: branches of the bank shall directly appoint a reliable local surveyor, chosen from the names in the list available to the Bank, to carry out the property appraisal (*giudizio di stima*) and accordingly to ascertain the value or cost of construction of the properties backing the loan. Such lists are available in the relevant local area.

The appraisal, to be generally completed on the standard forms provided by the Bank, shall be as faithful and complete as possible, in order to allow the reader to understand the property (use and dimensions) and its qualities and deficiencies. The appraisal shall reflect the standard market conditions existing at the date of drafting. The value identified shall not exceed the market value. Clearly, for rented real estate properties, income from relevant agreements shall be taken into consideration in preparing the appraisal.

As for residential real estate assets, the value may be determined, if there is information available on sale prices paid for real estate assets similar to the asset under appraisal, using the comparative approach (*metodo comparativo*) adjusted as deemed appropriate having regard to the morphological features of the asset, to the state of maintenance, to the profitability and to any other factors deemed to be relevant.

Due to breaches to local building regulations (*abusi edilizi*), surveyors are advised to pay careful attention in ascertaining that the assets backing the loan, whether under construction or recently completed, fully comply with the current city-planning regulations (*leggi urbanistiche*).

Technical costs sustained in carrying out the procedure are to be charged to the client. In signing the application form the client undertakes to reimburse all such costs even if the transaction is not executed for any reason.

1.4 ***Legal procedure (istruttoria legale)***

Legal due diligence on the property backing the loan is entrusted to a notary public appointed by the borrower for traditional mortgage loan transactions or by the Bank for active subrogations (Article 8 of Law 40/2007). The notary shall, *inter alia*:

- ensure the applicant may enter into the mortgage loan agreement and create a valid charge over the real estate assets offered as security for the mortgage;
- ensure that the borrower or the mortgage guarantor are the sole and exclusive owner of the real estate assets offered as security;

- verify that the relevant properties are free from charges or foreclosures (*trascrizioni ostative* or *iscrizioni passive*) and indicate if any are found;

- Check the description of the properties as prepared by the surveyor to be inserted in the relevant mortgage loan agreement.

In drafting the details of the mortgage agreement and loan disbursement documents, any particular legal situations which may be discovered by the notary during the documentary due diligence (such as successions in relation to which the State sill has privilege with reference to the payment of the relevant tax) will be followed up by the branches with the competent authorities within their Local Area.

2. MANAGEMENT OF MORTGAGES

2.1 *Survey of collections and payment methods*

Unless the contract provides for a pre-amortisation period, amortisation periods for almost all mortgage loans start on the first day of the first period (monthly, quarterly, semi-annually, annually) following the execution of the contract.

Methods of payment of the mortgage loans' instalments are substantially:

- direct debit from the bank account held by the debtor with any branch of the bank (*ordine permanente*);

- direct debit from the bank account held by the debtor with a different bank (procedura RID);

- Payment through deposit slip (Bollettino MAV).

The client can choose the method of payment.

Near the instalment due date a notice that the instalment is falling due (*avviso di scadenza della rata*) (MAV standard form) is sent to the domicile of the borrowers that have not selected payment by means of direct debit, inviting them to pay the amount due at any branch of the bank or any other financial institution or any post-office branch by presenting the notice.

2.2 *Monitoring activity*

The client's portfolio of the bank is monitored daily for the purpose of identifying any indicator events of potential riskiness. The presence of irregular events with reference to the client's positions is reported daily and the Branches' roles and structures are involved.

In the case of mortgage loans with overdue and unpaid instalments, or instalments which are unpaid and subject to suspension, the monitoring of such events is mandatory.

2.3 *Management of late payments*

Until the maturity date, the mortgage loan is classified as performing ("*in bonis*").

Following the maturity date, if the instalment has not been paid, such instalment is classified as:

- "Overdue" if it remains unpaid a day after its maturity date;
- "Delinquent" if it remains unpaid ten days after its maturity date.

For the purpose of calculating accrued interest, the default status normally runs from the second day following the maturity date of the relevant instalment.

If a due payment is classified as over due, the mortgage loan remains under the management of the relevant branch, which will contact the client initially by a first telephone call and/or personal contact in order to determine the cause of non-payment urging the regularisation of the position. Simultaneously the branch begins to analyze the causes that led to the delay in payment

- After 20 days over due:

  the position is managed by a "Credit Monitoring" tool which explicitly allows the tracing of actions for the upgrade and/or regularisation of the position;

- After 30 days over due:

  for the positions managed in the "Retail Industrialised Path" the instalment non payed is sent to an external collection company.the position delinquency starts.

In parallel, an automatic procedure sends reminder letters at specific deadlines: 45 days, 100 days and 150 days.

Credit Monitoring

As to mortgage life management and monitoring of the loan book, the branch network uses the "Credit Monitoring" tool, which replaced the "Loan Performance Management" process at the beginning of 2012. The introduction of this new tool was supported by a training program for over 5,000 employees.

The Credit Monitoring process is an effective aid to obtain credit cost reduction by leveraging two main factors:

- identification of high insolvency risk positions ("screening");
- "customer-type differentiated" treatment of positions (dedicated "routing").

Ordinary-risk positions are scanned by a "screening" engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a "performance risk indicator" (so called "*indicatore di rischio andamentale*" or "*IRA*") which factors in, and is reflective of, a set of critical elements including the worsening of certain leading indicators, ratings, information on related counterparties and days past due (with thresholds being differentiated by customer segments and amounts used).

Ordinary-risk positions are selected as higher risk positions:

- if the "IRA" is greater of certain tresholds

or

- if a classification parameter is switched on

  or

- after 20 days overdue

Ordinary-risk positions, reported as higher risk by the "screening" engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

1. a "Path Retail Industrialized" procedure for "Retail Family" and "Small Business" clients: for certain positions of a relatively low amount without sales targets, it is possible to control the recovery process externally by mandating this task to a specialised credit collection bureau managed by Recovery Service (*Servizio Gestione Massiva Crediti Problematici*) inside Area recupero Crediti;

2. a "Path Retail Standard" procedure for Retail, Affluent and Private customers (high income Individuals), as well as small-sized businesses with limited exposure which, by reason of their type of exposure, cannot be managed by the external credit collector and need to be followed by the branch;

3. a "Path Corporate" procedure dedicated to corporate customers.

This process cannot be applied to employees and special situation loans.

When the loan is routed to Path Retail Industrialized after 20 days past due, the branch will manage the situation up to other 10 days past due. After this period the relevant branch will transfer the situation to specialised credit collection bureau managed by *Area Recupero Crediti*. If after 120 days the specialised credit collection bureau does not reach its goal, the position will go back to the branch. The branch can choose to manage the position following the PRS procedure or, if the missed payment concerns a potential irregularity in the loan relationship, or the possibility of future missed payments or partial payments of the following instalments, the position is carefully monitored and afterwards is classified as delinquent (as *Inadempienza Probabile*).

The management of delinquent positions has the following possible solutions:

- Demanding immediate payment of all outstanding instalments;

- Agreeing upon an instalment payment scheme *piano di rientro*;

- Restructuring the mortgage loan.

If after a careful evaluation of the loan, the difficulties of the borrower are deemed to be permanent and no longer temporary, the matter is classified as a defaulted loan (*In Sofferenza*) and therefore transferred to Credit Management Area (*Area Recupero Crediti*). Once approval is given to move the matter on to the enforcement phase (*passaggio a contenzioso*), the matter is automatically converted as a defaulted loan in the Central Risk Register.

The definition of a Defaulted loan is the same as the meaning ascribed by the Bank of Italy Supervisory Instructions (*Istruzioni di Vigilanza di Banca d'Italia*) which includes "all cash

credits due from parties that are in a state of insolvency, even if the state of insolvency has not been declared by a court, or in substantially equivalent situations".

The Network is entitled to reschedule the amortization plans in case of non-payment which is temporarily not remediable.

3. RECOVERY PROCEDURES

The recovery procedures for loans are carried out by Recovery Management (*Direzione Crediti Non Performing* DCNP) put in place all the steps, whether by means of judicial channels or extra-judicial channels, which are necessary for recovery of the credit, including the possibility of write-offs or waiving actions against the debtors.

With reference to the portfolios managed by DCNP, DCNP draws up periodical reports related to collection activity; moreover DCNP makes specific business plans for each loan under management which are subject to internal approval process. Internal auditing can in any case carry out the audits and examinations pertaining to their institutional role with DCNP.

The non performing loan management consist in these activities:

(a) if there are enforceable assets (*attivi aggredibili*):

- DCNP assesses, studies and takes action for out-of-court recovery;
- DCNP takes suitable legal action to collect amounts due acquiring a security interest over the assets of the debtor/guarantor(s) or petitioning for the bankruptcy of the party, if the latter is subject to bankruptcy.

(b) if there are no enforceable assets:

- DCNP assesses, studies and takes action for out-of-court recovery;
- DCNP If despite the above-mentioned actions the credit does not appear recoverable, DCNP proposes to be written off;
- DCNP outsources recovery to external companies for recoveries indicatively involving less than € 150.000,00.

4. ACTIONS TO IMPROVE CREDIT QUALITY

Starting from October 2009, the Credit Department implemented various initiatives in the aim of reviewing and improving the loan management policies at local level. The retail division developed and revised the operational instructions for branch managers who were asked to motivate clients to settle late payments or to adhere to the anti credit crunch product ("*Combatti la crisi*") in the case of temporary difficulties.

After 30 March 2013 the anti credit crunch product "*Combatti la crisi*" is not available any more but a suspension, aiming to manage temporary debtor difficulties, can be offered to borrowers by the relative branch who will evaluate the overall position of the borrower. BMPS has acceded to the suspension of credit to retail counterparts in 2015 (*Accordo per la sospensione del credito alle Famiglie*). The agreement runs until the end of 2017.

THE GUARANTOR

Introduction

The Guarantor was incorporated in the Republic of Italy on 8 September 2009 pursuant to Law 130 as a limited liability company with a sole quotaholder (*società a responsabilità limitata con unico socio*) under the name "Meti Finance S.r.l." and changed its name into "MPS Covered Bond S.r.l." and modified its corporate object by the resolution of the meeting of the Guarantor Quotaholders held on 11 March 2010. The Guarantor is registered at the Companies' Registry of Treviso-Belluno under registration number 04323680266. The registered office of the Guarantor is at Conegliano (TV) – Italy - Via V. Alfieri, 1, 31015 and its telephone number is 0039 0438 360926. The Guarantor has no employees and no subsidiaries. The Guarantor's by-laws provides for the termination of the same in 31 December 2100 subject to one or more extensions to be resolved, in accordance with the by-laws, by a Quotaholders's resolution.

Principal Activities

The sole purpose of the Guarantor under the objects clause in its by-laws is the ownership of the Cover Pool and the granting to Bondholders of the Guarantee. From the date of its incorporation the Guarantor has not carried out any business activities nor has incurred in any financial indebtedness other than those incurred in the context of the Programme.

Quota Capital

The outstanding capital of the Guarantor is Euro 10,000.00 divided into quotas as described below. As at the date of this Prospectus, the quotaholders of the Guarantor are as follows:

Quotaholders	Quota
SVM Securitisation Vehicles Management S.r.l.[11]	Euro 1,000.00 (10 per cent. of capital)
Banca Monte dei Paschi di Siena S.p.A.	Euro 9,000.00 (90 per cent. of capital)

The Guarantor has not declared or paid any dividends or, save as otherwise described in this Prospectus, incurred any indebtedness.

Management

Board of Directors

The following table sets out certain information regarding the current members of the Board of Directors of the Guarantor.

Name	Position	Principal activities performed outside the Guarantor
Franco Cecchi	Chairman of the Boards of Directors and Managing Director	Franco Cecchi
Andrea Fantuz	Director and Managing Director	Andrea Fantuz, Analyst of FISG S.r.l.

[11] Whose 100% is held by Stichting Cima. Stichting Cima is a Dutch foundation, whose sole director is Intertrust (Netherlands) B.V.

Raiola Alessandro	Director and Managing Director	Raiola Alessandro, Banca Monte dei Paschi di Siena S.p.A.

The business address of the Board of Directors of the Guarantor is Via V. Alfieri, 1, 31015 Conegliano (TV), Italy.

Board of Statutory Auditors

Under the Quotaholder's Agrement, the quotaholder's meeting will appoint the controlling body (The Statutory Auditors or the Issuer's Sole Statutory Auditor).

If, at any time, a Board of Statutory Auditors shall be appointed, it shall be composed of three members which shall appointed as follows: one by SVM Securitisation Vehicles Management S.r.l. and two by BMPS (designated one by BMPS and one by SVM Securitisation Vehicles Management S.r.l.). The chairman of the Board of Statutory Auditors shall be one the members appointed by BMPS.The appointment of the Sole Statutory Auditor will be compliant with the Italian legislation.

A Sole Statutory Auditor has been appointed by the quotaholder's meeting.

Conflict of Interest

There are no potential conflicts of interest between any duties of the directors of the Guarantor and their private interests or other duties.

The Quotaholders' Agreement

Pursuant to the term of the Quotaholders' Agreement entered into on or about the date of this Prospectus, between BMPS, SVM Securitisation Vehicles Management S.r.l. and the Representative of the Bondholders, the Quotaholders have agreed, *inter alia*, not to amend the by-laws (statuto) of the Guarantor and not to pledge, charge or dispose of the quotas (save as set out below) of the Guarantor without the prior written consent of the Representative of the Bondholders. The Quotaholders' Agreement is governed by, and will be construed in accordance with, Italian law.

Please also see section "*Description of the Programme Documents - The Quotaholders' Agreement*" below.

Financial Statements

The financial year of the Guarantor ends on 31 December of each calendar year.

Mr. Alberto De Luca, enrolled under number 148374 in the register of statutory auditors (*Albo dei Revisori Legal*i) pursuant to Ministerial Decree dated 6.11.2007 (published in the Official Gazette of the Republic of Italy number 92 of 20.11.2007) and enrolled in the National Counsel of Certified Public Accountants (*Consiglio Nazionale dei Dottori Commercialisti e Esperti Contabili*), whose offices are at Via Vittorio Alfieri 1, 31015 Conegliano (Treviso) Italy, has been appointed to perform the audit of the financial statements of the Guarantor for the period between the end of its first financial year (31 December 2009) and the end of its second financial year (31 December 2010).

KPMG S.p.A. has been appointed on 27 April 2011. KPMG S.p.A. has performed the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2011 and the year ended on 31 December 2012.

EY S.p.A. (now Ernst & Young S.p.A.), with registered office at Via Po 32, 00198, Rome, Italy and authorized and regulated by the MEF and registered on the special register (of auditing firms held by MEF, has been appointed (i) on 17 June 2013 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2013 and the year ended on 31 December 2015 and (ii) on 13 April 2016 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2016 and the year ended on 31 December 2018.

The Guarantor has not, from the end of its first financial year (31 December 2009), carried out any business activities nor has incurred in any financial indebtedness (other than those incurred in the context of the Programme). Nevertheless, in accordance with Italian law (requiring all companies to approve a balance sheet within a specified period from the end of each financial year), the Guarantor has prepared its financial statements for the period between the end of its first financial year (31 December 2009) and the end of its eighth financial year (31 December 2016).

The financial statement of the Guarantor for the year ended on 31 December 2016 (the end of its eighth financial year), as approved by the meeting of the quotaholders of the Guarantor on 11 April 2017, is incorporated by reference to this prospectus (see section headed "*Documents incorporated by reference*" above).

Montepaschi Group

On 7 May 2010, the Bank of Italy has authorised the purchase by the Issuer of 90 per cent. of the quota capital of the Guarantor. The Guarantor is consolidated in the Montepaschi Group as it is reported in the financial statements as at 31 December 2015. For further information on the Montepaschi Group, please refer to paragraph "*Banca Monte dei Paschi di Siena S.p.A.*" above.

DESCRIPTION OF THE PROGRAMME DOCUMENTS

GUARANTEE

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Guarantee, as amended and restated from time to time, pursuant to which the Guarantor issued, for the benefit of the Bondholders, a first demand, unconditional, irrevocable and independent guarantee to support payments of interest and principal under the Covered Bonds issued by the Issuer under the Programme and of the amounts due to the Other Guarantor Creditors. Under the Guarantee the Guarantor has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the Guarantor under the Guarantee constitute direct and (following the occurrence of an Issuer Event of Default and the service of a Guarantee Enforcement Notice on the Issuer and the Guarantor or, if earlier, the service on the Issuer and the Guarantor of a Guarantor Default Notice) unconditional, unsubordinated and limited recourse obligations of the Guarantor, backed by the Cover Pool as provided under Law 130, Decree No. 310 and the Bank of Italy Regulations. Pursuant to the terms of the Guarantee, the recourse of the Bondholders to the Guarantor under the Guarantee will be limited to the assets of the Cover Pool. Payments made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable.

Under the Guarantee the parties thereof have agreed that as of the date of administrative liquidation (*liquidazione coatta amministrativa*) of the Issuer, the Guarantor (or the Representative of the Bondholders pursuant to the Intercreditor Agreement) shall exercise, on an exclusive basis and in compliance with the provisions of article 4 of the Decree No. 310, the rights of the Bondholders against the Issuer and any amount recovered from the Issuer will be part of the Guarantor Available Funds.

The Guarantor, pursuant to the Guarantee, shall pay or procure to be paid to the Bondholders:

(a) without prejudice to the effects of a suspension of payments by the Issuer pursuant to article 74 of the Consolidated Banking Act and under article 4, sub-paragraph 4, of Decree No. 310, following the service of a Guarantee Enforcement Notice on the Issuer and on the Guarantor (but prior to a Guarantor Event of Default), on each Guarantor Payment Date that falls on an Interest Payment Date, an amount equal to those Guaranteed Amounts which shall become Due for Payment, but which have not been paid by the Issuer to the relevant Bondholders on the relevant Interest Payment Date; or

(b) following the service of a Guarantor Default Notice on the Guarantor in respect of the Covered Bonds of each Series or Tranche (which shall have become immediately due and repayable), the Guaranteed Amounts.

All payments of Guaranteed Amounts by or on behalf of the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature unless such withholding or deduction of such taxes, assessments or other governmental charges is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, the Guarantor shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or

deducted. The Guarantor shall not be obliged to pay any amount to any Bondholder in respect of the amount of such withholding or deduction.

To the extent that the Guarantor makes, or there is made on its behalf, a payment of any amount under the Guarantee, the Guarantor will be fully and automatically subrogated to the Bondholders' rights against the Issuer for the payment of an amount corresponding to the payments made by the Guarantor with respect to the relevant Series or Tranche of Covered Bonds under this Guarantee, to the fullest extent permitted by applicable law.

Governing law

The Guarantee and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

SUBORDINATED LOAN AGREEMENTS

Each of BMPS and BAV, respectively on 25 May 2010 and on 27 May 2011 entered into with the Guarantor the respective Subordinated Loan Agreements, as amended and restated from time to time, pursuant to article 7-*bis* of Law 130 under which each of BMPS and BAV, acting respectively as Principal Subordinated Lender and Additional Subordinated Lender, granted to the Guarantor a term loan facility in an aggregate amount equal to the relevant Total Commitment, increased by any amount required to meet the Tests, for the purposes of (a) funding the purchase price of the Eligible Assets and/or (b) funding the purchase of Top-Up Assets or other Eligible Assets pursuant to the terms of the Master Asset Purchase Agreement and the Cover Pool Management Agreement.

Following the merger by way of incorporation of Banca Antonveneta S.p.A. ("**BAV**") in BMPS with effect as of 28 April 2013 (the "**Merger**") BMPS assumed all rights and obligations of BAV in the capacity as Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the terms of the Subordinated Loan Agreements, the Principal Seller and the Additional Seller, in their capacity, respectively, as Principal Subordinated Lender and Additional Subordinated Lender, will from time to time grant to the Guarantor Term Loans in the form of (i) a Programme Term Loan, or (ii) a Floating Interest Term Loan, or (iii) a Fixed Interest Term Loan.

Each Programme Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in the Initial Portfolio and in any New Portfolios to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement, and/or (ii) remedying any breach of the Tests and complying with the 15% Limit with respect to the Top-Up Assets, and/or (iii) funding the purchase price of the Eligible Assets and Top-Up Assets to be transferred to the Guarantor pursuant to the Master Assets Purchase Agreement for overcollateralization purposes and/or funding the redemption of a Floating Interest Term Loan or Fixed Interest Term Loan at the Maturity Date (or Extended Maturity Date, if applicable) of the Corresponding Series or Tranche of Covered Bonds.

Each Floating Interest Term Loan or Fixed Interest Term Loan will be granted for the purpose of, *inter alia*, (i) funding the purchase price of the Eligible Assets included in any New Portfolios to be transferred to the Guarantor in connection with the issue of a Corresponding

Series or Tranche of Covered Bonds to be issued under the Programme, and/or (ii) reimbursing (also in part) any Term Loan for an amount equal to the Corresponding Series or Tranche of Covered Bonds.

The rate of interest applicable (x) in respect of each Programme Term Loan for each relevant Loan Interest Period shall be equal to EURIBOR plus a Margin (the "**Base Interest**") and shall be payable to each relevant Subordinated Lender, together with a Premium (if any), on each Guarantor Payment Date in accordance with the applicable Priority of Payments; and (y) in respect of each Floating Interest Term Loan or Fixed Interest Term Loan for each relevant Loan Interest Period shall be equal to the interest computed under the Corresponding Series or Tranche of Covered Bonds (the "**Corresponding Interest**") and shall be payable to each relevant Subordinated Lender on each Guarantor Payment Date following the Guarantor Calculation Date which falls after an Interest Payment Date of the Corresponding Series or Tranche of Covered Bonds in accordance with the applicable Priority of Payments. No Premium shall be payable on the Floating Interest Term Loan(s) or Fixed Interest Term Loan(s), provided that following the delivery of Breach of Tests Notice no payment of interest under any Term Loan shall be made by the Guarantor to the Subordinated Lender.

Each Term Loan shall be repaid on each Guarantor Payment Date prior to a Guarantee Enforcement Notice according to the relevant Priority of Payments and within the limits of the then Guarantor Available Funds, provided that such repayment does not result in a breach of any of the Tests and provided that no Breach of Tests Notice has been delivered.

Each Programme Term Loan, unless repaid in full prior to such date, shall be repaid on the Maturity Date or the Extended Maturity Date, if applicable, of the latest maturing Series of Covered Bonds within the limits of the then Guarantor Available Funds and in accordance with the relevant Priority of Payments.

Each Floating Interest Term Loan or Fixed Interest Term Loan, unless repaid in full prior to such date, shall be repaid, in full or in part, starting from the Guarantor Payment Date falling after the Maturity Date (or, as applicable, the Extended Maturity Date) of the Corresponding Series of Covered Bonds and thereafter on any Guarantor Payment Date, and shall be payable within the limits of the then Guarantor Available Funds and in accordance with the relevant Priority of Payments.

Under the Subordinated Loan Agreements, the parties thereof have agreed that in the event that the Principal Subordinated Lender and the Additional Subordinated Lender's rating fall below "BBB(low)" by DBRS, "BBB-" by Fitch and "Baa3" by Moody's, unless previously repaid in full in accordance with the terms of the Subordinated Loan Agreements, (i) each Programme Term Loan shall be due for repayment on the date falling six months after the Maturity Date or, as applicable, the Extended Maturity Date, of the last maturing Series or Tranche of Covered Bonds issued under the Programme (unless the early redemption of the Programme Term Loan is necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations (and to the extent that no purchase of Eligible Assets is possible to this effect the provisions of the Master Assets Purchase Agreement), in accordance with the relevant Priority of Payments; and (ii) each Floating Interest Term Loan or Fixed Interest Term Loan shall be due for repayment, in full or in part, starting from the Guarantor Payment Date falling six months after the Maturity Date or, as applicable, the Extended Maturity Date, of the Series or Tranche of Covered Bonds issued in connection with the relevant Floating Interest Term Loan or Fixed Interest Term Loan and thereafter on each Guarantor Payment Date (unless the early redemption of the Floating Interest Term Loan or

Fixed Interest Term Loan is necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations (and to the extent that no purchase of Eligible Assets is possible to this effect the provisions of the Master Assets Purchase Agreement a), in accordance with the relevant Priority of Payments.

Amounts owed to each Subordinated Lender by the Guarantor under the Subordinated Loan Agreements will be subordinated to amounts owed by the Guarantor under the Guarantee.

Governing law

The Subordinated Loan Agreements and any non-contractual obligations arising out of or in connection with them are governed by Italian law.

MASTER ASSETS PURCHASE AGREEMENT

On 25 May 2010, BMPS and the Guarantor entered into the Master Assets Purchase Agreement, as amended and restated from time to time in accordance with the combined provisions of articles 4 and 7-*bis* of Law 130, pursuant to which BMPS, in its capacity as Principal Seller, assigned and transferred, without recourse (*pro soluto*), to the Guarantor and the Guarantor purchased, without recourse (*pro soluto*), the Assets comprised in the Initial Portfolio.

On 27 May 2011, BAV acceded, in its capacity as Additional Seller, to the Master Assets Purchase Agreement pursuant to which assigned and transferred, without recourse (*pro soluto*), to the Guarantor and the Guarantor purchased, without recourse (*pro soluto*), a New Portfolio of Assets. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Seller under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the Master Assets Purchase Agreement, upon satisfaction of certain conditions set out therein, each of BMPS and BAV (i) undertook to assign and transfer in the future, without recourse (*pro soluto*), to the Guarantor and the Guarantor undertook to purchase in the future, without recourse (*pro soluto*) from BMPS and BAV, New Portfolios if such transfer is required under the terms of the Cover Pool Management Agreement in order to ensure the compliance of the Cover Pool with the Tests and with the 15% Limit with respect to the Top-Up Assets; and (ii) may transfer New Portfolios to the Guarantor, and the Guarantor shall purchase from BMPS and BAV such New Portfolios, in order to supplement the Cover Pool in connection with the issuance by BMPS and BAV of further Series or Tranches of Covered Bonds under the Programme in accordance with the Programme Agreement.

Pursuant to the Master Assets Purchase Agreement, the Guarantor further undertook to purchase any New Portfolios transferred from time to time by any other eligible bank part of the Montepaschi Group which will accede to the Programme as Additional Seller.

Prior to the occurrence of a Guarantor Event of Default, Portfolios may only be offered or purchased if the following conditions are satisfied:

(a) the First Series of Covered Bonds (or, as the case may be, the Series of Covered Bonds immediately preceding the assignment of such Portfolios) has been issued and fully subscribed;

(b) a Guarantor Default Notice has not been served on the Guarantor;

(c) with respect to any assignment (i) of Top-Up Assets by the relevant Seller(s) in order to supplement the Cover Pool against the issuance of further Series or Tranche of Covered Bonds, or (ii) made in order to comply with the 15% Limit with respect to the Top-Up Assets, (A) the Guarantor has received from the relevant Seller(s) the amounts due under the relevant Subordinated Loan Agreement for the payment of the purchase price relating to the assigned Portfolios and (B) no Insolvency Event in respect of the relevant Seller(s) occurred;

(d) with respect to any assignment made to invest Principal Available Funds, which are in excess of the Tests, in Eligible Assets or Top-Up Assets, a Guarantor Breach of Tests Notice or a Guarantee Enforcement Notice has not been served on the Guarantor and/or the Issuer, as the case may be, and sufficient Principal Available Funds are available at each relevant Execution Date;

(e) such transfer will not result in a breach of any requirements of law (including, but not limited to, Law 130, Decree No. 310 and the Bank of Italy Regulations), including compliance of the Cover Pool with the 15% Limit with respect to the Top-Up Assets in accordance with Decree No. 310 and the Bank of Italy Regulations.

The Initial Portfolio Purchase Price payable pursuant to the Master Assets Purchase Agreement is equal to the aggregate Purchase Price of all the Assets included in the Initial Portfolio.

The Purchase Price for the Receivable included in the Initial Portfolio was equal to the sum of the most recent book value (*ultimo valore di iscrizione in bilancio*) of the each Receivable (a) minus the aggregate amount of (i) the accrued interest as at 1 January 2010 (excluded) included in such book value with respect to each Receivable; and (ii) any collections with respect to principal received by the Principal Seller with respect to each Receivable included in the Initial Portfolio starting from 1 January 2010 (included) until the relevant Valuation Date (included); and (b) increased of the aggregate amount of the Accrued Interest of each Receivable included in the Initial Portfolio.

The purchase Price for the Receivables included in the second Portfolio, in the third Portfolio, in the fourth Portfolio, in the BAV Portfolio, in the fifth Portfolio and in the sixth Portfolio was equal to the sum of the Individual Purchase Price of all the Assets included in the relevant Portfolio at the relevant Valuation Date.

BMPS has sold to the Guarantor, and the Guarantor has purchased from BMPS, the Assets comprised in the Initial Portfolio, in the second Portfolio, in the third Portfolio, in the fourth Portfolio, in the fifth Portfolio and in the sixth Portfolio and BAV has sold to the Guarantor, and the Guarantor has purchased from BAV the BAV Portfolio which meet the Common Criteria (described in detail in the section headed "*Description of the Cover Pool*") and the relevant Additional Criteria. Receivables comprised in any New Portfolio to be transferred under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, the relevant Specific Criteria and/or any Additional Criteria (both as defined below).

As consideration for the transfer of any New Portfolios, pursuant to the Master Assets Purchase Agreement, the Guarantor will pay to BMPS, or any Additional Seller(s) acceding to the Master Assets Purchase Agreement and the other relevant Programme Documents, an amount equal to the aggregate of the Purchase Price of all the relevant Receivables as at the relevant Valuation

Date. The Purchase Price for each Asset included in each New Portfolio will be (X) with respect to each Receivable, the most recent book value (*ultimo valore di iscrizione in bilanci*o) of the relevant Receivable: (a) minus the aggregate amount of (i) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (ii) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and (b) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date; or (Y) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller(s)) in the relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

Pursuant to the Master Assets Purchase Agreement, prior to the service of a Guarantee Enforcement Notice, BMPS and BAV will have the right to repurchase Assets, in accordance with articles 1260 and following of the civil code or in accordance with article 58 of the Consolidated Banking Act, as the case may be, transferred to the Guarantor under the Master Assets Purchase Agreement in the following circumstances:

(a) to purchase Delinquent Assets or Defaulted Assets;

(b) to purchase Excess Assets (to be selected on a random basis);

(c) to purchase Affected Assets;

(d) to purchase Assets which have became non-eligible in accordance with Decree No. 310;

(e) Receivables, not included under the Assets from (a) to (d) above, being subject to renegotiations with the relevant Debtor pursuant to the Master Servicing Agreement or which have become the object of judicial proceedings; and

(f) Receivables, not included under the Assets under point (a) above, in respect of which there are 6 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 2 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 1 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments).

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller(s)) or (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report.

After the service of a Guarantee Enforcement Notice on the Guarantor, but prior to service of a Guarantor Default Notice, the Guarantor may or shall, if necessary in order to effect timely payments under the Covered Bonds, sell the Eligible Assets and the Top-Up Assets included in the Cover Pool in accordance with the terms of the Cover Pool Management Agreement and BMPS, or any Additional Seller(s), as the case may be, has the right of pre-emption to buy such Eligible Assets and the Top-Up Assets.

The transfer of the Initial Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 63 of 29 May 2010 and filed for publication in the companies register of Treviso on 03 June 2010.

The transfer of the second Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 143 of 2 December 2010 and filed for publication in the companies register of Treviso on 1 December 2010.

The transfer of the third Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 25 of 3 March 2011 and filed for publication in the companies register of Treviso on 1 March 2011.

The transfer of the BAV Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 63 of 4 June 2011 and filed for publication in the companies register of Treviso on 7 June 2011.

The transfer of the fourth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 111 of 24 September 2011 and filed for publication in the companies register of Treviso on 23 September 2011.

The transfer of the fifth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 73 of 22 June 2013 and filed for publication in the companies register of Treviso on 25 June 2013.

The transfer of the sixth Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 110 of 24 September 2015 and filed for publication in the companies register of Treviso on 22 September 2015.

The transfer of the seventh Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the

transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 113 of 5 November 2016 and filed for publication in the companies register of Treviso on 4 November 2016.

The transfer of the eight Portfolio was made in accordance with article 58, subsections 2, 3 and 4 of the Consolidated Banking Act (as provided by article 4 of Law 130). Notice of the transfer was published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Parte II, number 154 of 31 December 2016 and filed for publication in the companies register of Treviso on 29 December 2016.

For further details about the Cover Pool, see section headed "*Description of the Cover Pool*".

Governing law

The Master Assets Purchase Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

WARRANTY AND INDEMNITY AGREEMENT

On 25 May 2010, BMPS, in its capacity as Principal Seller and the Guarantor entered into the Warranty and Indemnity Agreement, as amended and restated from time to time, pursuant to which BMPS has given certain representations and warranties in favour of the Guarantor in respect of, *inter alia*, itself, the Eligible Assets and the Top-Up Assets and certain other matters in relation to the issue of the Covered Bonds and has agreed to indemnify the Guarantor in respect of certain liabilities of the Guarantor that may be incurred, *inter alia*, in connection with the purchase and ownership of the Assets.

The Warranty and Indemnity Agreement contains representations and warranties given by BMPS as to matters of law and fact affecting BMPS including, without limitation, that BMPS validly exists as a legal entity, has the corporate authority and power to enter into the Programme Documents to which it is party and assume the obligations contemplated therein and has all the necessary authorisations for such purpose.

Pursuant to the Warranty and Indemnity Agreement, the Principal Seller (and each Additional Seller) has agreed to indemnify and hold harmless the Guarantor, its officers or agents or any of its permitted assigns from and against any and all damages, losses, claims, costs and expenses awarded against, or incurred by such parties which arise out of or result from, *inter alia*, (a) a default by BMPS in the performance of any of its obligations under any Programme Document to which it is a party; (b) any representation and warranty given by BMPS under or pursuant to the Warranty and Indemnity Agreement being false, incomplete or incorrect; (c) any alleged liability and/or claim raised by any third party against the Guarantor, as owner of the Receivables, which arises out of any negligent act or omission by BMPS in relation to the Receivables, the servicing and collection thereof or from any failure by BMPS to perform its obligations under any of the Programme Documents to which it is, or will become, a party; (d) the non compliance of the terms and conditions of any Mortgage Loan with the provisions of article 1283 of the Civil Code; (e) the fact that the validity or effectiveness of any security, pledge, collateral or other security interest, relating to the Mortgage Loans, has been challenged by way of claw-back (*azione revocatoria*) or otherwise, including, without limitation, pursuant to article 67 of the Bankruptcy Law; (f) any amount of any Receivable not being collected or recovered by the Guarantor as a consequence of the proper and legal exercise by any Debtor and/or insolvency receiver of a Debtor of any grounded right to termination, annullability or

withdrawal, or other claims and/or counterclaims, including set off, against BMPS in relation to each Mortgage Loan Agreement, Mortgage Loan, Mortgage, Collateral Security and any other connected act or document, including, without limitation, any claim and/or counterclaim deriving from non compliance with the Usury law provisions in the granting of the Mortgage Loan.

Governing law

The Warranty and Indemnity Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

MASTER SERVICING AGREEMENT

On 25 May 2010, BMPS, in its capacity as Principal Servicer, and the Guarantor entered into the Master Servicing Agreement, as amended and restated from time to time, pursuant to which (i) the Guarantor has appointed BMPS as Principal Servicer to carry out the administration, management, collection and recovery activities relating to the Assets comprised in each portfolio to be transferred in accordance with the Master Assets Purchase Agreement and to act as "*soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e di pagamento*" pursuant to article 2, sub-paragraph 3, of Law 130, and (ii) have agreed, in case an Additional Seller will enter into the Programme, the terms of the appointment of such Additional Seller to act as Additional Servicer in relation to the administration, management and collection activities related to the Assets forming part of each New Portfolio transferred to the Guarantor by such Additional Seller.

On 27 May 2011, BAV, in its capacity as Additional Seller, acceded to the Master Servicing Agreement in its capacity as Additional Servicer. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

The receipt of the Collections is the responsibility of the Principal Servicer and further to the relevant accession to the Master Servicing Agreement, of the relevant Additional Servicer(s), acting as agent (*mandatario*) of the Guarantor. Under the Master Servicing Agreement, the relevant Servicer shall (i) credit to the relevant collection account any and all Collections related to the relevant Assets within the Business Day immediately following receipt, and (ii) starting from the Issue Date of the first Series or Tranche of Covered Bonds, within one Business Day from the day on which the relevant Collections have been credited to the collection account, will credit the relevant amounts to the Main Programme Account.

The Servicer will also be responsible for carrying out, on behalf of the Guarantor, in accordance with the Master Servicing Agreement and the Credit and Collection Policy, any activities related to the management, enforcement and recovery of the Defaulted Receivables and Delinquent Receivables. The Servicer may sub-delegate to one or more entities, further activities in addition to those indicated in sup-paragraph (i) above, subject to the limitations set out in the supervisory regulations and with the prior written notice to the Guarantor, the Representative of the Bondholders and the Rating Agencies, provided that such sub-delegation does not prejudice the compliance by the Servicer with its obligations under the Master Servicing Agreement. The Servicer shall remain fully liable vis-à-vis the Guarantor for the performance of any activity so delegated.

The Servicer has been authorised, prior to a breach of the Tests and serving of a Breach of Tests Notice and/or Guarantee Enforcement Notice to the Issuer and Guarantor, to reach with the Debtors any settlement agreements or payment extensions or moratorium or similar arrangements (including any renegotiation in relation to the interest rates and margins), in accordance with the provisions of the Credit and Collection Policy.

Following (i) a breach of the Tests and until such breach is continuing, or (ii) the delivery to the Guarantor and Issuer of a Guarantee Enforcement Notice and/or Breach of Tests Notice, the Servicer will not be authorised to reach with any Debtors, to grant any release with respect to the Receivables or enter into any amendment to the Mortgage Loan Agreements, save where required by any applicable laws or expressly authorised by the guarantor and prior notice of the relevant amendment to the Rating Agencies.

The Principal Servicer, in relation to its servicing activities pursuant to the Master Servicing Agreement, has confirmed its willingness to be the autonomous holder (*titolare autonomo del trattamento dei dati personali*) together with the Guarantor, for the processing of personal data in relation to the Receivables, pursuant to the Privacy Law and to be responsible, in such capacity, for processing such data.

The Servicer has represented to the Guarantor that it has all skills, software, hardware, information technology and human resources necessary to comply with the efficiency standards required by the Master Servicing Agreement.

The Principal Servicer has undertaken to prepare and deliver to, *inter alios*, the Guarantor, the Asset Monitor, the Swap Counterparties, the Representative of the Bondholders, the Principal Paying Agent, the Guarantor Corporate Servicer, the Back-Up Servicer Facilitator and the Rating Agencies the Monthly Servicer's Report Date and the Quarterly Servicer's Report Date.

Upon accession to the Master Servicing Agreement (i) each Additional Servicer(s) will prepare and deliver to the Principal Servicer its Servicer's Report substantially in the form of the Monthly Servicer's Report Date or the Quarterly Servicer's Report Date, provided that such reports will be prepared and delivered with respect to each relevant New Portfolio which will be assigned and transferred by each Additional Servicer, in its capacity as Additional Seller, in the context of the Programme pursuant to the relevant Master Assets Purchase Agreement, and (ii) upon receipt from each Additional Servicer of the respective Servicer's Report, the Principal Servicer will prepare and deliver to, *inter alios*, the Guarantor, the Asset Monitor, the Swap Counterparties, the Representative of the Bondholders, the Principal Paying Agent, the Guarantor Corporate Servicer, the Back-Up Servicer Facilitator and the Rating Agencies, the Servicer's Report which includes also the information contained in the Servicer's Reports prepared by the Additional Servicer.

On 3 April 2012, the Guarantor has appointed Securitisation Services S.p.A. as Back-up Servicer Facilitator, and Securitisation Services S.p.A. has accepted such appointment and has acceded to the Servicing Agreement. Upon the rating of the Servicer's long term unguaranteed, unsubordinated and unsecured obligation would have fallen below Baa3 by Moody's and/or "BBB-" from Fitch, (i) the Back-up Servicer Facilitator would have used its best effort to identify an entity suitable to act as back-up servicer in accordance with the Servicing Agreement (the "**Back-up Servicer**") and (ii) the Guarantor, subject to prior consultation with the Principal Servicer and the Representative of the Bondholders, would have appointed such Back-up Servicer within 45 days from the above mentioned downgrading.

On 18 October 2012, the long term rating of the Principal Servicer's unsecured, unsubordinated and unguaranteed debt obligations has fallen below "Baa3" by Moody's.

Further to the extensions of the timing provided for under the Master Servicing Agreement, on 8 April 2013, the Guarantor appointed a Back-up Servicer which has been indentified in Securitisation Services.

The Back-up Servicer would automatically succeed to the Servicer upon termination or resignation of the Servicer pursuant to the Servicing Agreement.

The Guarantor may terminate the Servicer's appointment and appoint a successor servicer (the "**Substitute Servicer**") if certain events occur (each a "**Servicer Termination Event**"). The Servicer Termination Events include, *inter alia*, the following events:

(a) failure on the part of the relevant Servicer(s) to deposit or pay any amount required to be paid or deposited which failure continues for a period of 7 Business Days following receipt by the Servicer of a written notice from the Guarantor requiring the relevant amount to be paid or deposited;

(b) failure on the part of the relevant Servicer(s) to observe or perform any other term, condition, covenant or agreement provided for under the Master Servicing Agreement and the other Programme Documents to which it is a party, and the continuation of such failure for a period of 10 Business Days following receipt by the relevant Servicer(s) of written notice from the Guarantor, provided that a failure ascribable to any entities delegated by the Servicer in accordance with the Master Servicing Agreement shall not constitute a Servicer Termination Event unless in case of failure on the part of the Servicer itself;

(c) an Insolvency Event occurs with respect to the Servicer;

(d) it becomes unlawful for the relevant Servicer(s) to perform or comply with any of its obligations under the Master Servicing Agreement or the other Programme Documents to which it is a party;

(e) the Servicer is or will be unable to meet the current or future legal requirements and the Bank of Italy's regulations for entities acting as servicers in the context of a covered bonds transaction.

Notice of any termination of the Servicer's appointment shall be given in writing, in accordance with the provisions of the Master Servicing Agreement, by the Guarantor to the Servicer with the prior agreement of the Representative of the Bondholders and shall be effective from the date of such termination or, if later, when the appointment of a Substitute Servicer becomes effective.

The Guarantor may, upon the occurrence of a Servicer Termination Event, appoint as Substitute Servicer any person who, *inter alia*:

(a) meets the requirements of Law 130 and the Bank of Italy to act as Servicer;

(b) has at least three years of experience (whether directly or through subsidiaries) in the administration of mortgage loans in Italy;

(c) has available and is able to use software for the administration of mortgages compatible with that of the Servicer;

(d) has direct access and is able to use professionally, in the carrying out of the administration of the loans, software and hardware utilities which are compatible with those used until the revocation by the relevant Servicer(s) and, in any case, who has access to proper technologies and human resources for the carrying out of the relevant collection and recovery activities relating to the Receivables and the proceeds deriving from the Asset Backed Securities, and perform all other obligations in compliance with the standards provided by the Master Servicing Agreement and the Bank of Italy supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*); and

(e) has sufficient assets to ensure the continuous and effective performance of its duties.

Pursuant to the Master Servicing Agreement the Servicer shall not be entitled to resign from its appointment as Servicer prior to the Expiry Date.

Governing law

The Master Servicing Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

CASH ALLOCATION, MANAGEMENT AND PAYMENTS AGREEMENT

On 18 June 2010, the Issuer, Italian Account Bank, Pre-Issuer Default Test Calculation Agent, Principal Seller, Principal Servicer, Principal Subordinated Lender, Guarantor, English Account Bank, Cash Manager, Principal Paying Agent, Italian Back-Up Account Bank, English Back-Up Account Bank, Payments Account Bank, Guarantor Calculation Agent, Guarantor Corporate Servicer, Post-Issuer Default Test Calculation Agent, and Representative of the Bondholders entered into the Cash Allocation, Management and Payments Agreement, as amended and restated from time to time.

On 27 May 2011, BAV, in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender, acceded the Cash Allocation, Management and Payments Agreement.

Under the terms of the Cash Allocation, Management and Payments Agreement, *inter alia*:

(i) the Guarantor has appointed (i) BMPS as Italian Account Bank and, until the delivery of a Guarantee Enforcement Notice in accordance with the Programme Documents, Pre-Issuer Default Test Calculation Agent; (ii) Banca Monte dei Paschi di Siena S.p.A., acting through its London Branch, as Cash Manager; (iii) The Bank of New York Mellon (Luxembourg) S.A., Italian Branch as Payments Account Bank and Italian Back-Up Account Bank and, from the date on which a Guarantee Enforcement Notice has been delivered in accordance with the Programme Documents, Principal Paying Agent; (iv) The Bank of New York Mellon S.A./N.V., London Branch, English Back-Up Account Bank and (v) Securitisation Services S.p.A. as Guarantor Calculation Agent and, from the date on which a Guarantee Enforcement Notice has been delivered in accordance with the Programme Documents, Post-Issuer Default Test Calculation Agent;

(ii) the Issuer has appointed The Bank of New York Mellon (Luxembourg) S.A., Italian Branch as Principal Paying Agent until the delivery of a Guarantee Enforcement Notice;

(iii) the Italian Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, the Italian Collection Account, the Italian Securities Collection Account, the Expenses Account and Eligible Investments Securities Account and to provide the Guarantor with certain reporting services together with account handling services in relation to monies from time to time standing to the credit of such accounts. In addition the Italian Account Bank has agreed to provide the Guarantor with certain payment services pursuant to the terms of the Cash Allocation, Management and Payments Agreement;

(iv) the Cash Manager has agreed, *inter alia*, to invest money standing to the credit of any of the Reserve Account and/or the Main Programme Account to purchase Eligible Investments;

(v) the Guarantor Corporate Servicer has agreed to operate the Expenses Account in order to make certain payments as set out in the Cash Allocation, Management and Payment Agreement;

(vi) the Principal Paying Agent has agreed to provide the Issuer and the Guarantor with certain payment services together with certain calculation services pursuant to the terms of the Cash Allocation, Management and Payments Agreement and to this purpose, *inter alia*, determine on each Interest Determination Date or as otherwise specified in the Final Terms after the delivery of a Guarantee Enforcement Notice or a Guarantor Default Notice, the relevant Rate of Interest, the Interest Amount and any other amount payable in respect of each Covered Bond of each Series and Tranche and notify the Issuer, the Guarantor, the Guarantor Calculation Agent, the Principal Servicer and the Representative of the Bondholders of such determination;

(vii) the Payments Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, subject to the delivery of a Guarantee Enforcement Notice, the Payments Account, until the earlier of the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms. Under the terms of the Cash Allocation, Management and Payments Agreement, the Payments Account Bank and the Guarantor have undertaken that the Payments Accounts shall be operational by no later than 5 Business Day after the date on which a Guarantee Enforcement Notice is delivered;

(viii) the Principal Paying Agent has agreed, *inter alia*, that (A) prior to the delivery of a Guarantee Enforcement Notice, it will make payments of principal and interest in respect of the Covered Bonds on behalf of the Issuer in accordance with the relevant Final Terms and the provisions of the Cash, Allocation, Management and Payments Agreement which regulate the payments through Monte Titoli; and (B) following the delivery of a Guarantee Enforcement Notice and/or a Guarantor Default Notice, on each Business Day preceding each Guarantor Payment Date which corresponds to an Interest Payment Date and/or a Maturity Date and/or an Extended Maturity Date or on any date on which a payment on the Covered Bonds has to be made in accordance with the relevant Final Terms and the provisions of the Guarantee, it will make payments from the Payments Account of any Interest Amount and/or Redemption Amount in respect of any Series or Tranche of Covered Bonds outstanding on behalf of the Guarantor in accordance with the Guarantee and the provisions of the Cash, Allocation, Management and Payments Agreement which regulate the payments through Monte Titoli (provided

that it shall not be obliged (but only entitled) to make any such payments if it has not received the full amount of any payment due to it.

(ix) the Guarantor Calculation Agent has agreed to provide the Guarantor with calculation services with respect to the Accounts and the Guarantor Available Funds and prepare and deliver to the Principal Servicer for such purpose the Payments Report, which shall, *inter alia* (i) take into account any calculations made under the Swap Agreements in relation to payments due or to become due by the next following Calculation Date; and (ii) reflect the occurrence of any (a) Segregation Event if a Breach of Tests Notice has been delivered and/or (b) any Issuer Event of Default if a Guarantee Enforcement Notice has been delivered.

Pursuant to clause 3.8 of the Cash Allocation, Management and Payments Agreement, upon any entity belonging to the Montepaschi Group acceding to the Programme as Additional Seller in accordance with the Programme Documents, the Guarantor shall open a specific collection account with an Eligible Institution in Italy and, subject to the terms of this Agreement, shall at all times maintain, until the date on which all Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with their terms and conditions, such specific collection account for the purpose of crediting thereto any Collections and Recoveries in respect of the Assets transferred by the relevant Additional Seller and, if appropriate, a specific securities account for the purpose of depositing any Asset Backed Securities and any Top-Up Assets represented by bonds, debentures, notes or other financial instruments in book entry form, transferred by the relevant Additional Seller. In accordance with such provision BAV has opened with the Italian Account Bank such a specific collection account (the "**BAV Collection Account**").

The Guarantor may (with the prior approval of the Representative of the Bondholders) revoke its appointment of any Agent, by giving not less than three months' (or less in the event of a breach of warranties and covenants) written notice to the Agent (with a copy to the Representative of the Bondholders), regardless of whether an Issuer Event of Default or a Guarantor Event of Default has occurred. Prior to the delivery of a Guarantee Enforcement Notice, the Issuer may revoke its appointment of the Principal Paying Agent, by giving not less than three months' (or less in the event of a breach of warranties and covenants) written notice to the Principal Paying Agent (with a copy to the Representative of the Bondholders). Any Agent may resign from its appointment under the Cash Allocation, Management and Payment Agreement, upon giving not less than three months' (or such shorter period as the Representative of the Bondholders may agree) prior written notice of termination to the Guarantor and the Representative of the Bondholders subject to and conditional upon certain conditions set out in the Cash Allocation, Management and Payment Agreement, **provided that** notice of such resignation has been given to the Rating Agencies by the Guarantor or the Representative of the Bondholders (or the resigning Agent) and a valid substitute has been appointed.

Governing law

The Cash Allocation, Management and Payments Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

THE ENGLISH ACCOUNT BANK AGREEMENT

On 18 June 2010, Issuer, Principal Servicer, English Account Bank, Guarantor Calculation Agent, Guarantor Corporate Servicer, Cash Manager and Representative of the Bondholders entered into the English Account Bank Agreement, as amended and restated from time to time.

Under the terms of the English Account Bank Agreement, *inter alia*:

(i) the Guarantor has appointed Banca Monte dei Paschi di Siena S.p.A., acting through its London Branch, as English Account Bank and Cash Manager;

(ii) the Cash Manager has agreed to give to the English Account Bank, on behalf of the Guarantor, all directions necessary to enable the English Account Bank to operate the English Accounts in accordance with the terms of the English Account Bank Agreement;

(iii) the English Account Bank has agreed to establish and maintain, in the name and on behalf of the Guarantor, the Main Programme Account and the Reserve Account to provide the Guarantor with certain reporting services together with account handling services in relation to monies from time to time standing to the credit of such accounts. In addition the English Account Bank has agreed to provide the Guarantor with certain payment services pursuant to the terms of the English Account Bank Agreement including that the English Account Bank will, *inter alia*: (a) prior to the delivery of a Guarantee Enforcement Notice, on each Guarantor Payment Date, pay from the Main Programme Account the amounts specified in the Payments Report to the parties indicated therein, (b) following the delivery of a Guarantee Enforcement Notice or of a Guarantor Default Notice, pay from the Main Programme Account to the Payments Account, the funds, specified in the Payments Report or Post Guarantor Default Notice Report, as the case may be, to be used by the Principal Paying Agent in order to make payments of amounts due under the Covered Bonds and pay from the Main Programme Account the amounts specified in the Payments Report or Post Guarantor Default Notice Report, as the case may be, to the parties indicated therein.

The Guarantor may (with the prior approval of the Representative of the Bondholders) revoke its appointment of the English Account Bank or the Cash Manager by giving not less than three months' written notice to the English Account Bank or the Cash Manager (with a copy to the Representative of the Bondholders), regardless of whether an Issuer Event of Default or a Guarantor Event of Default has occurred. The English Account Bank or the Cash Manager may resign from its appointment under the English Account Bank Agreement, upon giving not less than three months' (or such shorter period as the Representative of the Bondholders may agree) prior written notice of termination to the Guarantor, the Rating Agencies and the Representative of the Bondholders subject to and conditional upon certain conditions set out in the English Account Bank Agreement, **provided that** a valid substitute has been appointed.

Governing law

The English Account Bank Agreement any non-contractual obligations arising out of or in connection with it are governed by English law.

THE SWAP AGREEMENTS

Covered Bond Swap Agreements

The Guarantor may, but is not obliged to, enter into one or more Covered Bond Swap Agreements on each Issue Date with one or more Covered Bond Swap Providers to hedge certain interest rate, currency and other risks in respect of amounts received by the Guarantor under the Cover Pool and the Asset Swap Agreements and amounts payable by the Guarantor under, prior to the service of a Guarantee Enforcement Notice, the Subordinated Loan and, following a Guarantee Enforcement Notice, the Covered Bonds. The aggregate notional amount of the Covered Bond Swap Agreement(s) for each Series or Tranche of Covered Bonds shall be the nominal amount on issue of such Series or Tranche of Covered Bonds.

Each Covered Bond Swap Agreement currently in place or which may be entered into in the future has, or will have, the following characteristics.

Under the Covered Bond Swap Agreements, the Guarantor will pay to the Covered Bond Swap Providers on each Guarantor Payment Date the notional amount (being the principal amount outstanding of the relevant Series or Tranche of Covered Bonds) multiplied by three month EURIBOR plus a margin. In return the Covered Bond Swap Provider(s) will pay to the Guarantor on each Interest Payment Date the same notional amount multiplied by a rate linked to the interest rate payable on such Series or Tranche of Covered Bonds.

Each Covered Bond Swap Agreement is scheduled to terminate on the Maturity Date of the Covered Bonds of the relevant Series or Tranche and may or may not take account of any extension of the Maturity Date under the terms of such Covered Bonds as specified in the relevant Covered Bond Swap Agreement. The occurrence of certain other termination events contained in a Covered Bond Swap Agreement may cause it to terminate prior to its scheduled termination date, as described in more detail below.

In addition, for issues in a currency other than Euro, the Guarantor may enter into one or more cross currency swaps to mitigate currency risks in respect of amounts received by the Guarantor under the Cover Pool and the Asset Swap Agreements and amounts payable by the Guarantor following a Guarantee Enforcement Notice, under the Covered Bonds.

Asset Swap Agreements

Some of the Mortgage Loans in the Cover Pool purchased by the Guarantor from time to time will pay a variable rate of interest and other Mortgage Loans will pay a fixed rate of interest. The Guarantor may, but is not obliged to, enter into one or more Asset Swap Agreements with one or more Asset Swap Providers to hedge the risks linked to interest it receives on the Cover Pool to ensure that it has sufficient funds to meet its quarterly payment obligations.

As of the date of this Prospectus, the Guarantor has not entered into an Asset Swap Agreement.

If entered into, it is anticipated that the Asset Swap Agreement will have the following characteristics.

The aggregate notional amount of the Asset Swap Agreement shall be the value of the Cover Pool outstanding from time to time excluding any Defaulted Loans (the "**Asset Swap Notional**").

The Guarantor shall pay to the Asset Swap Provider all the interest collections it receives (both fixed and floating) from the Cover Pool and receive from the Asset Swap Provider the Asset Swap Notional multiplied by three month EURIBOR plus a margin of 125 basis points (linked

to the weighted average margin of the initial Cover Pool) which may be revised from time to time by the Parties.

The Asset Swap Agreement is scheduled to terminate on the earlier of (i) the date on which the outstanding balance of the Cover Pool is zero (ii) the final maturity date of the longest Mortgage Loan included in the Cover Pool (iii) 31 December 2055 and (iv) the date on which all Covered Bonds are redeemed in full and no further Series or Tranches are to be issue. The occurrence of certain other termination events contained in the Asset Swap Agreement may cause it to terminate prior to its scheduled termination date, as described in more detail below.

If any Additional Seller joins the Programme, then it may (subject to it being suitably rated or supported by a suitably rated entity) enter into an Asset Swap Agreement with the Guarantor in respect of the Assets in the Cover Pool transferred by it. If, however, any such Additional Seller or its credit support provider is not so rated, another entity with the required rating may enter into an Asset Swap Agreement with the Guarantor in respect of the Assets in the Cover Pool transferred by such Additional Seller.

Rating Downgrade Event

Under the terms of each Swap Agreement, in the event that the rating(s) of a Swap Provider or its credit support provider are downgraded by a Rating Agency below the rating(s) specified in the relevant Swap Agreement (in accordance with the criteria of the Rating Agencies), then such Swap Provider will, in accordance with the relevant Swap Agreement, be required to take certain remedial measures which may include:

(a) providing collateral for its obligations under the Swap Agreement, or

(b) arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency in order to maintain the rating of the Covered Bonds, or

(c) procuring another entity, with the ratings meeting the relevant Rating Agency's criteria in order to maintain the rating of the Covered Bonds, to become co obligor or guarantor in respect of such Swap Provider's obligations under the Swap Agreement, or

(d) taking such other action as agreed with the relevant Rating Agency provided that it will not adversely affect the ratings of the then outstanding Series or Tranches of Covered Bonds.

A failure by the relevant Swap Provider to take such steps within the time periods specified in the Swap Agreement will allow the Guarantor to terminate the relevant Swap Agreement(s).

Any Swap Provider that does not, on the day of entry into a Swap Agreement, have the adequate rating shall have its obligations to the Guarantor under such Swap Agreement guaranteed by an appropriately rated entity.

Additional Termination Events

A Swap Agreement may also be terminated early in certain other circumstances, including:

(a) at the option of either party to the Swap Agreement, if there is a failure by the other party to pay any amounts due under such Swap Agreement, provided that this additional

termination event will not apply if the failure to pay any amounts due under such Swap Agreement is due to the non-availability of Guarantor Available Funds;

(b) upon the occurrence of an insolvency of either party to the Swap Agreement, or its credit support provider (if any), or the merger of one of the parties without an assumption of the obligations under the relevant Swap Agreement;

(c) there is a change of law or change in application of any relevant law which results in the Guarantor or the Swap Provider (or both) being obliged to make a withholding or deduction on account of a tax on a payment to be made by such party to the other party under the Swap Agreement and the Swap Provider thereby being required under the terms of the Swap Agreement to gross up payments made to the Guarantor, or to receive net payments from the Guarantor (which is not required under the terms of the Swap Agreement to gross up payments made to the Swap Provider); and

(d) there is a change in law which results in the illegality of the obligations to be performed by either party under the Swap Agreements.

The following are also expected to constitute additional termination events, in whole or in part, as the case may be, with respect to the Guarantor in all the Swap Agreements:

(i) amendment to the Transaction Documents without the prior written consent of the relevant Swap Provider when such Swap Provider is of the reasonable opinion that it is materially adversely affected as a result of such amendment;

(ii) in respect of any Covered Bond Swap Agreement, redemption and prepayment (in whole or in part) of any relevant Series or Tranche of Covered Bonds;

(iii) in respect of any Covered Bond Swap Agreement, purchase and cancellation (in whole or in part) of any relevant Series or Tranche of Covered Bonds; and

(iv) in respect of any Asset Swap Agreements, sale of any of the Mortgage Loans.

Upon the termination of a Swap Agreement, the Guarantor or the Swap Provider may be liable to make a termination payment to the other party in accordance with the provisions of the relevant Swap Agreement. The amount of this termination payment will be calculated and may be made in Euro or, if applicable, the currency of the related Series or Tranche of Covered Bonds if issued in a currency other than Euro.

Credit Support Agreement

If it enters into a Swap Agreement, the Guarantor will also enter into with each Swap Provider a credit support document in the form of the ISDA 1995 Credit Support Annex (Transfer English Law) to the ISDA Master Agreement (each, a "**Credit Support Agreement**"). Each Credit Support Agreement will provide that, from time to time, if required to do so following its downgrade or the downgrade of its credit support provider and subject to the conditions specified in the Credit Support Agreement, the relevant Swap Provider will make transfers of collateral to the Guarantor in support of its obligations under the Swap Agreement (the "**Swap Collateral**") and the Guarantor will be obliged to return equivalent collateral in accordance with the terms of the Credit Support Agreement. Each Credit Support Agreement will be governed by English Law.

Swap Collateral required to be posted by the relevant Swap Provider pursuant to the terms of the Credit Support Agreement may be delivered in the form of cash or securities. Cash amounts will be paid into an account designated a "**Swap Collateral Cash Account**" and securities will be transferred to an account designated a "**Swap Collateral Custody Account**". References to a Swap Collateral Cash Account or to a Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to payments from such accounts as and when opened by the Guarantor.

If a Swap Collateral Cash Account and/or a Swap Collateral Custody Account are opened, cash and securities (and all income in respect thereof) transferred as collateral will only be available to be applied in returning collateral (and income thereon) or in satisfaction of amounts owing by the relevant Swap Provider in accordance with the terms of the Credit Support Agreement.

Any Swap Collateral will be returned by the Guarantor to the relevant Swap Provider directly in accordance with the terms of the Credit Support Agreement and not under the Priorities of Payments.

Withholding Tax

Each Swap Provider will be obliged to make payments pursuant to the terms of its Swap Agreement without any withholding or deductions of taxes unless required by law. If any such withholding or deduction is required by law, the Swap Provider will, subject to certain conditions, be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Guarantor will equal the full amount the Guarantor would have received had no such withholding or deduction been required. The Guarantor is similarly obliged to make to make payments pursuant to the terms of the Swap Agreement without any withholding or deductions of taxes unless required by law. However, if any such withholding or deduction is required by law, the Guarantor will not be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Swap Provider will equal the full amount the Swap Provider would have received had no such withholding or deduction been required.

Transfer of Obligations

A Swap Provider may, at its own discretion and at its own expense, novate its rights and obligations under a Swap Agreement to any third party with the appropriate ratings, provided that, among other things, when the transferee is in a different jurisdiction from the transferor, such transfer will not adversely affect the ratings of any then outstanding relevant Series or Tranche of Covered Bonds and such transferee agrees to be bound by, *inter alia*, the terms of the security to which the relevant Swap Agreement is subject, on substantially the same terms as the Swap Provider.

Governing law

The Swap Agreements any non-contractual obligations arising out of or in connection with them are governed by English Law.

MANDATE AGREEMENT

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Mandate Agreement, as amended and supplemented on 17 June 2011, under which, subject to

a Guarantor Default Notice being served or upon failure by the Guarantor to exercise its rights under the Programme Documents and fulfilment of certain conditions, the Representative of the Bondholders, acting in such capacity, shall be authorised to exercise, in the name and on behalf of the Guarantor, all the Guarantor's non-monetary rights arising out of the Programme Documents to which the Guarantor is a party.

Governing law

The Mandate Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

INTERCREDITOR AGREEMENT

On 18 June 2010, the Guarantor and the Other Guarantor Creditors entered into the Intercreditor Agreement, as amended and restated from time to time. On 27 May 2011 BAV acceded to the Intercreditor Agreement in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer, Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV. Securitisation Services S.p.A. acceded (i) on 3 April 2012 as Back-Up Servicer Facilitator; and (ii) on 8 April 2013 as Back-up Servicer. Under the Intercreditor Agreement provision is made as to the application of the proceeds from Collections in respect of the Cover Pool and as to the circumstances in which the Representative of the Bondholders will be entitled, in the interest of the Bondholders, to exercise certain of the Guarantor's rights in respect of the Cover Pool and the Programme Documents.

In the Intercreditor Agreement the Other Guarantor Creditors have agreed, *inter alia*: to the order of priority of payments to be made out of the Guarantor Available Funds; that the obligations owed by the Guarantor to the Bondholders and, in general, to the Other Guarantor Creditors are limited recourse obligations of the Guarantor; and that the Bondholders and the Other Guarantor Creditors have a claim against the Guarantor only to the extent of the Guarantor Available Funds.

Under the terms of the Intercreditor Agreement, the Guarantor has undertaken, following the service of a Guarantor Default Notice, to comply with all directions of the Representative of the Bondholders, acting pursuant to the Conditions, in relation to the management and administration of the Cover Pool.

Each of the Other Guarantor Creditors has agreed in the Intercreditor Agreement that in the exercise of its powers, authorities, duties and discretions the Representative of the Bondholders shall have regard to the interests of both the Bondholders and the Other Guarantor Creditors but if, in the opinion of the Representative of the Bondholders, there is a conflict between their interests the Representative of the Bondholders will have regard solely to the interests of the Bondholders. The actions of the Representative of the Bondholders will be binding on each of the Other Guarantor Creditors.

Under the Intercreditor Agreement, each of the Other Guarantor Creditors has appointed the Representative of the Bondholders, as their agent (*mandatario con rappresentanza*), so that the Representative of the Bondholders may, in their name and behalf and also in the interests of

and for the benefit of the Bondholders (who make a similar appointment pursuant to the Programme Agreements and the Conditions), *inter alia*, enter into the Deed of Pledge and, if necessary pursuant to the terms of the Intercreditor Agreement, into a Deed of Charge. In such capacity, the Representative of the Bondholders, with effect from the date when the Covered Bonds have become due and payable (following a claim to the Guarantor or a demand under the Guarantee in the case of an Issuer Event of Default or Guarantor Event of Default or the enforcement of the Guarantee if so instructed by the Bondholders or the exercise of any other rights of enforcement conferred to the Representative of the Bondholders), may exercise all of the Bondholders and Other Guarantor Creditors' right, title and interest in and to and in respect of the assets charged under the Deed of Pledge (and any Deed of Charge (if any)) and do any act, matter or thing which the Representative of the Bondholders considers necessary for the protection of the Bondholders and Other Guarantor Creditors' rights under any of the Programme Documents including the power to receive from the Issuer or the Guarantor any and all moneys payable by the Issuer or the Guarantor to any Bondholder or Other Guarantor Creditors. In any event, the Representative of the Bondholders shall not be bound to take any of the above steps unless it has been indemnified and/or secured to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

The parties to the Intercreditor Agreement have acknowledged and agreed that any Additional Seller may assign Eligible Assets and Top-Up Assets to the Guarantor, subject to satisfaction of certain conditions which will include the execution and/or accession to certain Programme Documents or other acts, deeds, documents and the notice to the Rating Agencies and the Joint-Arrangers. Any such Additional Seller may become party to the Intercreditor Agreement from time to time by signing an accession letter and, in addition, any Additional Seller(s) shall be required to assume certain specific undertakings as the continuation of the Programme, or any provision of law, may require (including, but not limited to, assuming the same undertakings of the Issuer and the Principal Seller set out in the Cover Pool Management Agreement and/or in the Subordinated Loan Agreement and/or in the Master Servicing Agreement, as the case may be.

The parties to the Intercreditor Agreement have acknowledged and agreed the provisions of the Terms and Conditions and the Guarantee pursuant to which, if the Issuer has failed to pay the Final Redemption Amount on the Maturity Date specified in the relevant Final Terms and the Guarantor or the Guarantor Calculation Agent on its behalf determines that the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series or Tranche of Covered Bonds on the Extension Determination Date, then such Series become a Pass Through Series and payment of the unpaid amount by the Guarantor under the Guarantee shall be deferred until the Extended Maturity Date provided that any amount representing the Final Redemption Amount of such Pass Through Series due and remaining unpaid after the Extension Determination Date may be paid by the Guarantor on any relevant Guarantor Payment Date thereafter up to (and including) the relevant Extended Maturity Date. Following the delivery of a Guarantee Enforcement Notice and upon breach of the Amortisation Test, all Series of Covered Bonds will become Pass Through Series.

Governing law

The Intercreditor Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

GUARANTOR CORPORATE SERVICES AGREEMENT

Under the Corporate Services Agreement entered into on 18 June 2010 between the Guarantor Corporate Servicer and the Guarantor, the Guarantor Corporate Servicer has agreed to provide certain corporate and administrative services to the Guarantor.

Governing law

The Guarantor Corporate Services Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

PROGRAMME AGREEMENT

On 18 June 2010, the Issuer, the Guarantor, the Representative of the Bondholders and the Dealers, entered into the Programme Agreement pursuant to which the parties thereof have recorded the arrangements agreed between them in relation to the issue by the Issuer and the subscription by the Dealers from time to time of Covered Bonds issued under the Programme.

On 27 May 2011 BAV acceded to the Programme Agreement in its capacity as Additional Seller.

Under the Programme Agreement, the Issuer and the Dealers have agreed that any Covered Bonds of any Series or Tranche which may from time to time be agreed between the Issuer and any Dealer(s) to be issued by the Issuer and subscribed for by such Dealer(s) shall be issued and subscribed for on the basis of, and in reliance upon, the representations, warranties, undertakings and indemnities made or given or provided to be made or given pursuant to the terms of the Programme Agreement. Unless otherwise agreed, neither the Issuer nor any Dealer(s) is, are or shall be, in accordance with the terms of the Programme Agreement, under any obligation to issue or subscribe for any Covered Bonds of any Series or Tranche.

Pursuant to the Programme Agreement, before the Issuer reaches its agreement with any Dealer for the issue and purchase of any Series or Tranche of Covered Bonds under the Programme, each Dealer shall have received, and found satisfactory (in its reasonable opinion), all of the documents and confirmations described in schedule 1 (*Initial Conditions Precedent*) of the Programme Agreement constituting the initial conditions precedent and the conditions precedent set out under clause 3.2 (*Conditions precedent to the issue of any Series or Tranche of Covered Bonds*) of the Programme Agreement, as applicable to the relevant Series, shall have been satisfied.

According to the terms of the Programme Agreement, the Issuer may nominate any institution as a new Dealer in respect of the Programme or nominate any institution as a new Dealer only in relation to a particular Series or Tranche of Covered Bonds upon satisfaction of certain conditions set out in the Programme Agreement.

In addition, under the Programme Agreement, the parties thereof have agreed to certain terms regulating, *inter alia*, the performance of any stabilisation action which may be carried out in connection with the issue of any Series or Tranche of Covered Bonds.

Governing law

The Programme Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

COVER POOL MANAGEMENT AGREEMENT

On 18 June 2010, Issuer, Principal Seller, Principal Servicer, Pre-Issuer Default Test Calculation Agent and Principal Subordinated Lender, Guarantor, Guarantor Calculation Agent, Post-Issuer Default Test Calculation Agent and the Representative of the Bondholders entered into the Cover Pool Management Agreement, as amended and restated from time to time, pursuant to which they have agreed certain terms regulating, *inter alia*, the performance of the Tests and the purchase and sale by the Guarantor of the Eligible Assets and Top-Up Assets included in the Cover Pool.

On 27 May 2011 BAV acceded to the Cover Pool Management Agreement in its capacity as Additional Seller, Additional Servicer and Additional Subordinated Lender. Following the Merger, BMPS assumed all rights and obligations of BAV in the capacity as Additional Servicer, Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

Under the Cover Pool Management Agreement the Issuer also in its capacity as Principal Seller and each Additional Seller(s) have jointly and severally undertaken to procure that: 1) starting from the First Issue Date and until the earlier of (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and (b) the date on which a Guarantee Enforcement Notice is delivered, (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date, any of the Mandatory Test was breached, each of the Mandatory Tests (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool; and 2) starting from the First Issue Date and until the earlier of (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and (b) the date on which a Guarantee Enforcement Notice is delivered, each of the Issuer, also in its capacity as Principal Seller, and each Additional Seller(s), has undertaken to procure that, on any Test Calculation Date, the Asset Coverage Test (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool.

In addition, the Guarantor has undertaken to procure that starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of: (a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and (b) the date on which a Guarantor Default Notice is delivered, on any Test Calculation Date, the Amortisation Test (as described in detail in section "*Credit structure - Tests*" below) is met with respect to the Cover Pool.

The Pre-Issuer Default Test Calculation Agent has agreed to prepare and deliver, on each Test Performance Report Date prior to the delivery of a Guarantee Enforcement Notice, to the Issuer, the Guarantor, the Representative of the Bondholders, the Asset Monitor, the Guarantor Calculation Agent, the Principal Seller and each Additional Seller(s), the Principal Servicer and each Additional Servicer(s) and the Rating Agencies, a report setting out the calculations carried out by it with respect of the Mandatory Tests and the Asset Coverage Test, as appropriate, (the "**Pre-Issuer Default Test Performance Report**").

The Post-Issuer Default Test Calculation Agent has agreed to prepare and deliver, on each Test Performance Report Date following the delivery of a Guarantee Enforcement Notice, to the Guarantor, the Representative of the Bondholders, the Asset Monitor, the Guarantor Calculation Agent, the Principal Seller and any Additional Seller(s), the Principal Servicer and any Additional Servicer(s) and the Rating Agencies, a report setting out the calculations carried out by it with respect of the Amortisation Tests (the "**Post Issuer Default Test Performance Report**").

If, on each Test Performance Report Date, the Pre-Issuer Default Test Calculation Report specifies the breach of any of the Mandatory Tests and/or the Asset Coverage, the Guarantor will: (i) within the Test Grace Period, or (ii) if a Breach of Tests Notice had already been delivered, within the Test Remedy Period, purchase Top-Up Assets or other Eligible Assets either by way of purchase or substitution, from the Principal Seller or Additional Seller (if any), in each case in accordance with the Master Assets Purchase Agreement and in an amount sufficient to ensure, also taking into account the information provided by the Pre-Issuer Default Test Calculation Agent in its notification of the breach, that as of the subsequent Test Calculation Date, all Tests will be satisfied with respect to the Cover Pool, as evidenced in the relevant Test Performance Report.

The parties to the Cover Pool Management Agreement have acknowledged that the aggregate amount of Top Up Assets included in the Cover Pool following such purchases may not be in excess of 15 per cent. of the aggregate outstanding principal amount of the Cover Pool or any other limit set out in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310. Should any such limit be breached at any time, the Issuer shall remedy as soon as possible to such breach, provided that, in the meanwhile, any Top-Up Assets exceeding such 15% Limit will not be considered in the calculation of the Tests.

Following the delivery of a Breach of Tests Notice, but prior to the delivery of a Guarantee Enforcement Notice, if within the Test Remedy Period the relevant Mandatory Tests and Asset Coverage Test is/are met according to the information included in the relevant Pre-Issuer Default Test Performance Report (unless any other Segregation Event has occurred and is outstanding and without prejudice to the obligation of the Representative of the Bondholders to deliver a subsequent Breach of Tests Notice at any time thereafter to the extent a further Segregation Event occurs), the Representative of the Bondholders will promptly deliver to the Issuer, the Guarantor, the Guarantor Calculation Agent, the Principal Seller and any Additional Seller(s), the Principal Servicer and any Additional Servicer(s), the Asset Monitor and the Rating Agencies, a notice informing such parties that the Breach of Test Notice then outstanding has been revoked (the "**Breach of Tests Cure Notice**").

After the service of a Guarantee Enforcement Notice on the Guarantor, but prior to service of a Guarantor Default Notice, the Guarantor shall, upon instructions of the Portfolio Manager (as defined below) and provided that the Representative of the Bondholders has been duly informed, use its best effort to sell the Eligible Assets and/or Top-Up Assets included in the Cover Pool. The Eligible Assets and Top-Up Assets (any such Eligible Assets and Top-Up Assets, the "**Selected Assets**") will be selected from the Cover Pool on a random basis by the Principal Servicer on behalf of the Guarantor and the proceeds from any sale of Selected Assets will be credited to the Main Programme Account and applied as set out in the applicable Priority of Payments.

The Guarantor (or the Principal Servicer on behalf of the Guarantor) shall use its best efforts to sell the Eligible Assets and/or Top-Up Assets as follows:

(a) following the service of a Guarantee Enforcement Notice, within at least (provided that the Guarantor may commence before) the date falling (a) 30 days after the service of a Guarantee Enforcement Notice following a non-payment referred under Condition 11.2(a) or (b) in any other case of Guarantee Enforcement Notice delivered other than for a non-payment on a Series of Covered Bonds, six months prior to the Maturity Date of the Earliest Maturing Covered Bonds (the "**Earliest Maturing Sale Date**") and up to the earlier of (a) the date on which a breach of the Amortisation Test occurred, (b) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (c) the date on which a Guarantor Default Notice is delivered. The Guarantor shall use its best effort to sell the Selected Assets in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and/or, only on the Earliest Maturing Sale Date, the Earliest Maturing Covered Bonds and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts, **provided that**, (1) prior to and following the sale of such Selected Assets, the Amortisation Test is complied with and (2) the Guarantor and the Portfolio Manager shall use their best effort to sell the Selected Assets, at the first attempt, at a price that ensures that the ratio between the aggregate Outstanding Principal Balance of the Cover Pool and the Outstanding Principal Amount of all Series of Covered Bonds remains unaltered following the sale of the relevant Selected Assets and repayment of the Pass Through Series and/or Earliest Maturing Covered Bonds (as the case may be). If the proceeds of the sale of Selected Assets raised on the first attempt are insufficient for the purposes set out above, the Guarantor shall repeat its attempt to sell the Selected Assets every sixth months thereafter until the earlier of (i) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (ii) the date on which a Guarantor Default Notice is delivered; and

(b) following the service of a Guarantee Enforcement Notice (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice), if a breach of the Amortisation Test occurs as specified in the relevant Test Performance Report, starting from the date falling 30 calendar days after the date on which a Test Performance Report specifies a breach of the Amortisation Test and in an amount as close as possible to the amount necessary (i) to redeem in full the Pass Through Series and (ii) to pay any interest amount due in respect of the Covered Bonds net of any amounts standing to the credit of the Programme Accounts. If the proceeds of the sale of the Eligible Assets and/or Top-Up Assets raised on the first attempt are insufficient for the purposes set out above, the Guarantor shall repeat its attempt to sell Eligible Assets and/or Top-Up Assets every sixth months thereafter until the earlier of (i) the date on which the Pass Through Series of Covered Bonds have been redeemed in full and (ii) the date on which a Guarantor Default Notice is delivered;

(c) following the service of a Guarantor Default Notice the Guarantor, all the asset included in the Cover Pool, provided that the Guarantor will instruct the Portfolio Manager to use all reasonable endeavours to procure that such sale is carried out as quickly as reasonably practicable taking into account the market conditions at that time.

With respect to any sale to be carried out in accordance with the Cover Pool Management Agreement, within calendar 20 days following the delivery of a Guarantee Enforcement Notice,

or as soon as practicable if necessary to effect timely payments under the Covered Bonds, the Guarantor will, through a tender process, appoint a portfolio manager (the "**Portfolio Manager**") of recognised standing on a basis intended to incentivise the Portfolio Manager to help the Guarantor to achieve the best price for the sale of the Assets (if such terms are commercially available in the market) and to advise it in relation to the sale of the Assets to purchasers (except where any of the Principal Seller and any Additional Seller (if any) (other than in case of *liquidazione coatta amministrativa* of such Principal Seller and/or Additional Seller (if any)) is buying the Assets in accordance with its right of pre-emption under the Master Assets Purchase Agreement).

Under the Cover Pool Management Agreement, the parties have acknowledge that, prior to the occurrence of a Segregation Event, or if earlier, the delivery of a Guarantee Enforcement Notice, the Principal Seller and/or the Additional Seller has the right, pursuant the Master Assets Purchase Agreement, to repurchase any Excess Assets transferred to the Guarantor **provided that** no Tests may be breached as a result of any repurchase under such clause and any such purchase may occur only in accordance with any relevant law, regulation or interpretation of any authority (including, for the avoidance of doubts, the Bank of Italy or the Minister of Economy and Finance) which may be enacted with respect to Law 130, the Bank of Italy Regulation and the Decree No. 310.

For further details, see section "*Credit structure - Tests*" below.

Governing law

The Cover Pool Management Agreement any non-contractual obligations arising out of or in connection with it are governed by Italian law.

DEED OF PLEDGE

On 18 June 2010, the Guarantor and the Representative of the Bondholders entered into the Deed of Pledge under which, without prejudice and in addition to any security, guarantee and other right provided by Law 130 securing the discharge of the Guarantor's obligations to the Bondholders and the Other Guarantor Creditors, the Guarantor has pledged in favour of the Bondholders and the Other Guarantor Creditors all monetary claims and rights and all the amount arising (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Guarantor is or will be entitled to from time to time pursuant to certain Programme Documents, with the exclusion of the Cover Pool and the Collections. The security created pursuant to the Deed of Pledge will become enforceable upon the service of a Guarantor Default Notice.

Governing law

The Deed of Pledge any non-contractual obligations arising out of or in connection with it are governed by Italian law.

ASSET MONITOR AGREEMENT

Please see section "*The Asset Monitor*" below.

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The Guarantor has no obligation to pay the Guaranteed Amounts under the Guarantee until the occurrence of an Issuer Event of Default and service by the Representative of the Bondholders on the Issuer and on the Guarantor of a Guarantee Enforcement Notice. The Issuer will not be relying on payments by the Guarantor in respect of the Term Loans or receipt of Interest Available Funds or Principal Available Funds from the Cover Pool in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Bondholders, as follows:

- the Guarantee provides credit support for the benefit of the Bondholders;
- the Mandatory Tests and, following the delivery of a Guarantee Enforcement Notice, the Amortisation Tests are intended to ensure that the Cover Pool is at all times sufficient to pay any interest and principal under the Covered Bonds;
- prior to the delivery of a Guarantee Enforcement Notice, the Asset Coverage Test is intended to test the asset coverage of the Guarantor's assets in respect of the Covered Bonds following the service of a Guarantee Enforcement Notice, applying for the purpose of such coverage an Asset Percentage factor determined in order to provide a degree of over-collateralization with respect to the Cover Pool;
- the Swap Agreements are intended to hedge certain interest rate, current or other risks in respect of amounts received and amounts payable by the Guarantor;
- a Reserve Account will be established which will build up over time using excess cash flow from Interest Available Funds; and
- under the terms of the Cash Allocation, Management and Payment Agreement, the Cash Manager has agreed to invest the moneys standing to the credit of the Main Programme Account and the Reserve Account in purchasing Eligible Investments.

Certain of these factors are considered more fully in the remainder of this section.

Guarantee

The Guarantee provided by the Guarantor guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme in accordance with the relevant Priority of Payments. The Guarantee will not guarantee any other amount becoming payable in respect of the Covered Bonds for any other reason, including any accelerated payment pursuant to Condition 11.2 (*Issuer Event of Default*) following the delivery of a Guarantee Enforcement Notice. In this circumstance (and until a Guarantor Event of Default occurs and a Guarantor Default Notice is served), the Guarantor's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. Payments to be made by the Guarantor under the Guarantee will be made subject to, and in accordance with, the relevant Priority of Payments, as applicable.

See further "*Description of the Programme Documents - Guarantee*", as regards the terms of the Guarantee. See "*Cashflows - Guarantee Priority of Payments*", as regards the payment of amounts payable by the Guarantor to Bondholders and other creditors following the occurrence of an Issuer Event of Default.

Tests

Under the terms of the Cover Pool Management Agreement, the Issuer and the Additional Seller(s) must ensure that on each Test Calculation Date and/or Quarterly Calculation Date, as the case may be, the Cover Pool is in compliance with the relevant Tests described below. If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, the relevant Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor) will either (i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller, if any) or (ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report.

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice and as a consequence (i) no further Series or Tranche of Covered Bonds may be issued by the Issuer; (ii) there shall be no further payments to the Subordinated Lender under any relevant Term Loan, other than where necessary for the purpose of complying with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement (and to the extent that no purchase of Eligible Assets is possible to this effect in accordance with the provisions of the Master Assets Purchase Agreement and the Cover Pool Management Agreement and/or in compliance with the limits set out in the Bank of Italy Regulations); (iii) the purchase price for any Eligible Assets or Top-Up Assets to be acquired by the Guarantor shall be paid using the proceeds of a Term Loan or, with respect to Eligible Assets only, to the extent necessary to comply with the 15% Limit in accordance with the provisions of Decree 310 and the Bank of Italy Regulations as better specified in the Cover Pool Management Agreement, the Guarantor Available Funds; and (iv) payments due under the Covered Bonds will continue to be made by the Issuer until a Guarantee Enforcement Notice has been delivered.

MANDATORY TESTS

In order to ensure that the Cover Pool is sufficient to repay the Covered Bonds, the Issuer, the Principal Seller, any Additional Seller(s) (if any) shall ensure that the Mandatory Tests, being (i) the Nominal Value Test, (ii) the Net Present Value Test and (iii) the Interest Coverage Test, are satisfied in accordance with article 3 of Decree No. 310 and the provisions of this Agreement.

Starting from the First Issue Date and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantee Enforcement Notice is delivered;

the Issuer, also in its capacity as Principal Seller, and any Additional Seller(s) (if any), jointly and severally undertake to procure that (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, each of the Mandatory Tests described in this Clause 2 is met with respect to the Cover Pool.

(A) ***Nominal Value Test***

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the aggregate Outstanding Principal Balance of the Cover Pool shall be higher than or equal to the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

For the purpose of the Nominal Value Test, the Outstanding Principal Balance of the Cover Pool shall be considered as an amount equal to the "**Nominal Value**" and shall be, on each Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, on each relevant Test Calculation Date), at least equal to the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable). The Nominal Value Test shall be met if:

$$\mathbf{A + B \geq OBG}$$

where,

"**A**" is the Outstanding Principal Balance of each Eligible Assets (taking into account the loan to value limit imposed by law) and Top Up Assets comprised in the Cover Pool as at the relevant Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, as at the relevant Test Calculation Date);

"**B**" is the aggregate amount of all Principal Available Funds cash standing on the Programme Accounts; and

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

The Nominal Value Test will always be deemed as met to the extent that the Asset Coverage Test is met, as of the relevant Quarterly Test Calculation Date or the relevant Test Calculation

Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached.

(B) ***Net Present Value Test***

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the net present value of the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of all the costs to be borne by the Guarantor (including the costs of any nature expected or due with respect to any Swap Agreement) shall be higher than or equal to the net present value of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

The Net Present Value Test shall be met if:

$$A+B+C-D \geq NPVOBG$$

where,

"**A**" is the net present value of all Eligible Assets (taking into account the loan to value limit imposed by law) and Top Up Assets comprised in the Cover Pool;

"**B**" is the net present value of each Swap Agreement;

"**C**" is the aggregate amount of the Principal Available Funds;

"**D**" is the net present value amount of any transaction costs to be borne by the Guarantor (including the costs of any nature expected to be borne or due with respect to any Swap Agreement); and

"**NPVOBG**" is the sum of the net present value of each Covered Bonds outstanding under the Programme.

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

(C) ***Interest Coverage Test***

The Pre-Issuer Default Test Calculation Agent shall verify (i) on any Quarterly Test Calculation Date, and (ii) on any Test Calculation Date thereafter if on the immediately preceding Quarterly Test Calculation Date any of the Mandatory Test was breached, that the amount of interest and other revenues expected to be generated by the assets included in the Cover Pool (including the payments of any nature expected to be received by the Guarantor with respect to any Swap Agreement), net of all the costs expected to be borne by the Guarantor (including the cost of any nature expected or due with respect to any Swap Agreement), shall be higher than or equal to the amount of interest due on all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms.

The Interest Coverage Test shall be met if:

$$(A+B+C+D-E) \geq IOBG$$

where,

"**A**" is (i) the interest component of all the Instalments falling due and payable from the relevant Quarterly Test Calculation Date (or following the breach of any of the Mandatory Test, on each relevant Test Calculation Date) to the date falling 12 months thereafter (taking into account the loan to value limit imposed by law) and (ii) all other amounts (other than principal amount) to be received in respect of the Eligible Assets and Top Up Assets comprised in the Cover Pool (other than those under letter (i) above) to the date falling 12 months thereafter;

"**B**" is any net interest amount expected to be received by the Guarantor under the Covered Bond Swap Agreement from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**C**" is any net interest amount expected to be received by the Guarantor under the Asset Swap Agreement from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**D**" is any interest expected to accrue in respect of the Principal Available Funds from the relevant Guarantor Calculation Date to the date falling 12 months thereafter;

"**E**" is the amount of all senior costs expected to be borne by the Guarantor during the period starting from the relevant Guarantor Calculation Date and ending on the date falling 12 months thereafter, under item from *First* to *Fourth* of the Pre-Issuer Default Interest Priority of Payments;

"**IOBG**" is the aggregate amount of all interest payments due and payable under all outstanding Covered Bonds on the Interest Payment Dates falling in the period starting from the relevant Guarantor Calculation Date (excluded) and ending on the date falling 12 months thereafter (such interest payments to be calculated with respect to the applicable interest rates set out in the relevant Final Terms as of the relevant Guarantor Calculation Date).

ASSET COVERAGE TEST

Starting from the First Issue Date and until the earlier of:

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantee Enforcement Notice is delivered (and, in case the Issuer Event of Default consists of an Article 74 Event, to the extent that an Article 74 Event Cure Notice has been served);

the Issuer, also in its capacity as Principal Seller, and any Additional Seller(s) (if any), jointly and severally undertake to procure that, on any Test Calculation Date, the Asset Coverage Test is met with respect to the Cover Pool.

For the purposes of the Asset Coverage Test, the Pre-Issuer Default Test Calculation Agent shall verify that the Adjusted Aggregate Asset Amount is, on each Test Calculation Date prior to the delivery of an Issuer Default Notice, at least equal to the aggregate Principal Amount

Outstanding of all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

The Asset Coverage Test shall be met if:

$$A-X+B+C-Z-Y-W \geq OBG$$

where,

"**A**" is equal to **MIN*AP**

where

"**MIN**" is the sum of the "**LTV Adjusted Principal Balance**" of each Mortgage Loan in the Cover Pool, which shall be the lower of (1) the actual Outstanding Principal Balance of the relevant Mortgage Loan in the Cover Pool as calculated on the last day of the immediately preceding Calculation Period, and (2) the Latest Valuation relating to that Mortgage Loan multiplied by M, where M is:

(a) equal to 80 per cent. for all the Receivables arising from Mortgage Loans (i) having no unpaid Instalments or (ii) Instalments not paid for less than 90 calendar days or (iii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for less than 90 calendar days or (iv) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is lower than 90 calendar days;

(b) equal to 40 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 90 calendar days but less than 180 calendar days or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 90 calendar days but less than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is greater than 90 calendar days but lower than 180 calendar days; and

(c) equal to 0 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 180 calendar days) or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date,

payments have been suspended for more than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is longer than 180 calendar days;

"**X**" is equal to the amount to be deducted from the LTV Adjusted Principal Balance of any Mortgage Loans in the Cover Pool in respect of which any of the following occurred during the immediately preceding Calculation Period: (a) the relevant Mortgage Loan was, in the immediately preceding Calculation Period, in breach of the representations and warranties contained in the Warranty and Indemnity Agreement (any such Mortgage Loan an "**Affected Loan**"); or (b) the relevant Seller, in any preceding Calculation Period, was in breach of any other material representation and warranty under the Master Assets Purchase Agreement and/or such relevant Servicer was, in any preceding Calculation Period, in breach of a material term of the Master Servicing Agreement.

Such amount shall, in all cases, be equal to (i) nil, as long as the Issuer's short term rating or the Issuer's long term rating is at least, respectively, "F1" or "A" by Fitch or the Issuer's short term rating is at least "P-1" or the Counterparty risk rating (if available) is at least "Baa3(cr)" by Moody's or the Issuer's long term rating is at least "BBB" by DBRS, provided that the relevant Seller has indemnified the Guarantor or otherwise cured such breach, to the extent required by the terms of the Warranty and Indemnity Agreement or the relevant Seller or Servicer has otherwise cured such breach in accordance with the relevant Programme Documents; (ii)(A) in respect of the Affected Loan, an amount equal to the LTV Adjusted Principal Balance of the relevant Affected Loan or Affected Loans (as calculated on the last day of the immediately preceding Calculation Period); or (ii)(B) in respect of the Mortgage Loan referred to in letter (b) above, an amount equal to the resulting financial loss incurred by the Guarantor in the immediately preceding Calculation Period (such financial loss to be calculated by the Guarantor Calculation Agent without double counting and to be reduced by any amount paid, in cash or in kind, to the Guarantor by the relevant Seller to indemnify the Guarantor for such financial loss) (any such loss a "**Breach Related Loss**");

"**AP**" is the Asset Percentage;

and

"**B**" is the aggregate amount of the Principal Available Funds;

"**C**" is the aggregate Outstanding Principal Balance of any Eligible Assets and/or Top-Up Assets (other than those under letter (A) above); and

"**Z**" is the weighted average remaining maturity of all Covered Bonds multiplied by the Principal Amount Outstanding of the Covered Bonds (or the Euro Equivalent, if applicable) multiplied by the Negative Carry Factor;

"**Y**" is equal to nil, as long as the Issuer's short term rating or the Issuer's long term rating is, respectively, at least "F1" and "A" by Fitch or the Issuer's short term rating is at least "P-1" or the deposit rating is at least "Baa3" by Moody's or the Issuer's long term rating is in accordance

with the Minimum DBRS Rating by DBRS, otherwise it is equal to the Potential Set-Off Amounts (unless the calculation of such Potential Set-Off Amounts is no longer required in accordance with the Rating Agencies' criteria from time to time applicable);

"**W**" is equal to nil, as long as the Issuer's short term rating or the Issuer's long term rating is, respectively, at least "F1" and "A" by Fitch or the Issuer's short term rating is at least "P-1" or the Counterparty risk rating (if available) is at least "Baa3(cr)" by Moody's or the Issuer's long term rating is in accordance with the Minimum DBRS Rating by DBRS, otherwise it is equal to the Potential Commingling Amount (unless the calculation of such Potential Commingling Amount is no longer required in accordance with the Rating Agencies' criteria from time to time applicable).

The calculation above will be performed without taking into account any Top-Up Assets exceeding the 15% Limit.

"**Potential Commingling Amount**" means an amount of collection which may be subject to commingling risk in case of an Insolvency Event of the Servicer, as calculated by the Pre-Issuer Default Test Calculation Agent in an amount which shall not prejudice the rating assigned from time to time to the Covered Bonds in accordance with the criteria of the Rating Agencies.

For the avoidance of doubt, it is understood that, if upon a downgrading of the Issuer's rating assigned (1) by Fitch below "F1" with respect to the Issuer's short term rating or "A", with respect to the Issuer's long term rating, or (2) by Moody's below "P-1" with respect to the Issuer's short term rating, or "Baa3(cr)" with respect to the Counterparty risk rating (if available) or (3) by DBRS below the Minimum DBRS Rating with respect to the Issuer's long term rating and the remedies provided for under clause 5.2.1 of the Master Servicing Agreement have been put in place, the amount appropriate for the purposes of the definition of "Potential Commingling Amount" shall be equal to nil. If on the contrary the remedies provided for under clause 5.2.1 of the Master Servicing Agreement have not been put in place than the Potential Commingling Amount shall be deducted from the Asset Coverage Test.

"**Potential Set-Off Amounts**" means the aggregate outstanding principal balance of the Cover Pool that could potentially be lost as a result of the relevant Debtors exercising their set-off rights. Such amount will be calculated, only starting from the date on which the Issuer's short term rating or the Issuer's long term rating assigned by Fitch falls below, respectively, "F1" or "A" or the Issuer's short term rating or the deposit rating assigned by Moody's falls below, respectively, "P-1" and "Baa3" or the Issuer's long term rating falls below the Minimum DBRS Rating by DBRS, by the Pre-Issuer Default Test Calculation Agent in an amount which shall not prejudice the rating assigned from time to time to the Covered Bonds in accordance with the criteria of the Rating Agencies.

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

AMORTISATION TEST

Starting from the date on which a Guarantee Enforcement Notice is delivered and until the earlier of

(a) the date on which all Series or Tranche of Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full in accordance with the Terms and Conditions and the relevant Final Terms; and

(b) the date on which a Guarantor Default Notice is delivered;

the Guarantor undertakes to procure that on any Test Calculation Date, the Amortisation Test is met with respect to the Cover Pool, provided that, in case the Issuer Event of Default consists of an Article 74 Event, no Article 74 Event Cure Notice has been served.

For the purpose of the Amortisation Test, the Post-Issuer Default Test Calculation Agent shall verify that, on each Test Calculation Date, the outstanding principal balance of the Cover Pool is higher than or equal to the Euro Equivalent of the Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms at the relevant Test Calculation Date.

The Amortisation Test shall be met if:

$$A+B+C-Z \geq OBG$$

where,

"**A**" is equal to MIN multiplied by Guarantee Asset Percentage (GAp)

For the purposes of the calculation of the Amortisation Test, the Guarantee Asset Percentage will be calculated as the ratio granting an overcollateralisation equal to 75 per cent. of the overcollateralisation resulting from the Asset Percentage used on the last Test Calculation Date preceding the service of a Guarantee Enforcement Notice. Thus the calculation of the Guarantee Asset Percentage is made on the basis of the following formula:

$GAp = 1/(75\% * (1/AP-1)+1)$

Where "**AP**" is the Asset Percentage used on the last Test Calculation Date preceding the service of a Guarantee Enforcement Notice.

"**MIN**" is the lower of:

1. the actual Outstanding Principal Balance of each Mortgage Loan as calculated on the last day of the immediately preceding Calculation Period; and

2. the Latest Valuation multiplied by M (where M is:

    (a) equal to 100 per cent. for all the Receivables arising from Mortgage Loans (i) having no unpaid Instalments or (ii) Instalments not paid for less than 90 calendar days or (iii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for less than 90 calendar days or (iv) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28

January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is lower than 90 calendar days;

(b) equal to 60 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 90 calendar days but less than 180 calendar days or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 90 calendar days but less than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is greater than 90 calendar days but lower than 180 calendar days; and

(c) equal to 40 per cent. for all the Receivables arising from Mortgage Loans (i) having Instalments not paid for more than 180 calendar days) or (ii) which have been restructured in connection with the accession of the relevant borrower to the "*Combatti la crisi*" program and in respect of which, as of the relevant Test Calculation Date, payments have been suspended for more than 180 calendar days or (iii) in respect of which the relevant borrower has requested a suspension of payment pursuant to the Decree of the Ministry of Finance of 25 February 2009 implementing Legislative Decree no. 185 of 29 November 2008, as converted into law through Law no. 2 of 28 January 2009 (*Decreto Anticrisi*), or under the renegotiation scheme for distressed borrowers signed by the Italian Banks Association (ABI) on 18 December 2009 (*Piano Famiglie*), during the suspension period provided that, as of the relevant Test Calculation Date, such suspension period is longer than 180 calendar days.

"**B**" the aggregate amount of the Principal Available Funds;

"**C**" is the aggregate outstanding principal balance of any Eligible Assets (other than those under letter (A) above); and or Top-Up Assets (not exceeding the 15% Limit);

"**Z**" is the weighted average remaining maturity of all Covered Bonds multiplied by the Principal Amount Outstanding of the Covered Bonds (or the Euro Equivalent, if applicable) multiplied by the "**Negative Carry Factor**"; and

"**OBG**" means the aggregate Principal Amount Outstanding of all Series or Tranche of Covered Bonds issued under the Programme and not cancelled or redeemed in full in accordance with their Terms and Conditions and the relevant Final Terms (or the Euro Equivalent, if applicable).

Breach of Tests

If on any Test Calculation Date or Quarterly Test Calculation Date, as the case may be, a Test Performance Report specifies that the Cover Pool is not in compliance with the relevant Test, then the Principal Seller, (and/or any Additional Seller(s) in respect of each relevant New Portfolio transferred to the Guarantor, will either:

(i) sell additional Eligible Assets and/or Top-Up Assets to the Guarantor for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, in accordance with the Master Assets Purchase Agreement and the Cover Pool Management Agreement, to be financed through the proceeds of Term Loans to be granted by the Principal Seller (and/or any Additional Seller(s)); or

(ii) substitute any relevant assets in respect of which the right of repurchase can be exercised under the terms of the Master Assets Purchase Agreement with new Eligible Assets, for an amount sufficient to allow the relevant Test to be met on the next following Test Calculation Date as determined in the immediately following Test Performance Report, or

(iii) take any other action that may be deemed appropriate to allow the relevant Tests to be cured on the next Test Calculation Date.

Failure to remedy Tests

If, within the Test Grace Period the relevant breach of the Tests is not remedied in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Breach of Test Notice.

If, after the delivery of a Breach of Test Notice, the relevant breach of the Tests is not remedied, within the Test Remedy Period, in accordance with the terms of the Cover Pool Management Agreement, the Representative of the Bondholders will deliver a Guarantee Enforcement Notice.

If, after the delivery of a Guarantee Enforcement Notice (provided that, should such Issuer Default Notice consist of an Article 74 Event, an Article 74 Event Cure Notice has not been served), a breach of the Amortisation Test occurs, all Series of Covered Bonds will become immediately Pass Through Series.

Upon receipt of a Guarantee Enforcement Notice, the Guarantor shall dispose of the assets included in the Cover Pool.

Reserve Account

The Reserve Account is held in the name of the Guarantor and will build up over time using excess cash flows remaining on each Guarantor Payment Date after payments required to be made on such date have been made. On each Guarantor Payment Date, in accordance with the Priority of Payments, available funds shall be deposited by the Issuer in the Reserve Account until the Reserve Amount equals the Required Reserve Amount for such Guarantor Payment Date. The Reserve Amount over and above the Required Reserve Amount will be used on each Guarantor Payment Date together with other Guarantor Available Funds, for making the payments required by the Priorities of Payment.

CASHFLOWS

As described above under "*Credit Structure*", until a Guarantee Enforcement Notice is served on the Guarantor, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the Guarantor.

This section summarises the cashflows of the Guarantor only, as to the allocation and distribution of amounts standing to the credit of the Programme Accounts and their order of priority (all such orders of priority, the "**Priority of Payments**") (a) prior to an Issuer Event of Default and a Guarantor Event of Default, (b) following an Issuer Event of Default (but prior to a Guarantor Event of Default) and (c) following a Guarantor Event of Default.

Definitions

For the purposes hereof the Guarantor Available Funds are constituted by the Interest Available Funds and the Principal Available Funds, which will be calculated by BMPS on each Calculation Date.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following

Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(i) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ii) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(i) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(ii) any amounts paid as Interest Shortfall Amount out of item (*First*) of the Pre-Issuer Default Principal Priority of Payments; and

(iii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item *Ninth* of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

Pre-Issuer Default Interest Priority of Payments

The Interest Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), (a) to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts) and (b) to credit to the Expenses Account such an amount as will bring the balance of such account up to (but not in excess of) the Retention Amount;

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pro rata* and *pari passu*, any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the English Account Bank, the Payments Account Bank, the Cash Manager, the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Guarantor Corporate Servicer, the Italian Back-Up Account Bank and the English Back-Up Account Bank;

4. (*Fourth*), *pro rata* and *pari passu*, to pay, or make a provision for payment of such proportion of, (i) any interest amounts due to the Asset Swap Provider and (ii) any interest amounts due to the Covered Bond Swap Provider(s), *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement (including, in both cases, any termination payments due and payable by the Guarantor except where the swap counterparty is the Defaulting Party or the sole Affected Party (the "**Excluded Swap Termination Amounts**"));

5. (*Fifth*), to credit to the Reserve Account an amount required to ensure that the Reserve Amount is funded up to the Required Reserve Amount, as calculated on the immediately preceding Guarantor Calculation Date;

6. (*Sixth*), to pay any Loan Interest due and payable on such Guarantor Payment Date on each Term Loan to the Subordinated Lender(s) pursuant to the terms of the Subordinated Loan Agreement, provided that (i) no Segregation Event has occurred and is continuing on such Guarantor Payment Date; and (ii) if a Segregation Event has occurred and is continuing, any amount of interest on the Covered Bonds has been duly and timely paid by the Issuer;

7. (*Seventh*), upon the occurrence of a Servicer Termination Event, to credit all remaining Interest Available Funds to the Main Programme Account until such Servicer Termination Event is either remedied or waived by the Representative of the Bondholders or a new servicer is appointed;

8. (*Eighth*), to pay *pro rata* and *pari passu* in accordance with the respective amounts thereof any Excluded Swap Termination Amounts;

9. (*Ninth*), to transfer to the Principal Available Funds an amount equal to the Interest Shortfall Amount, if any, allocated on the immediately preceding Guarantor Payment

Date under item First of the Pre-Issuer Default Principal Priority of Payments and on any preceding Guarantor Payment Dates and not already repaid;

10. (*Tenth*), to pay to the Principal Seller and to the Additional Seller(s) (if any), any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Pre-Issuer Default Interest Priority of Payments;

11. (*Eleventh*), *pari passu* and *pro rata* according to the respective amounts thereof, (i) to pay any Premium on the Programme Term Loans and (ii) to repay any Excess Term Loan Amount, provided that no Segregation Event has occurred and is continuing.

Pre-Issuer Default Principal Priority of Payments

The Principal Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), to pay any amount payable as Interest Shortfall Amount;

2. (*Second*), to acquire New Portfolios and/or Top-Up Assets and/or other Eligible Assets (other than those funded through the proceeds of a Term Loan);

3. (*Third*), to pay, *pari passu* and *pro rata* in accordance with the respective amounts thereof: (a) any principal amounts due or to become due and payable to the relevant Swap Providers *pro rata* and *pari passu* in respect of each relevant Swap Agreement; and (b) (where appropriate, after taking into account any amounts in respect of principal to be received from a Swap Provider on such Guarantor Payment Date or such other date up to the next following Guarantor Payment Date as the Guarantor Calculation Agent may reasonably determine) on each Guarantor Payment Date that falls on an Interest Payment Date, the amounts (in respect of principal) due or to become due and payable under the Term Loan, provided in any case no Segregation Event has occurred and is continuing and/or, where applicable, provided that no amounts shall be applied to make a payment in respect of a Term Loan if the principal amounts outstanding under the relevant Series or Tranche of Covered Bonds which have fallen Due for Payment on such relevant Guarantor Payment Date have not been repaid in full by the Issuer.

Guarantee Priority of Payments

Following the delivery of a Guarantee Enforcement Notice, the Guarantor Available Funds shall be applied on each Guarantor Payment Date in making the following payments and provisions in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

1. (*First*), (a) to pay, *pari passu* and *pro rata*, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts) and (b) to credit to the Expenses Account such an amount as will bring the balance of such account up to (but not in excess of) the Retention Amount;

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the Guarantor Calculation Agent, the Guarantor Corporate Servicer, the Asset Monitor, the Principal Paying Agent, the Paying Agent(s) (if any), the Luxembourg Listing and Paying Agent, the Portfolio Manager (if any), the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Italian Back-Up Account Bank, the English Back-Up Account Bank and the Payments Account Bank;

4. (*Fourth*), *pari passu* and *pro rata* according to the respective amounts thereof, (i) any amount due to the Asset Swap Provider (including any termination payment due and payable by the Guarantor other than any Excluded Swap Termination Amounts); (ii) any interest amounts due to the Covered Bond Swap Provider(s), *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement (including any termination payments due and payable by the Guarantor other than any Excluded Swap Termination Amounts); and (iii) on any Guarantor Payment Date, any interest due and payable on such Guarantor Payment Date (or that will become due and payable on the immediately succeeding Guarantor Payment Date) under the Guarantee in respect of each Pass Through Series, Series or Tranche of Covered Bonds *pari passu* and *pro rata* in respect of each such Pass Through Series, Series or Tranche of Covered Bonds;

5. (*Fifth*), *pari passu* and *pro rata* (a) in or towards payment on the Guarantor Payment Date or to make a provision for payment of such proportion of any relevant amount falling due up to the next following Guarantor Payment Date as the Guarantor Calculation Agent may reasonably determine, of the amounts in respect of principal due or to become due and payable to the relevant Swap Provider *pro rata* and *pari passu* in respect of each relevant Swap Agreement (including any termination payment due and payable by the Guarantor under the relevant Swap Agreement, other than any Excluded Swap Termination Amount) in accordance with the terms of the relevant Swap Agreement; (b) *pari passu* and *pro rata* among any Pass Through Series, Series or Tranche of Covered Bonds, in or towards payment or to make a provision for payment, on each Guarantor Payment Date (where appropriate, after taking into account any amounts in respect of principal to be received from a Covered Bond Swap Provider) of principal amounts (that are payable on any Pass Through Series and due and payable in respect of any other Series or Tranche of Covered Bonds on such Guarantor Payment Date or that will become payable on any Pass Through Series and due and payable in respect of any other Series or Tranche of Covered Bonds up to the immediately succeeding Guarantor Payment Date) under the Guarantee in respect of such Pass Through Series, Series or Tranche of Covered Bonds;

6. (*Sixth*), until each Series or Tranche of Covered Bonds has been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series or Tranche of Covered Bonds), to credit any remaining amounts to the Main Programme Account;

7. (*Seventh*), to pay *pro rata* and *pari passu*, any Excluded Swap Termination Amount due and payable by the Guarantor;

8. (*Eighth*), to pay to the Principal Seller and to the Additional Seller(s) (if any) any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Guarantee Priority of Payments;

9. (*Ninth*), to pay *pari passu* and *pro rata* according to the respective amounts thereof any interest and principal amount outstanding and Premium (if any), on each Term Loan under the Subordinated Loan Agreement(s).

Post-enforcement Priority of Payments

Following a Guarantor Event of Default, the making of a demand under the Guarantee and the delivery of a Guarantor Default Notice by the Representative of the Bondholders, the Guarantor Available Funds shall be applied, on each Guarantor Payment Date, in making the following payments in the following order of priority:

1. (*First*), to pay, *pari passu* and *pro rata* according to the respective amounts thereof, any Expenses (to the extent that amounts standing to the credit of the Expenses Account have been insufficient to pay such amounts);

2. (*Second*), to pay any amount due and payable to the Representative of the Bondholders;

3. (*Third*), to pay, *pro rata* and *pari passu*, (i) any amount due and payable to the Principal Servicer, the Additional Servicer(s) (if any), the Back-Up Servicer (if any), the Italian Account Bank, the Guarantor Calculation Agent, the Guarantor Corporate Servicer, the Asset Monitor, the Principal Paying Agent, the Paying Agent(s) (if any), the Portfolio Manager (if any), the Italian Back-Up Account Bank, the English Back-Up Account Bank and the Payments Account Bank; (ii) amounts due to the Covered Bond Swap Provider(s) and the Asset Swap Provider and any other Swap Provider(s) (if any) other than any Excluded Swap Termination Amount; and (iii) amounts due under the Guarantee in respect of each Pass Through Series, Series or Tranche of Covered Bonds;

4. (*Fourth*), to pay *pro rata* and *pari passu*, any Excluded Swap Termination Amount due and payable by the Guarantor;

5. (*Fifth*), to pay to the Principal Seller and to the Additional Seller(s) (if any) any amount due and payable under the Programme Documents, to the extent not already paid or payable under other items of this Post-enforcement Priority of Payments;

6. (*Sixth*), to pay or repay any amounts outstanding under the Subordinated Loan Agreement(s).

DESCRIPTION OF THE COVER POOL

The Cover Pool is and will be comprised of (a) Mortgage Loans and the related collateral and (b) Asset Backed Securities, assigned to the Guarantor by the Principal Seller and/or the Additional Seller(s) in accordance with the terms of the Master Assets Purchase Agreement, (ii) any proceeds arising from the Swap Agreements and (iii) any other Eligible Assets in accordance with Law 130, the Decree No. 310 and the Bank of Italy Regulations and any other Top-Up Assets.

As at the date of this Prospectus, the Initial Portfolio and each New Portfolio (the "**Portfolio**") consists of Residential Mortgage Loans transferred by the Principal Seller and by Banca Antonveneta S.p.A., as Additional Seller to the Guarantor in accordance with the terms of the Master Assets Purchase Agreement, as more fully described under "*Description of the Programme Documents - Master Assets Purchase Agreement*".

The Debtors of the Receivables comprised in the Cover Pool were 180,065 as at 30 September 2017 and none of them has a debt equal to or higher than 20 per cent. of the value of the Cover Pool.

No revaluation of the relevant properties has been made by BMPS for the purpose of any issue under the Programme. Any valuation has been performed only as at the date of the origination of any Mortgage Loan.

The Cover Pool has characteristics that demonstrate capacity to produce funds to service any payment due and payable on the Covered Bonds.

As at 30 November 2017, the latest maturing asset within the Cover Pool will expire on 30 November 2054.

As at 30 November 2017, the total amount of assets within the Cover Pool is € 10.133.812.323,06.

For the purposes hereof:

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor on 25 May 2010, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Second Portfolio**" means the second portfolio of Receivables and related Security Interests purchased by the Guarantor on 29 November 2010, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Third Portfolio**" means the third portfolio of Receivables and related Security Interests purchased by the Guarantor on 28 February 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**BAV Portfolio**" means the first portfolio of Receivables and related Security Interests purchased by the Guarantor from BAV on 27 May 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Fourth Portfolio**" means the fourth portfolio of Receivables and related Security Interests purchased by the Guarantor on 21 September 2011, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Fifth Portfolio**" means the fifth portfolio of Receivables and related Security Interests purchased by the Guarantor on 17 June 2013, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Sixth Portfolio**" means the sixth portfolio of Receivables and related Security Interests purchased by the Guarantor on 21 September 2015, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Seventh Portfolio**" means the seventh portfolio of Receivables and related Security Interests purchased by the Guarantor on 31 October 2016, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**Eight Portfolio**" means the eigth portfolio of Receivables and related Security Interests purchased by the Guarantor on 22 December 2016, pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio**" means any further portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

Eligibility Criteria

The sale of the Receivables and their related Security Interest and the transfer of any other Eligible Assets and Top-Up Asset to the Guarantor will be subject to various conditions (the "**Eligibility Criteria**") being satisfied on the relevant Valuation Date (except as otherwise indicated). The Eligibility Criteria with respect to each asset type will vary from time to time but will at all times include criteria so that both Italian law and Rating Agencies requirements are met. In addition, under the Master Assets Purchase Agreement it is established that the parties may amend the Criteria, provided that any such amendment shall be notified to the Representative of the Bondholders and the Rating Agencies.

Common Criteria for the transfer of the Receivables

The Receivables transferred and to be transferred from time to time to the Guarantor pursuant to the Master Assets Purchase Agreement shall and will meet the following criteria (the "**Common Criteria**") (to be deemed cumulative unless otherwise provided) on each relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. which are residential mortgage receivables, in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same Real Estate Asset, does not exceed 80 per cent. of the value of the Real Estate Asset as at the relevant date of new valuation (*data di rivalutazione*), in accordance with Decree No. 310 and to which the 35 per cent. risk weighting applies;

2. that did not provide at the time of disbursement for any subsidy or other benefit in relation to principal or interest (*mutui agevolati*);

3. that have not been granted to public entities (*enti pubblici*), clerical entities (*enti ecclesiastici*) or public consortium (*consorzi pubblici*);

4. that are not consumer loans (*crediti al consumo*);

5. that are not *mutui agrari* pursuant to Articles 43, 44 and 45 of the Consolidated Banking Act;

6. that are secured by a mortgage created over Real Estate Assets in accordance with applicable laws and regulations which are located in the Republic of Italy;

7. the payment of which is secured by a first economic ranking mortgage (*ipoteca di primo grado economico*), such term meaning (i) a first legal ranking mortgage (*ipoteca di primo grado legale*) or (ii) (A) a second or subsequent ranking priority mortgage in respect of which the lender secured by the first ranking priority mortgage is the Seller and with respect to which the obligations secured by the mortgage(s) ranking prior to such second or subsequent mortgage have been fully satisfied, or (B) a second or subsequent ranking priority mortgage in respect of which the obligations secured by the mortgage(s) ranking prior to such second or subsequent mortgage have been fully satisfied and the relevant lender has formally consented to the cancellation of the mortgage(s) ranking prior to such subsequent mortgage, or (C) a second or subsequent ranking priority mortgage in respect of which the lender secured by the mortgage(s) ranking prior to such second or subsequent mortgage is the Seller (even if the obligations secured by such ranking priority mortgage(s) have not been fully satisfied) and the Receivables secured by the prior ranking priority mortgages arise from Mortgage Loans meeting the Criteria;

8. in respect of which the hardening period (*periodo di consolidamento*) applicable to the relevant mortgage has expired and the relevant mortgage is not capable of being challenged pursuant to Article 67 of the Bankruptcy Law and, if applicable, of Art. 39, fourth paragraph of the Consolidated Banking Act;

9. that are fully disbursed and in relation to which there is no obligation or possibility to make additional disbursements;

10. for which at least an Instalment inclusive of principal has been paid before the Valuation Date (i.e. Mortgage Loans that are not in the pre-amortising phase);

11. in respect of which all other previous Instalments falling due before the transfer date have been fully paid or, as of the transfer date, did not have any Instalment pending for 30 days or more than 30 days from its due date;

12. that are governed by Italian law;

13. that have not been granted to individuals that as of the origination date were employees or former (*a riposo*) employees of Montepaschi Group (including also loans granted to two or more individuals, one of which was an employee or a manager of Montepaschi Group as of the transfer date);

14. that are denominated in Euro;

15. which provide for the payment by the Debtor of monthly, quarterly or semi annual Instalments;

16. which are not additional mortgage loans (*mutui suppletivi*) (each being a mortgage loan secured with a mortgage over Real Estate Assets already mortgaged in connection with another mortgage loan (*mutuo fondiario*) granted by Banca Monte dei Paschi di Siena S.p.A.).

Common Criteria for the transfer of the Asset Backed Securities

The Asset Backed Securities to be transferred from time to time to the Guarantor pursuant to the Master Assets Purchase Agreement shall and will meet the following Common Criteria (to be deemed cumulative unless otherwise provided) on each relevant Valuation Date (or at such other date specified below):

1. "asset backed" securities issued in the context of securitisation transactions made pursuant to Law 130 of 30 April 1999, provided that at least 95 per cent. of the relevant securitised assets are receivables and securities as indicated in paragraphs a), b) and c) of article 2 of Decree of the Italian Ministry for the Economy and Finance No. 310 of 14 December 2006;

2. for which a risk weight not exceeding 20 per cent. is applicable in accordance with the rules regulating the standardised approach for determination of the financial requirements of the banks with respect to the credit risk, pursuant to European Directive number 48 of 2006 (*Disciplina prudenziale – metodo standardizzato*);

3. compliance with the requirements set out by the ECB Guidelines.

Specific Criteria for the transfer of the Receivables

The Receivables included in each Portfolio (other than the Initial Portfolio) to be transferred from time to time to the Guarantor under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, further specific criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below) listed in the Master Assets Purchase Agreement under schedule 1, part IV relating to, *inter alia*, the amount of disbursement, the execution date, the disbursement date, the instalments, the relevant Mortgage Loan Agreements, the relevant Real Estate Assets, the relevant guarantor, the category of natural persons (persone fisiche) to which they have been granted, the ratio.

Specific Criteria for the transfer of the Asset Backed Securities

The Asset Backed Securities included in each Portfolio (other than the Initial Portfolio) to be transferred from time to time to the Guarantor under the Master Assets Purchase Agreement shall meet, in addition to the Common Criteria, further specific criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below)as listed in the Master Assets Purchase Agreement under schedule 1, part IV and relating to, *inter alia*, the name of the Issuer, the nominal amount, the maturity date, the outstanding principal balance, the issue date, the ISIN code and the applicable law.

Specific Criteria for the transfer of the Receivables included in the Initial Portfolio

The Receivables included in the Initial Portfolio transferred to the Guarantor, on 25 May 2010, under the Master Assets Purchase Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 10 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the relevant Mortgage Loan Agreement has been entered into after 1 January 2008 included;

3. in respect of which the disbursement date, without any consideration for the value date (*data valuta*) falls (i) no later than 31 December 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a monthly basis; (ii) no later than 30 September 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a quarterly basis; (iii) no later than 30 June 2009 (included) in respect of the Mortgage Loans providing for the payment by the Debtor on a semi annual basis;

4. in respect of which all the Instalments falling due before the Valuation Date have been paid;

5. in respect which of no partial prepayments of undue Instalments were made;

6. in respect of which the disbursed amount is comprised between €20,000.00 (included) and €1,500,000.00 (included);

7. in respect of which the relevant Mortgage Loan Agreements expressly specify to have been granted for the purpose of purchasing or restructuring or purchasing and restructuring a property (including Mortgage Loan Agreements arising from the subrogation (*surroga*) of mortgage loans which had been granted for the purpose of purchasing/restructuring/purchasing and restructuring residential properties with specific destination of house of residence);

8. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

9. which have been granted by Banca Monte dei Paschi di Siena S.p.A., Banca Agricola Mantovana S.p.A. (incorporated as of 16 September 2008) and Banca Toscana S.p.A. (incorporated as of 24 March 2009);

10. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), whose administrative profile falls under the "ordinary risk" category (this means loans in relation to which there are no unpaid instalments nor is there pending litigation);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. which were not disbursed by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

13. not having a fixed Instalment and variable duration;

14. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

15. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

16. which are not modular loans (in this context modular loans are loans with an initial period at a fixed interest rate and subsequent periods in which the Debtor, pursuant to predetermined contractual terms, has an option between (i) a contractually predetermined fixed rate and (ii) a floating rate based on a predetermined index (*indice*) and a spread);

17. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

18. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

19. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

20. which have not been fractionated (*mutui frazionati*);

21. which have not been granted in order to purchase properties which are under construction (*mutui edilizi*);

22. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Second Portfolio

The Receivables included in the Second Portfolio transferred to the Guarantor, on 29 November 2010, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 10 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the relevant Mortgage Loan Agreement has been entered into after 1 January 2008;

3. in respect of which the disbursement date falls no later than 31 July 2010;

4. in respect of which the redemption date (*data di svincolo*) falls no later than 30 September 2010

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect which of no partial prepayments of undue Instalments were made;

7. in respect of which the disbursed amount is comprised between €20,000.00 (included) and €1,500,000.00 (included);

8. in respect of which the relevant Mortgage Loan Agreements expressly specify to have been granted for the purpose of purchasing or restructuring a property (including Mortgage Loan Agreements arising from the subrogation (*surroga*) of mortgage loans which had been granted for the purpose of purchasing/restructuring/purchasing and restructuring residential properties with specific destination of house of residence);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been granted by Banca Monte dei Paschi di Siena S.p.A., Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008) and Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009);

11. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 16 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

12. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

13. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

14. not having a fixed Instalment and variable duration;

15. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

16. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

17. which are not modular loans (in this context modular loans are loans with an initial period at a fixed interest rate and subsequent periods in which the Debtor, pursuant to predetermined contractual terms, has an option between (i) a contractually predetermined fixed rate and (ii) a floating rate based on a predetermined index (indice) and a spread);

18. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

19. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

20. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

21. which have not been fractionated (*mutui frazionati*);

22. which have not been granted in order to purchase properties which are under construction (*mutui edilizi*);

23. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Third Portfolio

The Receivables included in the Third Portfolio transferred to the Guarantor, on 28 February 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 December 2010 (included);

3. in respect of which all the Instalments falling due before the Valuation Date have been paid;

4. in respect which of no partial prepayments of undue Instalments were made;

5. in respect of which the Outstanding Principal is higher than €10,000.00 (included);

6. in respect of which the Outstanding Principal is lower than €1,500,000.00 (included);

7. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

8. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

9. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

10. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

11. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (indice), is lower than 2,35 per cent.;

18. with a fixed rate lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the BAV Portfolio

The Receivables included in the BAV Portfolio transferred to the Guarantor, on 27 May 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 120 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

3. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 December 2010 (included);

4. in respect of which all the Instalments falling due before the Valuation Date have been paid;

5. in respect of which of no partial prepayments of undue Instalments were made;

6. in respect of which the Outstanding Principal is equal or greater than €5,000.00 and lower than €2.000.000,00 (included);

7. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

8. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Antonveneta S.p.A. and branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008);

9. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to

Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (*Business Activity Code*) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

10. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

11. which were not granted by the branches indicated in the notice of assignment published in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) Section 2, number 149 of 29 December 2009;

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (indice), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which the residual debt is higher than €10.000,00 (included);

21. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Fourth Portfolio

The Receivables included in the Fourth Portfolio transferred to the Guarantor, on 21 September 2011, under the Transfer Agreement met, in addition to the Common Criteria, the following

Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (persone fisiche) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 120 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*) for mortgage loans granted to natural persons (*persone fisiche*) who fell into the category 600 ("*famiglie consumatrici*") and is equal or lower than 80 per cent of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*) for mortgage loans granted to natural persons (*persone fisiche*) who fell into the category 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*");

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 June 2011 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2.000.000,00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or società di fatto);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10;

20. which are not Mortgage Loans that, although meeting these criteria, have an outstanding amount lower than another Mortgage Loan granted to the same Debtor that meets these criteria as well.

Specific Criteria for the transfer of the Receivables included in the Fifth Portfolio

The Receivables included in the Fifth Portfolio transferred to the Guarantor, on 17 June 2013, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 March 2013 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2.000.000,00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 3 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Sixth Portfolio

The Receivables included in the Sixth Portfolio transferred to the Guarantor, on 21 September 2015, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 30 June 2015 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €2.000.000,00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca

Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 2008, converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Seventh Portfolio

The Receivables included in the Sixth Portfolio transferred to the Guarantor, on 31 October 2016, under the Transfer Agreement met, in addition to the Common Criteria, the following Specific Criteria (to be deemed cumulative unless otherwise provided), as at the relevant Valuation Date (or at such other date specified below):

Receivables arising from Mortgage Loans:

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the

category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 August 2016 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €10,000.00

8. in respect of which the Outstanding Principal is lower than €2,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 27 May 2008 (c.d. "Decreto Tremonti"), converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Specific Criteria for the transfer of the Receivables included in the Eigth Portfolio

1. in respect of which the disbursed amount at the date of the disbursement is equal or greater than 1 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

2. which have been granted to natural persons (*persone fisiche*) resident in Italy who, in accordance with the classification criteria adopted by the Bank of Italy pursuant to Circular number 140 of 11 February 1991, as amended on 7 August 1998, fell into the category 600 ("*famiglie consumatrici*"), 614 ("*artigiani*") and 615 ("*altre famiglie produttrici*") of the SAE Code (Business Activity Code) and whose administrative profile falls under the "ordinary risk" (i.e. *rischio ordinario*) category (loans in relation to which there are no unpaid instalments nor there is any pending litigation);

3. in respect of which the disbursed amount at the date of the disbursement is equal or lower than 100 per cent. of the value of the Real Estate Asset as at the relevant appraisal date (*data di perizia*);

4. in respect of which the disbursement date, without any consideration for the value date (*data valuta*), falls no later than 31 October 2016 (included);

5. in respect of which all the Instalments falling due before the Valuation Date have been paid;

6. in respect of which no partial prepayments of undue Instalments were made;

7. in respect of which the Outstanding Principal is equal or greater than €5,000.00

8. in respect of which the Outstanding Principal is lower than €5,000,000.00 (included);

9. in respect of which the relevant Real Estate Asset falls within the following Italian cadastral categories: A1, A2, A3, A4, A5, A6, A7, A8, A9 or A11;

10. which have been subject to, upon filing of the relevant request, the intermediation of branches of Banca Monte dei Paschi di Siena S.p.A., branches of Banca Agricola Mantovana S.p.A. (acquired by BMPS on 16 September 2008), branches of Banca Antonveneta S.p.A. (acquired by BMPS on 22 December 2008), branches of Banca Toscana S.p.A. (acquired by BMPS on 24 March 2009) and branches of Banca Personale S.p.A. (acquired by BMPS on 16 April 2010);

11. which have been granted to one or more individuals (*persone fisiche o cointestatari*) (with the exclusion of enterprises owned by a single individual (*ditte individuali*) or *società di fatto*);

12. not disbursed through third party funds, i.e. loans disbursed, also in part, through funds of the European Investment Bank (B.E.I.) or of the Social Development Fund of the Council of Europe or of specific national public entities (*Enti pubblici nazionali*, i.e. *Cassa Depositi e Prestiti – Finanziarie Regionali*);

13. which have not been granted to Debtors who have taken part or have applied to take part to "*Combatti la crisi*", or any other similar initiatives promoted by BMPS, or the Convention between ABI and the main consumers' associations ("*Piano Famiglie*") of 18 December 2009 as prorogated on 26 January 2011 and as amended on 19 July 2011;

14. which have not been renegotiated pursuant to Legislative Decree number 93 of 27 May 2008 (c.d. "Decreto Tremonti"), converted into Law number 126 of 24 July 2008 and pursuant to the Convention between the MEF and ABI on 19 June 2008;

15. in respect of which the ratio between the value of the registration of the relevant Mortgage and the disbursed amount, at the date of the disbursement, was comprised between 1.5 (included) and 5 (included);

16. which have not been granted to Debtors involved in the seismic events falling under the applicability of Law Decree number 39 of 28 April 2009, converted into Law number 74 of 24 June 2009;

17. with a floating rate whose spread, together with the relevant predetermined contractual index (*indice*), is lower than 5 per cent.;

18. with a fixed rate equal or lower than 8 per cent.;

19. in respect of which the relevant mortgage value is higher than €10.

Further Criteria

In accordance with the provisions of the Master Assets Purchase Agreement, the Seller and the Guarantor shall, to the extent necessary, identify further criteria in order to supplement the Common Criteria and the Specific Criteria (the "**Further Criteria**").

Under the Warranty and Indemnity Agreement, the Principal Seller, if any) has represented, *inter alia*, that, as of the date of execution of the Warranty and Indemnity Agreement, the Mortgage Loans comprised in the Portfolios (i) are valid, in existence and in compliance with the Criteria, and (ii) relate to Mortgage Loan Agreements which have been entered into, executed and performed by the Seller in compliance with all applicable laws, rules and regulations (including the Usury Law).

THE ASSET MONITOR

The Bank of Italy Regulations require that the Issuer appoints a qualified entity to be the asset monitor to carry out controls on the regularity of the transaction and the integrity of the Guarantee.

Pursuant to the Bank of Italy Regulations, the asset monitor must be an independent auditor, enrolled with the special register of accounting firms held by the MEF and shall be independent from the Issuer and any other party to the Programme and from the accounting firm who carries out the audit of the Issuer.

Based upon controls carried out, the asset monitor shall prepare annual reports, to be addressed also to the Statutory Auditors of the Issuer.

ASSET MONITOR ENGAGEMENT LETTER

Pursuant to an engagement letter (the "**Asset Monitor Engagement Letter**") entered into on 18 June 2010, the Issuer has appointed Deloitte & Touche S.p.A., a company incorporated under the laws of Italy, enrolled with the Companies' Register of Milan under number 03049560166 and with the special register of accounting firms held by the MEF, having its registered office at via Tortona 25, 20144 Milan, Italy, as initial asset monitor (the "**Asset Monitor**") in order to perform, subject to receipt of the relevant information from the Issuer, specific agreed upon procedures concerning, *inter alia*, the control of (i) the fulfilment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the calculation performed by the Issuer in respect of the Mandatory Tests; (iii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iv) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

Under the Asset Monitor Engagement Letter, the Asset Monitor shall, on an annual basis, deliver to the Issuer an annual report detailing the procedures performed under the Asset Monitor Engagement Letter.

The Asset Monitor Engagement Letter provides for certain matters such as the payment of fees and expenses to the Asset Monitor, the resignation of the Asset Monitor and the replacement by the Guarantor of the Asset Monitor.

Governing law

The Asset Monitor Agreement is governed by Italian law.

ASSET MONITOR AGREEMENT

The Asset Monitor, will, pursuant to an asset monitor agreement entered into on 18 June 2010 (the "**Asset Monitor Agreement**") between the Issuer, the Guarantor, the Asset Monitor and the Representative of the Bondholders and subject to due receipt of the information to be provided by the Pre-Issuer Default Test Calculation Agent or the Post-Issuer Default Test Calculation Agent to the Asset Monitor, respectively, prior to the delivery of a Guarantee Enforcement Notice and after the delivery of a Guarantee Enforcement Notice, verify the arithmetic accuracy of the calculations performed by the Pre-Issuer Default Test Calculation Agent with respect to the Mandatory Tests and the Asset Coverage Test and the Post-Issuer

Default Test Calculation Agent with respect to the Amortisation Test pursuant to the Cover Pool Management Agreement with respect to the Amortisation Test.

In addition, on or prior to each Asset Monitor Report Date, the Asset Monitor shall deliver to the Guarantor, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders and the Issuer a report in the form set out in the Asset Monitor Agreement.

The Asset Monitor Agreement provides for certain matters such as the payment of fees and expenses to the Asset Monitor, the limited recourse nature of the payment obligation of the Guarantor vis-à-vis the Asset Monitor, the resignation of the Asset Monitor and the replacement by the Guarantor of the Asset Monitor.

Governing law

The Asset Monitor Agreement and any non-contractual obligations arising out of or in connection with it are governed by Italian law.

DESCRIPTION OF CERTAIN RELEVANT LEGISLATION IN ITALY

Introduction

The legal and regulatory framework with respect to the issue of covered bonds in Italy comprises the following:

- Article 7-*bis* and article 7-*ter* of the Law No. 130 of 30 April 1999 (as amended, the "**Italian Law 130**");
- the regulations issued by the Italian Ministry for the Economy and Finance on 14 December 2006 under Decree No. 310 (the "**Decree No. 310**");
- the C.I.C.R. Decree dated 12 April 2007; and
- Part III, Chapter 3 of the "*Disposizioni di Vigilanza per le Banche*" (Circolare No. 285 of 17 December 2013), as amended and supplemented from time to (the "**Bank of Italy Instructions**").

Law Decree No. 35 of 14 March 2005, converted by Law No. 80 of 14 May 2005, amended the Italian Law 130 by adding two new articles, Articles 7-*bis* and 7-*ter*, which enable banks to issue covered bonds. Articles 7-*bis* and 7-*ter*, however, required both the Italian Ministry of Economy and Finance and the Bank of Italy to issue specific regulations before the relevant structures could be implemented.

Italian Law 130 was further amended by law decree No. 145 of 23 December 2013, called "*Decreto Destinazione Italia*" (the "***Destinazione Italia* Decree**") converted into law No. 9 of 21 February 2014, and by law decree No. 91, called "*Decreto Competitività*" (the "**Law Decree *Competitività***", converted into law No. 116 of 11 August 2014).

Following the issue of the Decree No. 310, the Bank of Italy Instructions were published on 17 May 2007, as subsequently amended on 24 March 2010, completing the relevant legal and regulatory framework and allowing for the implementation on the Italian market of this funding instrument, which had previously only been available under special legislation to specific companies (such as *Cassa Depositi e Prestiti S.p.A.*).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circolare of the Bank of Italy No. 285 of 17 December 2013) which came into force on 1 January 2014, implementing CRD IV and setting out additional local prudential rules concerning matters not harmonised on EU level. Following the publication on 24 June 2014 of the 5th update to Circular of the Bank of Italy No. 285 of 17 December 2013, which added a new Chapter 3 ("*Obbligazioni bancarie garantite*") in Part III contained therein, the provisions set forth under Title V, Chapter 3 of Circolare No. 263 of 27 December 2006 have been abrogated.

The Bank of Italy Instructions introduced provisions, *inter alia*, regulating:

- the capital adequacy requirements that issuing banks must satisfy in order to issue covered bonds and the ability of issuing banks to manage risks;

- limitations on the total value of eligible assets that banks, individually or as part of a group, may transfer as cover pools in the context of covered bond transactions;
- criteria to be adopted in the integration of the assets constituting the cover pools;
- the identification of the cases in which the integration is permitted and its limits; and
- monitoring and surveillance requirements applicable with respect to covered bond transactions and the provision of information relating to the transaction.

On 8 May 2015, the Ministerial Decree No. 53/2015 (the "**Decree 53/2015**") issued by the MEF has been published in the Official Gazette of the Republic of Italy. The Decree 53/2015 came into force on 23 May 2015, repealing the Ministerial Decree No. 29/2009. Pursuant to Article 7 of the Decree 53/2015, the assignee companies which guarantee covered bonds, belonging to a banking group as defined by Article 60 of the Consolidated Banking Act (such as MPS Covered Bond S.r.l.), will no longer have to be registered in the general register held by the Bank of Italy pursuant to Article 106 of the Consolidated Banking Act.

Basic structure of a covered bond issue

The structure provided under Article 7-*bis* with respect to the issue of covered bonds may be summarised as follows:

- a bank transfers a pool of eligible assets (i.e. the cover pool) to an Article 7-*bis* special purpose vehicle (the "**Guarantor**");
- the bank (or a different bank) grants the Guarantor a subordinated loan in order to fund the payment by the Guarantor of the purchase price due for the cover pool;
- the bank (or a different bank) issues the covered bonds which are supported by a first demand, unconditional and irrevocable guarantee issued by the Guarantor for the exclusive benefit of the holders of the covered bonds and the hedging counterparties involved in the transaction. The Guarantee is backed by the entire cover pool held by the Guarantor.

Article 7-*bis* however also allows for structures which contemplate different entities acting respectively as cover pool provider, subordinated loan provider and covered bonds issuer.

The Guarantor

The Italian legislator chose to implement the new legislation on covered bonds by supplementing the Italian Law 130, thus basing the new structure on a well established platform and applying to covered bonds many provisions with which the market is already familiar in relation to Italian securitisations. Accordingly, as is the case with the special purpose entities which act as issuers in Italian securitisation transactions, the Guarantor is required to be established with an exclusive corporate object that, in the case of covered bonds, must be the purchase of assets eligible for cover pools and the person giving guarantees in the context of covered bond transactions.

The guarantee

The Decree No. 310 provides that the guarantee issued by the Guarantor for the benefit of the bondholders must be irrevocable, first-demand, unconditional and independent from the obligations of the issuer of the covered bonds. Furthermore, upon the occurrence of a default by the issuer in respect of its payment obligations under the covered bonds, the Guarantor must provide for the payment of the amounts due under the covered bonds, in accordance with their original terms and with limited recourse to the amounts available to the Guarantor from the cover pool. The acceleration of the issuer's payment obligations under the covered bonds will not therefore result in a corresponding acceleration of the Guarantor's payment obligations under the guarantee (thereby preserving the maturity profile of the covered bonds).

Upon an insolvency of the issuer, solely the Guarantor will be responsible for the payment obligations of the issuer owed to the Bondholders, in accordance with their original terms and with limited recourse to the amounts available to the Guarantor from the cover pool.

If a resolution pursuant to Article 74 of the Consolidated Banking Act is passed in respect of the Issuer, the Guarantor, in accordance with Decree No. 310, shall be responsible for the payments of the amounts due and payable under the Covered Bonds within the entire period in which the suspension continues at their relevant due date, provided that it shall be entitled to claim any such amounts from the Issuer. For further details see section "*Description of the Transaction Documents - Guarantee*".

Finally, if a moratorium is imposed on the issuer's payments, the Guarantor will fulfil the issuer's payment obligations, with respect to amounts which are due and payable and with limited recourse to the cover pool. The Guarantor will then have recourse against the issuer for any such payments.

Segregation and subordination

Article 7-*bis* provides that the assets comprised in the cover pool and the amounts paid by the debtors with respect to the receivables and/or debt securities included in the cover pool are exclusively designated and segregated by law for the benefit of the holders of the covered bonds and the hedging counterparties involved in the transaction.

In addition, Article 7-*bis* expressly provides that the claim for reimbursement of the loan granted to the Guarantor to fund the purchase of assets in the cover pool is subordinated to the rights of the Bondholders and of the hedging counterparties involved in the transaction.

Exemption from claw-back

Article 7-*bis* provides that the guarantee and the subordinated loan granted to fund the payment by the Guarantor of the purchase price due for the cover pool are exempt from the bankruptcy claw-back provisions set out in Article 67 of the Italian Bankruptcy Law (Royal Decree No. 267 of 16 March 1942).

In addition to the above, any payments made by an assigned debtor to the Guarantor may not be subject to any declaration of ineffectiveness according to Article 65 of the Bankruptcy Law.

The Issuing Bank

The Bank of Italy Instructions provide that covered bonds may only be issued by banks which individually satisfy, or which belong to banking groups which, on a consolidated basis:

- have own funds (*fondi propri*) of at least €250,000,000; and
- have a minimum total capital ratio of 9 per cent..

The Bank of Italy Instructions specify that the requirements above also apply to the bank acting as cover pool provider (in the case of structures in which separate entities act respectively as issuing bank and as cover pool provider).

	Ratios	**Transfer Limitations**
"A" range	- Tier 1 ratio ≥ 9%; and - Common Equity Tier 1 ratio ≥ 8%	No limitation
"B" range	- Tier 1 ratio ≥ 8%; and - Common Equity Tier 1 ratio ≥ 7%	Up to 60% of eligible assets may be transferred
"C" range	- Tier 1 ratio ≥ 7%; and - Common Equity Tier 1 ratio ≥ 6%	Up to 25% of eligible assets may be transferred

The Bank of Italy Instructions clarify that the ratios provided with respect to each range above must be satisfied jointly: if a bank does not satisfy both ratios with respect to a specific range, the range applicable to it will be the following, more restrictive, range. Accordingly, if a bank (or the relevant banking group) satisfies the "**b**" range total capital ratio but falls within the "**c**" range with respect to its tier 1 ratio, the relevant bank will be subject to the transfer limitations applicable to the "**c**" range.

The Cover Pool

For a description of the assets which are considered eligible for inclusion in a cover pool under Article 7-*bis*, see "*Description of the Cover Pool - Eligibility Criteria*".

Ratio between cover pool value and covered bond outstanding amount

The Decree No. 310 provides that the cover pool provider and the issuer must continually ensure that, throughout the transaction:

- the aggregate nominal value of the cover pool is at least equal to the nominal amount of the relevant outstanding covered bonds;
- the net present value of the cover pool (net of all the transaction costs borne by the Guarantor, including in relation to hedging arrangements) is at least equal to the net present value of the relevant outstanding covered bonds;
- the interest and other revenues deriving from the cover pool (net of all the transaction costs borne by the Guarantor) are sufficient to cover interest and costs due by the issuer with respect to the relevant outstanding covered bonds, taking into account any hedging agreements entered into in connection with the transaction.

In respect of the above, under the Bank of Italy Instructions, strict monitoring procedures are imposed on banks for the monitoring of the transaction and of the adequacy of the guarantee on the cover pool. Such activities must be carried out both by the relevant bank and by an asset monitor, to be appointed by the bank, which is an independent accounting firm. The asset monitor must prepare and deliver to the issuing bank's s board of auditors, on an annual basis, a report detailing its monitoring activity and the relevant findings.

The Bank of Italy Instructions require banks to carry out the monitoring activities described above at least every 6 months with respect to each covered bond transaction. Furthermore, the internal auditors of banks must comprehensively review every 12 months the monitoring activity carried out with respect to each covered bond transaction, basing such review, *inter alia*, on the evaluations supplied by the asset monitor.

In addition to the above, pursuant to the Bank of Italy Instructions provide that the management body of the issuing bank must ensure that the internal structures delegated to the risk management verify at least every six months and for each transaction completeness, accuracy and timeliness of information available to investors pursuant to art. 129, paragraph 7, of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 (CRR).

In order to ensure that the monitoring activities above may be appropriately implemented, the Bank of Italy Instructions require that the entities participating in covered bond transactions be bound by appropriate contractual undertakings to communicate to the issuing bank, the cover pool provider and the entity acting as servicer in relation to the cover pool assets all the necessary information with respect to the cover pool assets and their performance.

Substitution of assets

The Decree No. 310 and the Bank of Italy Instructions provide that, following the initial transfer to the cover pool, the eligible assets comprised in the cover pool may only be substituted or supplemented in order to ensure that the requirements described under "*Ratio between cover pool value and covered bond outstanding amount*", or the higher over-collateralization provided for under the relevant covered bond transaction documents, are satisfied at all times during the transaction.

- The eligible assets comprised in the cover pool may only be substituted or supplemented by means of:

- the transfer of further assets (eligible to be included in the cover pool in accordance with the criteria described above);

- the establishment of deposits held with banks ("**Qualified Banks**") which have their registered office in a member state of the European Economic Area or in Switzerland or in a state for which a 0 per cent. risk weight is applicable in accordance with the prudential regulations' standardised approach; and

- the transfer of debt securities, having a residual life of less than one year, issued by the Qualified Banks.

The Bank of Italy has clarified that the eligible assets included in the cover pool may be substituted with other eligible assets originated by the Seller, provided that such substitution is

expressly provided for and regulated under the relevant programme documentation and appropriate disclosure is given to the investors in the prospectus.

The Decree No. 310 and the Bank of Italy Instructions, however, provide that the assets described in the last two paragraphs above, (together with the liquidity deriving from the management of the cash-flows of the cover pool), cannot exceed 15 per cent. of the aggregate nominal value of the cover pool. This 15 per cent. limitation must be satisfied throughout the transaction and, accordingly, the substitution of cover pool assets may also be carried out in order to ensure that the composition of the assets comprised in the cover pool continues to comply with the relevant threshold. However the Bank of Italy has clarified that such 15 per cent. limitation may be exceeded upon occurrence of an Insolvency Event in respect of the Issuer, whereby supplementing the cover pool is no longer possible and the accumulation of liquidity over the 15 per cent. limit may be conducive to the benefit of the Bondholders.

The Bank of Italy Instructions clarify that the limitations to the overall amount of eligible assets that may be transferred to cover pools described under "*The Issuing Bank*" above do not apply to the subsequent transfer of supplemental assets for the purposes described under this paragraph.

Taxation

Article 7-*bis*, sub-paragraph 7, provides that any tax is due as if the granting of the subordinated loan and the transfer of the cover pool had not taken place and as if the assets constituting the cover pool were registered as on-balance sheet assets of the cover pool provider, **provided that**:

- the purchase price paid for the transfer of the cover pool is equal to the most recent book value of the assets constituting the cover pool; and

- the subordinated loan is granted by the same bank acting as cover pool provider.

It is likely that the provision described above would imply, as a main consequence, that banks issuing covered bonds will be entitled to include the receivables transferred to the cover pool as on-balance receivables for the purpose of tax deductions applicable to reserves for the depreciation on receivables in accordance with Article 106 of Presidential Decree No. 917 of 22 December 1986.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Covered Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Covered Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Covered Bonds.

Republic of Italy

Tax treatment of Covered Bonds issued by the Issuer

The Decree No. 239 sets out the applicable regime regarding the tax treatment of interest, premium and other income from certain securities issued, *inter alia*, by Italian resident banks (including the difference between the redemption amount and the issue price) (hereinafter collectively referred to as "**Interest**"). The provisions of Decree No. 239 only apply to Covered Bonds issued by the Issuer which qualify as obbligazioni (bonds) or titoli similari alle obbligazioni (securities similar to bonds) pursuant to Article 44 of Presidential Decree No. 917 of 22 December 1986, as amended and supplemented ("**Decree No. 917**").

For these purposes, securities similar to bonds (titoli similari alle obbligazioni) are securities that incorporate an unconditional obligation of the issuer to pay at maturity an amount not lower than their nominal value, with or without the payment of periodic interest, and do not give any right to directly or indirectly participate in the management of the issuer or to the business in connection to which the securities were issued, nor to control the same.

Italian resident Bondholders

Pursuant to Decree No. 239, where an Italian resident Bondholders, who is the beneficial owner of the Covered Bonds, is:

(a) an individual not engaged in an entrepreneurial activity to which the Covered Bonds are connected (unless the investor has entrusted the management of his financial assets, including the Covered Bonds, to an authorised intermediary and has opted for the so called "*regime del risparmio gestito"* (the Asset Management Regime) – see under "*Capital gains tax*" below for an analysis of such regime); or

(b) a partnership (other than a *società in nome collettivo* or *società in accomandita semplice* or similar partnership) or a *de facto* partnership not carrying out commercial activities or professional associations; or

(c) a private or public entity other than companies, trusts not carrying out mainly or exclusively commercial activities, the Italian State and public and territorial entities, with the exclusion of collective investments funds; or

(d) an investor exempt from Italian corporate income taxation,

Interest payments relating to the Covered Bonds, accrued during the relevant holding period, are subject to a withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent., either when Interest is paid or when payment thereof is obtained by the holder on a sale of the Covered Bonds. In the event that the Bondholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Covered Bonds are connected, the *imposta sostitutiva* applies as a provisional tax. Interest will be included in the relevant beneficial owner's Italian income tax return and will be subject to Italian ordinary income taxation and the *imposta sostitutiva* may be recovered as a deduction from Italian income tax due.

Subject to certain conditions, Interest in respect of Covered Bonds received by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity may be exempt from taxation, including the 26 per cent. *imposta sostitutiva*, if the Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) pursuant Article 1, paragraph 100 – 114, of Law No. 232 of 11 December 2016 ("**Law No. 232**").

Where an Italian resident Bondholder is a company or similar commercial entity (including limited partnership qualified as *società in nome collettivo* or *società in accomandita semplice* and private and public institutions carrying out commercial activities and holding the Covered Bonds in connection with this kind of activities), or a permanent establishment in Italy of a foreign company to which the Covered Bonds are effectively connected, and the Covered Bonds are deposited with an authorised intermediary, Interest from the Covered Bonds will not be subject to *imposta sostitutiva*. They must, however, be included in the relevant Bondholder's income tax return and are therefore subject to Italian corporate income taxation (and, in certain circumstances, depending on the "status" of the Bondholder, also to IRAP (the regional tax on productive activities). Interest on the Covered Bonds that are not deposited with an authorised intermediary, received by the above persons is subject to a 26 per cent. *imposta sostitutiva* levied as provisional tax

Where a Bondholder is an Italian resident real estate investment fund or a real estate SICAF, to which the provisions of Law Decree No. 351 of 25th September, 2001, as subsequently amended, apply, Interest accrued on the Covered Bonds will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund or the SICAF. The income of the real estate fund or the SICAF is subject to tax, in the hands of the unitholder, depending on the status and percentage of participation, or, when earned by the fund, through distribution and/or upon redemption or disposal of the units.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund (the "**Fund**"), a SICAV or a SICAF and either (i) the Fund, the SICAV or the SICAF or (ii) their manager is subject to the supervision of a regulatory authority and the relevant Covered Bonds are held by an authorised intermediary, Interest accrued during the holding period on the Covered Bonds will not be subject to *imposta sostitutiva*. They must, however, be included in the management results of the Fund, the SICAV or the SICAF, accrued at the end of each tax period. The Fund, the SICAV or the SICAF will not be subject to taxation on such result, but a withholding tax of 26 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the "**Collective Investment Fund Substitute Tax**").

Where an Italian resident Bondholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005 ("**Decree No. 252**")) and the Covered Bonds are deposited with an authorised intermediary, Interest relating to the Covered Bonds and accrued during the holding period will not be subject to *imposta sostitutiva*, but

must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 20 per cent. substitute tax (the "**Pension Fund Tax**") on the increase in value of the managed assets accrued at the end of each tax year (which increase would include Interest accrued on the Covered Bonds).

Pursuant to Decree No. 239, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* ("**SIMs**"), fiduciary companies, *società di gestione del risparmio* ("**SGRs**"), stockbrokers and other entities identified by a decree of the Ministry of Finance (each an "**Intermediary**").

An Intermediary must (a) be resident in Italy or be a permanent establishment in Italy of a non-Italian resident financial intermediary, and (b) intervene, in any way, in the collection of interest or in the transfer of the Covered Bonds. For the purpose of the application of the *imposta sostitutiva*, a transfer of Covered Bonds includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Covered Bonds or in a change of the Intermediary with which the Covered Bonds are deposited.

Where the Covered Bonds are not deposited with an authorised Italian Intermediary (or with a permanent establishment in Italy of a foreign Intermediary), the *imposta sostitutiva* is applied and withheld by any Italian Intermediary paying Interest to the Bondholders or, absent that by the Issuer.

Non-Italian resident Bondholders

Where the Bondholder is a non-Italian resident beneficial owner of the Covered Bonds with no permanent establishment in Italy to which the Covered Bonds are effectively connected, payment of Interest in respect of the Covered Bonds will not be subject to *imposta sostitutiva* provided that the non-Italian resident beneficial owner is:

(a) resident, for tax purposes in a State or territory included in the list of States or territories allowing an adequate exchange of information with Italy and listed in the Italian Ministerial Decree dated 4 September, 1996 as amended and supplemented from time to time (the "**White List**"). According to Article 11, par. 4, let. c), of Decree No. 239, the White List will be updated every six months period; or

(b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or

(c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or

(d) an "institutional investor", whether or not subject to tax, which is established in a country included in the White List.

In order to ensure payment of Interest in respect of the Covered Bonds without the application of 26 per cent. *imposta sostitutiva*, non Italian resident Bondholders indicated above must be the beneficial owners of the payments of Interest and must:

(a) deposit in due time, directly or indirectly, the Covered Bonds with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities

management system which is in contact, via computer, with the Ministry of Economy and Finance; and

(b) file with the relevant depository, prior to or concurrently with the deposit of the Covered Bonds, a self-statement, which remains valid until withdrawn or revoked, in which the Bondholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. This statement, which is not requested for international bodies or entities established in accordance with international agreements ratified in Italy nor in the case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001.

Failure of a non resident Bondholder to comply in due time with the procedures set forth in Decree No. 239 and in the relevant implementation rules will result in the application of imposta sostitutiva on Interest payments.

Non-resident Bondholders who are subject to substitute tax might, nevertheless, be eligible for a total or partial relief under an applicable tax treaty between the Republic of Italy and the country of residence of the relevant Bondholder.

Payments made by an Italian resident guarantor

There is no authority directly on point regarding the Italian tax regime of payments made by an Italian resident guarantor under the Guarantee. Accordingly, there can be no assurance that the Italian tax authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian court would not sustain such an alternative treatment.

With respect to payments on the Covered Bonds made to certain Italian resident Bondholders by an Italian resident guarantor, in accordance with one interpretation of Italian tax law, any payment of liabilities equal to interest and other proceeds from the Covered Bonds may be treated, in certain circumstances, as a payment by the relevant Issuer and will thus be subject to the tax regime described in the previous paragraphs of this section.

In accordance with another interpretation, any such payment made by the Italian resident guarantor may be subject to a withholding tax at a rate of 26 per cent. levied as a final tax or provisional tax depending on the "status" of the Bondholder, pursuant to Presidential Decree No. 600 of 29 September, 1973, as subsequently amended. In case of payments to non-Italian resident Bondholders, a final withholding tax may be applied at 26 per cent. Double taxation treaties entered into by the Republic Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax.

Fungible issues

Pursuant to Article 11, paragraph 2 of Decree No. 239, where the relevant Issuer issues a new Tranche forming part of a single series with a previous Tranche, for the purposes of calculating the amount of Interest subject to *imposta sostitutiva*, the issue price of the new Tranche will be deemed to be the same as the issue price of the original Tranche. This rule applies where (a) the new Tranche is issued within 12 months from the issue date of the previous Tranche and (b) the difference between the issue price of the new Tranche and that of the original Tranche does not exceed 1 per cent. of the nominal value of the Covered Bonds multiplied by the number of years of the duration of the Covered Bonds.

Atypical securities

Interest payments relating to Covered Bonds that are not deemed to fall within the category of bonds (*obbligazioni*) or securities similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 26 per cent. For this purpose, securities similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

In the case of Covered Bonds issued by an Italian resident issuer, where the Bondholder is:

(a) an Italian individual engaged in an entrepreneurial activity to which the Covered Bonds are connected;

(b) an Italian company or a similar Italian commercial entity;

(c) a permanent establishment in Italy of a foreign entity to which the Covered Bonds are connected;

(d) an Italian commercial partnership; or

(e) an Italian commercial private or public institution,

such withholding tax is a provisional withholding tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity may be exempt from any income taxation, including the withholding tax on interest, premium and other income relating to "*titoli atipici*", if those Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1, paragraph 100-114, of Law No. 232.

In all other cases, including when the Bondholder is a non-Italian resident, the withholding tax is a final withholding tax. For non-Italian resident Bondholders, the 26 per cent. withholding tax rate may be reduced by any applicable tax treaty.

Capital gains tax

Italian resident Bondholders

Any gain obtained from the sale or redemption of the Covered Bonds would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Bondholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company, a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Covered Bonds are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Covered Bonds are connected.

Where a Bondholder is (i) an Italian resident individual not engaged in an entrepreneurial activity to which the Covered Bonds are connected, (ii) an Italian resident partnership not carrying out commercial activities, or (iii) an Italian private or public institution not carrying out mainly or exclusively commercial activities, any capital gain realised by such Bondholder from the sale or redemption of the Covered Bonds would be subject to an *imposta sostitutiva*, levied at the rate of 26 per cent.

In respect of the application of *imposta sostitutiva* on capital gains, taxpayers may opt for one of the three regimes described below:

(a) Under the "tax declaration regime" (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Covered Bonds are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains (net of any incurred capital loss) realised by the Italian resident individual Bondholders any given fiscal year. In this instance, "capital gains" means any capital gain not connected with an entrepreneurial activity pursuant to all sales or redemptions of the Covered Bonds carried out during any given tax year. Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay the *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014.

(b) As an alternative to the tax declaration regime, holders of the Covered Bonds who are:

    (i) Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity;

    (ii) Italian resident partnerships not carrying out commercial activities; and

    (iii) Italian private or public institutions not carrying out mainly or exclusively commercial activities,

    may elect for the administrative savings regime ("*regime del risparmio amministrato*") to pay the *imposta sostitutiva* separately on capital gains realised on each sale, transfer or redemption of the Covered Bonds. Such separate taxation of capital gains is allowed subject to (i) the Covered Bonds being deposited with Italian banks, SIMs or certain authorised financial intermediaries and (ii) an express election for the administrative savings regime being timely made in writing by the relevant Bondholder. The depository must account for the *imposta sostitutiva* in respect of capital gains realised on each sale, transfer or redemption of the Covered Bonds (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss. The depository must also pay the relevant amount to the Italian tax authorities on behalf of the holder of the Covered Bonds, deducting a corresponding amount from the proceeds to be credited to the holder of the Covered Bonds or using funds provided by the holder of the Covered Bonds. Under the administrative savings regime, where a sale or transfer or redemption of the Covered Bonds results in a capital loss, the intermediary is entitled to deduct such loss from gains of the same kind subsequently realised on assets held by the holder of the Covered Bonds within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014. Under the administrative savings regime, the realised

capital gain is not required to be included in the annual income tax return of the Bondholder and the Bondholder remains anonymous.

(c) Alternatively to the above described regimes, the aforementioned Bondholders may elect for "asset management" regime (the "*risparmio gestito*" regime), under which any capital gains realised upon sale, transfer or redemption by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity who have entrusted the management of their financial assets (including the Covered Bonds) to an authorised intermediary, will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Any depreciation of the managed assets accrued at the year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Depreciations of the managed assets may be carried forward to be offset against any subsequent increase in value accrued as from 1 July 2014 for an overall amount of 76.92 per cent. of the depreciations in value registered from 1 January 2012 to 30 June 2014. Also under the asset management regime the realised capital gain is not required to be included in the annual income tax return of the Bondholder and the Bondholder remains anonymous.

Subject to certain conditions, capital gains in respect of Covered Bonds realised upon sale, transfer or redemption by Italian resident individuals holding the Covered Bonds not in connection with an entrepreneurial activity may be exempt from taxation, including the 26 per cent. *imposta sostitutiva*, if the Covered Bonds are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) pursuant Article 1, paragraph 100 – 114, of Law No. 232.

Where a Bondholder is an Italian resident real estate investment fund or a real estate SICAF, to which the provisions of Law Decree No. 351 of 25th September, 2001, as subsequently amended, apply, capital gains realised will be subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the real estate investment fund or the SICAF. The income of the real estate fund or the SICAF is subject to tax, in the hands of the unitholder, depending on the status and percentage of participation, or, when earned by the fund, through distribution and/or upon redemption or disposal of the units.

Any capital gains realised by a Bondholder who is an Italian Fund, a SICAV or a SICAF will be included in the result of the relevant portfolio accrued at the end of the tax period. The Fund, SICAV or SICAF will not be subject to taxation on such increase, but the Collective Investment Fund Substitute Tax will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

Where an Italian resident Bondholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005) and the Covered Bonds are deposited with an Italian resident intermediary, any capital gains realised upon sale, transfer or redemption of the Covered Bonds and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the Pension Fund Tax on the increase in value of the managed assets accrued at the end of each tax year (which increase would include capital gains accrued on the Covered Bonds).

Non-Italian resident Bondholders

Capital gains realised by non-Italian resident Bondholders without a permanent establishment in Italy to which the Covered Bonds are effectively connected through the sale or redemption of Covered Bonds issued by an Italian resident issuer and traded on regulated markets are not subject to the *imposta sostitutiva*.

Capital gains realised by non-Italian resident Bondholders without a permanent establishment in Italy to which the Covered Bonds are effectively connected through the sale, transfer or redemption of Covered Bonds issued by an Italian resident issuer not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the beneficial owner of the Covered Bonds is:

(a) resident in a State or territory included in the White List as defined above; and

(b) all the requirements and procedures set forth in Decree No. 239 and in the relevant implementation rules, as subsequently amended, in order to benefit from the exemption from *imposta sostitutiva* are met or complied with in due time.

The same exemption applies where the non-Italian resident beneficial owners of the Covered Bonds are (i) international entities or organizations established in accordance with international agreements ratified by Italy; (ii) certain foreign institutional investors, whether or not subject to tax, established in countries which allow for an adequate exchange of information with Italy; or (iii) Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State.

If none of the conditions above is met, capital gains realised by non-Italian resident holders Bondholders from the sale, transfer or redemption of Covered Bonds issued by an Italian resident issuer and not traded on regulated markets are subject to the *imposta sostitutiva* at the current rate of 26 per cent. However, Bondholders may benefit from an applicable tax treaty with the Republic of Italy providing that capital gains realised upon the sale, tranfer or redemption of the Covered Bonds are to be taxed only in the country of tax residence of the recipient.

Under these circumstances, if non-Italian residents without a permanent establishment in Italy to which the Covered Bonds are effectively connected elect for the asset management regime or are subject to the administrative savings regime, exemption from Italian capital gains tax will apply provided that they timely file with the Italian authorised financial intermediary a self declaration attesting that all the requirements for the application of the relevant double taxation treaty are met.

Inheritance and gift taxes

Transfers of any valuable asset (including shares, Covered Bonds or other securities) as a result of death or donation are taxed as follows:

(a) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or gift exceeding Euro 1,000,000;

(b) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of

the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or gift exceeding Euro 100,000; and

(c) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or gift.

If the transfer is made in favour of persons with severe disabilities, the tax applies on the value exceeding €1,500,000.

Moreover, an anti-avoidance rule is provided for by Law No. 383 of 18 October 2001 for any gift of assets (such as the Covered Bonds) which, if sold for consideration, would give rise to capital gains to the *imposta sostitutiva* provided for by Decree No. 461. In particular, if the donee sells the Covered Bonds for consideration within 5 years from the receipt thereof as a gift, the donee is required to pay the relevant *imposta sostitutiva* on capital gains as if the gift was not made.

Transfer tax

Contracts relating to the transfer of securities are subject to a Euro 200 registration tax as follows: (i) public deeds and notarised deeds are subject to mandatory registration; (ii) private deeds are subject to registration only in the case of use or voluntary registration.

Stamp Duty

Pursuant to Article 13 par. 2-*ter* of the tariff Part I attached to Presidential Decree No. 642 of 26 October 1972, as amended by Article 1 par. 581 of Law No. 147 of 27 December 2013, a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients in respect of any financial product and instrument, which may be deposited with such financial intermediary in Italy. The stamp duty applies at the rate of 0.20 per cent. and it cannot exceed €14,000 for taxpayers other than individuals. This stamp duty is determined on the market value or – in the absence of a market value – on the nominal value or the redemption amount of any financial product or financial instruments (including the Covered Bonds). Stamp duty applies both to Italian resident Bondholders and to non-Italian resident Bondholders, to the extent that the Covered Bonds are held with an Italian-based financial intermediary.

The statement is considered to be sent at least once a year, even for instruments for which is not mandatory, nor the deposit nor the release or the drafting of the statement. In case of reporting periods of less than 12 months, the stamp duty is payable *pro-rata*.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 20 June 2012) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Wealth tax on financial assets deposited abroad

According to Article 19 of Decree No. 201/2011, as amended by Article 1 par. 582 of Law No. 147 of 27 December 2013, Italian resident individuals holding financial assets – including the Covered Bonds – outside of the Italian territory are required to pay in their own annual tax declaration a wealth tax at the rate of 0.2 per cent. The tax applies on the market value at the

end of the relevant year or – in the lack of the market value – on the nominal value or redemption value, or in the case the face or redemption values cannot be determined, on the purchase value of any financial assets held outside of the Italian territory.

United States Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain US payments by a "foreign financial institution", or "**FFI**" (as defined by FATCA)) to persons that fail to meet certain certification, reporting or related requirements.

This withholding would not apply to payments on the Covered Bonds prior to 1 January 2019 and would only potentially apply to payments in respect of (i) any Covered Bonds characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal income tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Covered Bonds characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are issued on or before the grandfathering date, and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives (or, in the case of certain exempt entities, a "**Nonreporting FI**"). Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Italy have entered into an IGA (the "**US-Italy IGA**") based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI or Nonreporting FI pursuant to the US-Italy IGA it does not anticipate that it will be not obliged to deduct any FATCA Withholding on payments it makes on the Covered Bonds. There can be no assurance, however, that in the future the Issuer will not be required to deduct FATCA Withholding from payments it makes on the Covered Bonds. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Covered Bonds are cleared through Monte Titoli, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer, any paying agent and Monte Titoli, given that each of the entities in the payment chain between the Issuer and the participants in Monte Titoli is a major financial institution whose

business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds. FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

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Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Covered Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of the Bondholders

Withholding Tax

(i) **Non-resident Bondholders**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident Bondholders, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident Bondholders.

(ii) **Resident Bondholders**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Bondholders, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident Bondholders.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payment under the Covered Bonds coming within the scope of the Relibi Law will be subject to withholding tax of 20 per cent.

In addition, pursuant to the Relibi Law, Luxembourg resident individuals can opt to self-declare and pay a 20 per cent. tax on payment of interest or similar incomes made or ascribed by paying agents located in a Member State of the European Union other than Luxembourg or a Member State of the European Economic Area. The 20 per cent. tax is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Income Taxation

(i) **Non-resident Bondholders**

A non-resident Bondholder, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Covered Bonds are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Covered Bonds. A gain realised by such non-resident Bondholder on the sale or disposal, in any form whatsoever, of the Covered Bonds is further not subject to Luxembourg income tax.

A non-resident corporate Bondholder or a non-resident individual Bondholder acting in the course of the management of a professional or business undertaking, which/who has a permanent establishment or permanent representative in Luxembourg to which or to whom such Covered Bonds are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Covered Bonds and on any gains realised upon the sale or disposal, in any form whatsoever, of the Covered Bonds.

(ii) **Resident Bondholders**

Bondholders who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

A resident corporate Bondholder must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Covered Bonds, in its taxable income for Luxembourg income tax assessment purposes.

A resident Bondholder that is governed by the law of 11 May 2007 on family estate management companies as amended, or by the law of 17 December 2010 on undertakings for

collective investment as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or by the law of 23 July 2016 on reserved alternative investment funds and which does not fall under the special tax regime set out in article 48 thereof is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Covered Bonds.

A resident individual Bondholder, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts, under the Covered Bonds, except if (i) withholding tax has been levied on such payments in accordance with the Relibi Law, or (ii) the individual Bondholder has opted for the application of a 20 per cent. tax in full discharge of income tax in accordance with the Relibi Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State).

A gain realised by a resident individual Bondholder, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Covered Bonds is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Covered Bonds were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Relibi Law.

A resident individual Bondholder acting in the course of the management of a professional or business undertaking must include this interest in its taxable basis. If applicable, the tax levied in accordance with the Relibi Law will be credited against his/her final tax liability.

Net Wealth Taxation

A corporate Bondholder, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which whom such Covered Bonds are attributable, is subject to Luxembourg wealth tax on these Covered Bonds, except if the Bondholder is governed by the law of 11 May 2007 on family estate management companies as amended, or by the law of 17 December 2010 on undertakings for collective investment as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or is a securitisation company governed by the law of 22 March 2004 on securitisation, as amended, or is a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended, or is a reserved alternative investment funds within the meaning of the law of 23 July 2016.

However, please note that securitisation companies governed by the law of 22 March 2004 on securitisation, as amended, or capital companies governed by the law of 15 June 2004 on venture capital vehicles, as amended, or reserved alternative investment funds governed by the law of 23 July 2016 and which fall under the special tax regime set out under article 48 thereof may, under certain conditions, be subject to minimum net wealth tax.

This minimum net wealth tax amounts to EUR 4,815.-, if the relevant corporate Bondholder holds assets such as fixed financial assets, receivables owed to affiliated companies, transferable securities, postal checking accounts, checks and cash, in a proportion that exceeds 90 per cent. of its total balance sheet value and if the total balance sheet value of these very assets exceeds EUR 350,000. Alternatively, if the relevant corporate Bondholder holds 90 per

cent. or less of financial assets or if those financial assets do not exceed EUR 350.000, a minimum net wealth tax varying between EUR 535 and EUR 32,100 would apply depending on the size of its balance sheet.

An individual Bondholder, whether she/he is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Covered Bonds.

Other Taxes

In principle, neither the issuance nor the transfer, repurchase or redemption of Covered Bonds will give rise to any Luxembourg registration tax or similar taxes.

However, a fixed or *ad valorem* registration duty may be due upon the registration of the Covered Bonds in Luxembourg in the case where the Covered Bonds are either (i) attached as an annex to an act (*annexés à un acte*) that itself is subject to mandatory registration or (ii) deposited in the minutes of a notary (*déposés au rang des minutes d'un notaire*) or (iii) registered on a voluntary basis.

Where a Bondholder is a resident of Luxembourg for tax purposes at the time of her/his death, the Covered Bonds are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Covered Bonds if embodied in a Luxembourg deed passed in front of a Luxembourg notary or recorded in Luxembourg.

Residence

A Bondholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Covered Bond or the execution, performance, delivery and/or enforcement of that or any other Covered Bond.

SUBSCRIPTION AND SALE

Covered Bonds may be sold from time to time by the Issuer to any one or more of the Dealers. The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Programme Agreement dated 18 June 2010 (as amended on 20 December 2013, the "**Programme Agreement**") and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the terms and conditions of the relevant Covered Bonds, the price at which such Covered Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series or Tranche of Covered Bonds.

United States of America: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Covered Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer further agrees, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of Covered Bonds comprising any Series or Tranche, offer or sale of Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) *Authorised institutions*: at any time to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(b) *Fewer than 150 offers*: at any time to fewer than 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;

(c) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Covered Bonds to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, the Final Terms in respect of any Covered Bonds specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Covered Bonds specifies "*Prohibition of Sales to EEA Retail Investors*" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) *No deposit-taking*: in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons:

   (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or

   (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

   where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) *Financial Promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Consolidated Finance Act**") and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Consolidated Finance Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Consolidated Finance Act, CONSOB Regulation No. 16190 of 29 October 2007 and the Consolidated Banking Act (in each case as amended from time to time);

(b) in compliance with Article 129 of the Consolidated Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Covered Bonds in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Covered Bonds or possesses, distributes or publishes this Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or possess, distribute or publish this Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer and the Dealers. Any such supplement or modification may be set out in a supplement to this Prospectus.

GENERAL INFORMATION

Approval, Listing and Admission to Trading

This Prospectus has been approved as a base prospectus issued in compliance with the Prospectus Directive by the *Commission de Surveillance du Secteur Financier* ("CSSF") in its capacity as competent authority in the Grand Duchy of Luxembourg for the purposes of the Prospectus Directive. Application has been made for Covered Bonds issued under the Programme to be listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

However, Covered Bonds may be issued pursuant to the Programme which will be unlisted or be admitted to listing, trading and/or quotation by such other competent authority, stock exchange or quotation system as the Issuer and the relevant Dealer(s) may agree.

The CSSF may, at the request of the Issuer, send to the competent authority of another Member State of the European Economic Area: (i) a copy of this Prospectus; and (ii) a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive; and (iii) if so required by the competent authority of such Member State, a translation into the official language(s) of such Member State of a summary of this Prospectus.

Authorisations

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of the board of directors of the Issuer dated 6 May 2010 and the giving of the Guarantee has been duly authorised by a resolution of the board of directors of the Guarantor dated 18 May 2010.

The annual update of the Programme and the increase of the Programme Limit has been authorised by the resolution of the board of directors of the Issuer dated 5 October 2017.

The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Covered Bonds.

Legal and Arbitration Proceedings

Save as disclosed in this Prospectus in section headed "*Risks deriving from judicial and administrative proceedings"* (set out in the section "*Risk factors*" of this Prospectus) from page 71 to page 78 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the twelve months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Trend Information / No Significant Change

Since 30 September 2017 there has been no significant change in the financial or trading position of the Issuer and of Montepaschi Group.

Since 31 December 2016 there has been no material adverse change in the prospects of the Guarantor and since 31 December 2016 there has been no significant change in the financial position of the Guarantor.

Material Adverse Change

Following the approval by the Issuer's Board of Directors on 7 November 2017 of the Interim Financial Statements as at 30 September 2017, there has been no material adverse change in the prospects of the Issuer and/or the Group, save as set out below.

In relation to the deviations of the main economic and financial variables as at 30 September 2017, it should be noted that the primary revenues level (net interest income and net fees) are moderately lower than the expected (-3 per cent) as the overall effect of a linear dynamic of the margin of interest and a slowdown in fees income. The latter, in addition to the seasonality of asset management income and to the assignment of the “merchant acquiring” business (completed on 30 June 2017), is also affected by the reflective dynamics of employments. Operating costs highlight values within the programmed levels. With reference to capital aggregates: direct commercial funding continue to grow higher than expected, especially during the third quarter of 2017 (up by 5 per cent at average progressive rates, 8% in the third quarter), below about 5 basis points compared to the scheduled level; indirect funding are below forecasts (-1% compared to what was expected); commercial loans recorded a downward trend which is worsening in the third quarter of 2017, showing lower levels than the expected in average progressive terms by about -1 per cent (-3 per cent during the third quarter of 2017), with average progressive rates about 5 basis points lower than planned.

Minimum denomination

Where Covered Bonds issued under the Programme are admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, such Covered Bonds will not have a denomination of less than €100,000 (or, where the Covered Bonds are issued in a currency other than euro, the equivalent amount in such other currency).

Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available (in English translation, where necessary) free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the registered office of the Issuer:

(a) the by-laws of the Issuer and the constitutive documents of the Guarantor;

(b) the 18 December 2017 Press Release;

(c) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2015 and 31 December 2016;

(d) the unaudited half-yearly consolidated financial report of the Issuer as at and for the period ended 30 June 2016 and 30 June 2017;

(e) the consolidated unaudited interim financial report of BMPS as at 30 September 2016 and 30 September 2017;

(f) the audited financial statements of the Guarantor as at and for the years ended 31 December 2015 and 31 December 2016;

(g) the auditors' reports for the Issuer for the financial year ended 31 December 2015 and for the year ended 31 December 2016;

(h) the auditors' reports for the Guarantor for the financial year ended 31 December 2015 and for the year ended 31 December 2016;

(i) a copy of this Prospectus;

(j) any future offering circular, prospectuses, information memoranda and supplements to this Prospectus including Final Terms and any other documents incorporated herein or therein by reference;

(k) each of the following documents (as amended and restated from time to time, the "**Programme Documents**"), namely:

- Guarantee;
- Subordinated Loan Agreements;
- Master Assets Purchase Agreement;
- Cover Pool Management Agreement;
- Warranty and Indemnity Agreement;
- Master Servicing Agreement;
- Asset Monitor Agreement;
- Quotaholders' Agreement;
- Cash Allocation, Management and Payments Agreement;
- English Account Bank Agreement;
- Covered Bond Swap Agreements;
- Asset Swap Agreements;
- Mandate Agreement;
- Deed of Pledge;
- Deed of Charge
- Intercreditor Agreement;
- Guarantor Corporate Services Agreement;
- Programme Agreement; and
- Master Definitions Agreement.

Auditors

On 29 April 2011 the Issuer has appointed EY S.p.A., with registered office at Via Po 32, 00198, Rome, Italy and and authorized and regulated by the MEF and registered on the special register of auditing firms held by the MEF. EY S.p.A. has audited and rendered unqualified audit reports on the consolidated financial statements of the Issuer for the year ended 31 December 2015 and for the year ended 31 December 2016.

EY S.p.A. has been appointed (i) on 17 June 2013 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2013 and the year ended on 31 December 2015 and (ii) on 13 April 2016 to perform the audit of the financial statements of the Guarantor for the period between the year ended on 31 December 2016 and the year ended on 31 December 2018.

Post-Issuance information

The Issuer will not provide any post-issuance information, except if required by any applicable laws ad regulations.

Material Contracts

Neither the Issuer nor the Guarantor nor any of their respective subsidiaries has entered into any contracts in the last two years outside the ordinary course of business that have been or may be reasonably expected to be material to their ability to meet their obligations to Bondholders.

Clearing of the Covered Bonds

The Covered Bonds issued in bearer and dematerialised form have been accepted for clearance through Monte Titoli, Euroclear and Clearstream. The appropriate common code and the International Securities Identification Number in relation to the Covered Bonds of each Tranche will be specified in the relevant Final Terms. The relevant Conditions and/or Final Terms shall specify (i) any other clearing system for the Covered Bonds issued in bearer and dematerialised form as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information or (ii) with respect to Covered Bonds issued in any of the other form which may be indicated in the relevant Conditions and/or Final Terms, the indication of the agent or registrar through which payments to the Bondholders will be performed.

Yield

In relation to any Tranche of Fixed Rate Covered Bonds and Zero Coupon Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

Dealers Transacting with the Issuer

MPS Capital Services Banca per l'Impresa S.p.A. belongs to the Monte dei Paschi Group and is subject to control and guidelines of Banca Monte dei Paschi di Siena S.p.A..

Besides, certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions (including the provision of loan facilities) and other related transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. If any of the Dealers or their affiliates has a lending relationship with the Issuer, certain of the Dealers or their affiliates routinely or may hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GLOSSARY

"**15% Limit**" means the limit of 15 per cent. (of the aggregate outstanding principal amount of the Cover Pool) of Top-Up Assets that may be included in the Cover Pool unless otherwise permitted by law or applicable regulation.

"**Accrual Yield**" has the meaning given in the relevant Final Terms.

"**Accrued Interest**" means, as of any Valuation Date and in relation to any Eligible Asset to be assigned as at that date, the portion of the Interest Instalment accrued, but not yet due, as at such date.

"**Additional Criteria**" means the further criteria which can be identified pursuant to clause 2.3.2(c) of the Master Assets Purchase Agreement.

"**Additional Seller**" means any entity being part of the Montepaschi Group that may transfer one or more New Portfolios to the Guarantor following the accession to the Programme pursuant to the Programme Documents.

"**Additional Servicer**" means each Additional Seller which has been appointed as servicer in relation to the Assets transferred to the Guarantor, following the accession to the Programme and to the Master Servicing Agreement, pursuant to the Programme Documents.

"**Additional Subordinated Lender**" means each Additional Seller in its capacity as additional subordinated lender, pursuant to the relevant Subordinated Loan Agreement.

"**Adjustment Purchase Price**" means the purchase price adjusted on the basis of calculations carried out pursuant to clause 7 of the Master Assets Purchase Agreement.

"**Affected Assets**" has the meaning ascribed to the term "*Attivi Interessati*" in the Warranty and Indemnity Agreement.

"**Affected Party**" has the meaning ascribed to that term in the Swap Agreements.

"**Adjusted Aggregate Asset Amount**" means the amount calculated pursuant to the formula set out in clause 3.3 of the Cover Pool Management Agreement.

"**Amortisation Test**" means the Test as indicated in clause 4 of the Cover Pool Management Agreement.

"**Assets**" means, collectively, the Eligible Assets and the Top-Up Assets.

"**Asset Backed Securities**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 the asset backed securities for which a risk weight not exceeding 20 per cent. is applicable in accordance with the Bank of Italy's prudential regulations for banks - standardised approach - provided that at least 95 per cent. of the relevant securitised assets are:

(i) Residential Mortgage Loans;

(ii) Commercial Mortgage Loans;

(iii) Public Entity Receivables or Public Entity Securities.

and, in any case, complying with the requirements of the ECB Guidelines.

"**Asset Coverage Test**" has the meaning as indicated pursuant to clause 3 of the Cover Pool Management Agreement.

"**Asset Monitor**" means Deloitte & Touche S.p.A. in its capacity as asset monitor pursuant to the Asset Monitor Engagement Letter and the Asset Monitor Agreement.

"**Asset Monitor Agreement**" means the agreement entered on 18 June 2010 between, *inter alios*, the Asset Monitor, the Issuer and the Guarantor, as amended from time to time.

"**Asset Monitor Engagement Letter**" means the engagement letter entered into, on 18 June 2010, between the Issuer and the Asset Monitor in order to perform specific agreed upon procedures concerning, *inter alia*, (i) the fulfillment of the eligibility criteria set out under Decree No. 310 with respect to the Eligible Assets and Top-Up Assets included in the Cover Pool; (ii) the compliance with the limits to the transfer of the Eligible Assets set out under Decree No. 310; and (iii) the effectiveness and adequacy of the risk protection provided by any Swap Agreement entered into in the context of the Programme.

"**Asset Monitor Report Date**" means any date on which the Asset Monitor shall deliver a report including the results of the verifications carried out by it under the terms of the Asset Monitor Agreement.

"**Asset Percentage**" means the lower of (i) 83.00 per cent. and (ii) such other percentage figure as may be determined by the Issuer on behalf of the Guarantor in accordance with the methodologies published by the Rating Agencies (after procuring the level of overcollateralization in line with the target rating). Such new figure of the Asset Percentage shall be set out in the Payments Report and shall thus form part of the calculation of the Asset Coverage Test. Notwithstanding the above, in the event the Issuer chooses not to apply such other percentage figure (item (ii) above) of the Asset Percentage, this will not result in a breach of the Asset Coverage Test.

"**Asset Swap Agreement**" means any asset swap agreement which may be entered into between an Asset Swap Provider and the Guarantor.

"**Asset Swap Provider**" means any entity acting as swap counterparty under an Asset Swap Agreement.

"**Back-Up Account Bank**" means any of the Italian Back-Up Account Bank and the English Back-Up Account Bank.

"**Back-Up Servicer**" means Securitisation Services S.p.A. or any other company that will be appointed in such capacity by the Guarantor, together with the Representative of the Bondholders, pursuant to clause 10.1 of the Master Servicing Agreement.

"**Back-up Servicer Facilitator**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the Servicing Agreement.

"**Bank of Italy Regulations**" means the regulations No. 285 issued by the Bank of Italy on 17 December 2013, as supplemented from time to time.

"**Bankruptcy Law**" means Royal Decree No. 267 of 16 March 1942, as subsequently amended and supplemented.

"**Base Interest**" has the meaning given to the term "*Interesse Base*" pursuant to the Subordinated Loan Agreement.

"**BMPS**" means Banca Monte dei Paschi di Siena S.p.A..

"**Bondholders**" means the holders from time to time of the Covered Bonds included in each Series or Tranche of Covered Bonds.

"**Breach of Tests Cure Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement.

"**Breach of Test Notice**" means the notice delivered by the Representative of the Bondholders in accordance with the terms of the Cover Pool Management Agreement following the infringement of one of the Tests prior to an Issuer Event of Default and/or a Guarantor Event of Default.

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks are generally open for business in Milan, Luxembourg and London and on which the Trans-European Automated Real Time Gross Settlement Express Transfer System (TARGET 2) (or any successor thereto) is open.

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day

falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention.

"**Calculation Amount**" is the amount used for the calculation of interest amounts and redemption amounts for the relevant covered bonds as specified in the relevant Final Terms.

"**Calculation Period**" means the period from one Guarantor Calculation Date (included) to the next Guarantor Calculation Date (excluded).

"**Call Option**" has the meaning given in the relevant Final Terms.

"**Cash Allocation, Management and Payments Agreement**" means the cash allocation, management and payments agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Representative of the Bondholders, the Paying Agent(s), the Italian Account Bank and the English Account Bank, as amended from time to time.

"**Cash Manager**" means BMPS acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cash Manager Report**" means the report produced by the Cash Manager pursuant to the Cash Allocation, Management and Payments Agreement.

"**Cessation of Business**" means, with respect to the Issuer, the loss of the banking licence.

"**Civil Code**" means the Italian civil code, enacted by Royal Decree No. 262 of 16 March 1942, as subsequently amended and supplemented.

"**Clearstream"** means Clearstream Banking *société anonyme*, Luxembourg with offices at 42 avenue JF Kennedy, L-1855 Luxembourg.

"**Collateral Account(s)"** means any other cash and/or securities account (different from the Guarantor's Accounts) opened by the Guarantor pursuant to clause 7.4 of the Intercreditor Agreement.

"**Collateral Security**" means any security (including any loan mortgage insurance and excluding Mortgages) granted to the Principal Seller (or any Additional Seller(s), if any) by any Debtor in order to guarantee the payment and/or redemption of any amounts due under the relevant Mortgages Loan Agreement.

"**Collection Date**" means (i) prior to the service of a Guarantor Default Notice, the first calendar day of each month; and (ii) following the service of a Guarantor Default Notice, each date determined by the Representative of the Bondholders as such.

"**Collection Period**" means the Monthly Collection Period and/or the Quarterly Collection Period, as applicable.

"**Collections**" means all amounts received or recovered by the Servicer in respect of the Assets included in the Cover Pool.

"**Commercial Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310 a commercial mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same property does not exceed 60 per cent. and for which the hardening period with respect to the perfection of the relevant mortgage has elapsed.

"**Common Criteria**" means the criteria listed in schedule 1 to the Master Assets Purchase Agreement.

"**CONSOB**" means Commissione Nazionale per le Società e la Borsa.

"**Consolidated Banking Act**" means Legislative Decree No. 385 of 1 September 1993, as subsequently amended and supplemented.

"**Contractual Rights**" has the meaning given to it pursuant to the Mandate Agreement.

"**Corporate Services Agreement**" means the corporate services agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Guarantor Corporate Servicer.

"**Corresponding Interest**" has the meaning given to the term "Interesse Collegato" in the Subordinated Loan Agreement.

"**Corresponding Series or Tranche of Covered Bonds**" means, in respect of a Fixed Interest Term Loan or a Floating Interest Term Loan, the Series or Tranche of Covered Bonds issued or to be issued pursuant to the Programme and notified by the Subordinated Lender to the Guarantor in the relevant Term Loan Proposal.

"**Cover Pool**" means the cover pool constituted by (i) Receivables; (ii) any other Eligible Assets; and (iii) any Top-Up Assets.

"**Cover Pool Management Agreement**" means the Cover Pool management agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Principal Seller, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Guarantor Calculation Agent and the Representative of the Bondholders, as amended from time to time.

"**Covered Bond Swap Agreement**" means each International Swaps and Derivatives Association ("**ISDA**") 1992 Master Agreement (*Multicurrency Cross Border*) (together with the Schedule and credit support annex thereto and the confirmations evidencing interest rate swap transactions thereunder) entered into from time to time between the Guarantor and a Covered Bond Swap Provider, as amended from time to time.

"**Covered Bond Swap Provider**" means any entity acting as covered bond swap provider under a Covered Bond Swap Agreement to the Guarantor and "**Covered Bond Swap Providers**" means more than one of them.

"**Covered Bonds**" means the Covered Bonds (*Obbligazioni Bancarie Garantite*) of each Series or Tranche issued or to be issued by the Issuer in the context of the Programme.

"**Credit and Collection Policy**" means the procedures for the management, collection and recovery of the Receivables attached as schedule 3 to the Master Servicing Agreement.

"**Criteria**" means, collectively, the Common Criteria, the Specific Criteria and any Additional Criteria pursuant to the terms of the Master Assets Purchase Agreement.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in the Terms and Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**DBRS**" means DBRS Ratings Limited.

"**DBRS Equivalent Rating**" means the DBRS rating equivalent of any of the below ratings by Moody's, Fitch or S&P:

DBRS	Moody's	S&P	Fitch
AAA	Aaa	AAA	AAA
AA(high)	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA(low)	Aa3	AA-	AA-
A(high)	A1	A+	A+
A	A2	A	A
A(low)	A3	A-	A-
BBB(high)	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB(low)	Baa3	BBB-	BBB-
BB(high)	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB(low)	Ba3	BB-	BB-
B(high)	B1	B+	B+
B	B2	B	B
B(low)	B3	B-	B-
CCC(high)	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC

DBRS	Moody's	S&P	Fitch
CCC(low)	Caa3	CCC-	CCC-
CC	Ca	CC	CC
C	C	D	D

"**DBRS Rating**" is any of the following:

- Public rating
- Private rating
- Internal assessment

(a) if a Fitch public rating, a Moody's public rating and an S&P public rating in respect of the Eligible Investment or the Eligible Institution (each, a "**Public Long Term Rating**") are all available at such date, the DBRS Rating will be the DBRS Equivalent Rating of such Public Long Term Rating remaining after disregarding the highest and lowest of such Public Long Term Ratings from such rating agencies (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below). For this purpose, if more than one Public Long Term Rating has the same highest DBRS Equivalent Rating or the same lowest DBRS Equivalent Rating, then in each case one of such Public Long Term Ratings shall be so disregarded;

(b) if the DBRS Rating cannot be determined under (a) above, but Public Long Term Ratings of the Eligible Investment by any two of Fitch, Moody's and S&P are available at such date, the DBRS Equivalent Rating of the lower such Public Long Term Rating (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below); and

(c) if the DBRS Rating cannot be determined under (a) and (b) above, but Public Long Term Ratings by any one of Fitch, Moody's and S&P are available at such date, then the DBRS Equivalent Rating will be such Public Long Term Rating (provided that if such Public Long Term Rating is under credit watch negative, or the equivalent, then the DBRS Equivalent Rating will be considered one notch below).

If at any time the DBRS Rating cannot be determined under subparagraphs (a) to (c) above, the DBRS Rating will be deemed to be of "C" at such time.

"**Dealers**" means The Royal Bank of Scotland plc (trading as NatWest Markets), Morgan Stanley & Co. International plc, MPS Capital Services Banca per l'Impresa S.p.A. and any other entity that will be appointed as such by the Issuer by means of the subscription of a letter under the terms or substantially under the terms provided in schedule 6 of the Programme Agreement.

"**Debtor**" means (i) with reference to the Mortgage Loans, any borrower and any other person, other than a Mortgagor, who entered into a Mortgage Loan Agreement as principal debtor or guarantor or who is liable for the payment or repayment of amounts due in respect of a Mortgage Loan, as a consequence, *inter alia*, of having granted any Collateral Security or

having assumed the borrower's obligation under an *accollo*, or otherwise; and (ii) with reference to the Asset Backed Securities, the relevant Issuer.

"**Decree No. 213**" means Italian Legislative Decree number 213 of 24 June 1998, as amended and supplemented from time to time.

"**Decree No. 239**" means the Italian Legislative Decree number 239 of 1 April 1996, as subsequently amended and supplemented.

"**Decree No. 310**" means the ministerial decree No. 310 of 14 December 2006 issued by the Ministry of the Economy and Finance, as subsequently amended and supplemented.

"**Deed of Pledge**" means the Italian law deed of pledge entered on 18 June 2010.

"**Defaulted Asset Backed Securities**" means any Asset Backed Securities in respect of which an insolvency event or another event contractually indicated as event of default by the relevant issuer has occurred and is continuing pursuant to the relevant terms and conditions.

"**Defaulted Assets**" means, collectively, the Defaulted Receivables and the Defaulted Asset Backed Securities.

"**Defaulted Receivables**" means any Receivable (i) which has been classified as "defaulted" (*credito in sofferenza*) pursuant to the Bank of Italy's supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*) and the Credit and Collection Policy; or (ii) in respect of which there are 12 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 7 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 4 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments).

"**Defaulting Party**" has the meaning ascribed to that term in the Swap Agreements.

"**Delinquent Assets**" means the Delinquent Receivables.

"**Delinquent Receivables**" means any Receivable (i) which has been classified as "delinquent" (*credito ad incaglio*) pursuant to the Bank of Italy's supervisory regulations (*Istruzioni di Vigilanza della Banca d'Italia*) and the Credit and Collection Policy, or (ii) in respect of which there are 7 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with monthly instalments), 5 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with quarterly instalments) or 3 unpaid Instalments (in respect of Receivables deriving from Mortgage Loans with semi-annual instalments), or (iii) deriving from Mortgage Loans which have been restructured in connection with the accession to the "*Combatti la crisi*" program.

"**Documentation**" means (i) any documentation relating to the Receivables comprised in the Portfolio; (ii) any documentation relating to the operations of securitisation in the context of which the Asset Backed Securities have been issued pursuant to Law 130; and (iii) any other documents relating to Eligible Assets and/or Top-Up Assets transferred from time to time by each Seller in the context of the Programme.

"**Drawdown Date**" means the date indicated in each Term Loan Proposal on which a Term Loan is granted pursuant to the Subordinated Loan Agreement (or, in respect of any Additional

Subordinated Lenders, pursuant to the relevant Subordinated Loan Agreement) during the Subordinated Loan Availability Period.

"**Due for Payment**" means the requirement for the Guarantor to pay any Guaranteed Amounts following the delivery of a Guarantee Enforcement Notice after the occurrence of certain Issuer Events of Default, such requirement arising:(i) prior to the occurrence of a Guarantor Event of Default, on the date on which the Guaranteed Amounts are due and payable in accordance with the Terms and Conditions and the Final Terms of the relevant Series or Tranche of Covered Bonds (being the relevant Maturity Date or Extended Maturity Date, as the case may be); and(ii) following the occurrence of a Guarantor Event of Default, the date on which the Guarantor Default Notice is served on the Guarantor.

"**Earliest Maturing Covered Bonds**" means, at any time, the Series or Tranche of Covered Bonds that has or have the earliest Maturity Date (if the relevant Series or Tranche of Covered Bonds is not subject to an Extended Maturity Date) or Extended Maturity Date (if the relevant Series or Tranche of Covered Bonds is subject to an Extended Maturity Date) as specified in the relevant Final Terms.

"**Early Redemption Amount (Tax)**" means, in respect of any Series of Covered Bonds, the principal amount of such Series or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms.

"**Early Termination Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series or Tranche or such other amount as may be specified in, or determined in accordance with, the Terms and Conditions or the relevant Final Terms.

"**ECB Guidelines**" means the Guideline of the European Central Bank of 20 September 2011 (ECB/2011/14), published on the Official Gazette of the European Union no. 331 of 14 December 2011, as amended by the Guideline of the European Central Bank on 26 November 2012 (ECB/2012/25) published on the Official Gazette of the European Union no. 348 on 18 December 2012, both relating to monetary policy instruments and procedures of the Eurosystem, and the decisions of the European Central Bank dated, respectively, 20 March 2013 (ECB/2013/6), on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, and 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2013/35), as subsequently amended and supplemented.

"**Eligible Assets**" means the following assets contemplated under article 2, sub-paragraph 1, of Decree No. 310:

(i) Residential Mortgage Loans;

(ii) Asset Backed Securities.

"**Eligible Institution**" means any credit institution incorporated under the laws of any state which is a member of the EEA or of the United States, whose short-*ter*m unsecured and unsubordinated debt obligations with respect to DBRS have a DBRS Rating or DBRS Equivalent Rating equal to the Minimum DBRS Rating, at least "F-1" by Fitch and at least "P-1" by Moody's and whose long-term unsecured and unsubordinated debt obligations are rated at least "A" by Fitch and at least "P-1" by Moody's no long term Moody's rating, (provided that, if any of the above credit institutions is on rating watch negative, it shall be treated as one

notch below its current Fitch rating) or any other rating level from time to time provided for in the Rating Agencies' criteria.

"**Eligible Investment**" means any investment denominated in Euro (unless a suitable hedging is in place) that has a maturity date falling, or which is redeemable at par together with accrued unpaid interest, no later than the next following Eligible Investment Liquidation Date and that is an obligation of a company incorporated in, or a sovereign issuer of, a Qualifying Country (as defined below), **provided that** in case of downgrade below such rating level the securities will be sold, if it could be achieved without a loss, otherwise the securities shall be allowed to mature, and is one or more of the following obligations or securities (including, without limitation, any obligations or securities for which the Cash Manager or the Representative of the Bondholders or an affiliate of any of them provides services):

(i) direct obligations of any agency or instrumentality of a sovereign of a Qualifying Country, the obligations of which agency or instrumentality are unconditionally and irrevocably guaranteed in full by a Qualifying Country, a "Qualifying Country" being a country rated at the time of such investment or contractual commitment providing for such investment in such obligations, at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and AA (low) or R-1 (middle) by DBRS;

(ii) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company (including, without limitation, the English Account Bank and the Italian Account Bank) incorporated under the laws of a Qualifying Country with, in each case, a maturity of no more than 30 days (and in any case falling prior to the immediately following Eligible Investment Liquidation Date) and subject to supervision and examination by governmental banking authorities, provided that the commercial paper and/or the debt obligations of such depositary institution or trust company (or, in the case of the principal depositary institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of at least "A" and "F1" by Fitch,"A2" and "P-1" by Moody's and with respect to DBRS rated according to the "DBRS A" table;

(iii) any security rated at least (A) "P-1" by Moody's, "A" and "F1" by Fitch and with respect to DBRS according to the DBRS A, if the relevant maturity is up to 30 calendar days, (B) "P-1" by Moody's and "AA-" or "F1+" by Fitch and with respect to DBRS according DBRS B table, if the relevant maturity is up to 365 calendar days provided that, in all cases, the maximum aggregate total exposures in general to classes of assets with certain ratings by the Ratings Agencies will, if requested by any Rating Agencies, be limited to the maximum percentages specified by any such Rating Agencies;

(iv) any Top-Up Asset and/or Public Entity Securities and/or Asset Backed Securities, provided that, in all cases, such investments shall from time to time comply with Rating Agencies' criteria;

(v) subject to the rating of the Covered Bonds not being affected, unleveraged repurchase obligations with respect to: (1) commercial paper or other short-*ter*m obligations having, at the time of such investment, a credit rating of at least "AA-" or "F1+" by Fitch, "Aa3" and "P-1" by Moody's and a maturity of not more than 180 days from their date of issuance and with respect to DBRS, a credit rating of the counterparty according to the DBRS A and DBRS B tables; (2) off-shore money market funds rated, at all

times, "AAA/V-1" by Fitch and "Aaa/MR1+" by Moody's and with respect to DBRS, a credit rating of the counterparty according to the tables DBRS A and DBRS B; and (3) any other investment similar to those described in paragraphs (1) and (2) above: (a) provided that any such other investment will not affect the rating of the Covered Bonds; and (b) which has the same rating as the investment described in paragraphs (1) and (2) above, provided that, (x) in any event, none of the Eligible Investments set out above may consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives nor may any amount available to the Guarantor in the context of the Programme otherwise be invested in any such instruments at any time and (y) title to the securities underlying such repurchase transactions (in the period between the execution of the relevant repurchase transactions and their respective maturity) effectively passes (as confirmed by a non qualified legal opinion by a primary standing law firm) to the Issuer and the obligations of the relevant counterparty are not related to the performance of the underlying securities.

DBRS A Table:

Eligible Investments with a maturity up to 30 days: CB Rating	Eligible Investment Rating
AAA	A or R-1(middle)
AA (high)	A or R-1(middle)
AA	A or R-1(middle)
AA (low)	A or R-1(middle)
A (high)	BBB (high) or R-2 (high)
A	BBB or R-2 (middle)
A (low)	BBB (low) or R-2 (low)
BBB (high)	BBB (low) or R-2 (low)
BBB	BBB (low) or R-2 (low)
BBB (low)	BBB (low) or R-2 (low)
BB (high)	BB (high) or R-3
BB	BB or R-4
BB (low)	BB (low) or R-4

DBRS B Table:

Maximum maturity	CB rated at least AA (low)	CB rated between A (high) and A (low)	CB rated BBB (high) and below
90 days	AA (low) or R-1 (middle)	A (low) or R-1 (low)	BBB (low) or R-2 (middle)
180 days	AA or R-1 (high)	A or R-1 (low)	BBB or R-2 (high)
365 days	AAA or R-1 (high)	A (high) or R-1 (middle)	BBB or R-2 (high)

"**Eligible Investment Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, any Business Day immediately after a Guarantor Payment Date.

"**Eligible Investment Liquidation Date**" means, in respect of any investment in Eligible Investments made or to be made in accordance with the Programme Documents, two Business

Days before the Guarantor Calculation Date immediately following the relevant Eligible Investment Date.

"**Eligible Investments Securities Account**" means the securities account number 284175,31 opened in the name of the Guarantor with the Italian Account Bank or any other substitutive account that may be opened in accordance with the Cash Allocation, Management and Payments Agreement.

"**English Account**" means each of the Main Programme Account and the Reserve Account, and "English Accounts" means all of them.

"**English Account Bank**" means Banca Monte dei Paschi di Siena S.p.A., acting through its London branch with offices at 6th Floor, Capital House 85, King William Street, London EC4N 7BL, United Kingdom.

"**English Account Bank Agreement**" means the English Account Bank agreement entered on 18 June 2010 between, *inter alios*, the Issuer, the Guarantor, the Italian Account Bank, the English Account Bank and the Representative of the Bondholders, as amended from time to time.

"**English Back-Up Account Bank**" means The Bank of New York Mellon S.A.\N.V., London Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**EONIA**" means the weighted average of overnight Euro Interbank Offer Rates for inter-bank loans and for Euro currency deposits.

"**EU Insolvency Regulation**" means Council Regulation (EC) No. 1346/2000 of 29 May 2000.

"**EU Directive on the Reorganisation and Winding up of Credit Institutions**" means Directive 2001/2/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions.

"**EURIBOR**" (1) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms; and (2) with reference to each Loan Interest Period, means the rate denominated "Euro Interbank Offered Rate" (i) at 3 (three) months (provided that for the First Loan Interest Period, such rate will be calculated on the basis of the linear interpolation of 3-month Euribor and 4-month Euribor), published on Reuters' page "Euribor01" on the menu "Euribor" or (A) in the different page which may substitute the Reuters' page "Euribor01" on the menu "Euribor", or (B) in the event such page or such system is not available, on the page of a different system containing the same information that can substitute Reuters' page "Euribor01" on the menu "Euribor" (or, in the event such page is available from more than one system, in the one selected by the Representative of the Bondholders) (hereinafter, the "**Screen Rate**") at 11.00 a.m. (Brussels time) of the date of determination of Interest falling immediately before the beginning of such Loan Interest Period; or (ii) in the event that on any date of determination of Interest the Screen Rate is not published, the reference rate will be the arithmetic average (rounded off to three decimals) of the rates communicated to the Guarantor Calculation Agent, following request of such Guarantor Calculation Agent, by the Reference Banks at 11.00 a.m. (Brussels time) on the relevant date of determination of Interest and offered to other financial institutions of similar standing for a reference period similar to such Loan Interest Period; or (ii) in the event the Screen Rate is not available and only two or three

Reference Banks communicate the relevant rate quotations to the Guarantor Calculation Agent, the relevant rate shall be determined, as described above, on the basis of the rate quotations provided by the Reference Banks; or (iv) in the event that the Screen Rate is not available and only one or no Reference Banks communicate such quotation to the Guarantor Calculation Agent, the relevant rate shall be the rate applicable to the immediately preceding period under sub-paragraphs (i) or (ii) above, provided that if the definition of Euribor is agreed differently in the context of the Asset Swap Agreement entered into by and between the Guarantor and an Asset Swap Provider in the context of the Programme, such definition will replace this definition.

"**Euro**", "**€**" and "**EUR**" refer to the single currency of member states of the EEA which adopt the single currency introduced in accordance with the Treaty.

"**Euro Equivalent**" means, in case of an issuance of Covered Bonds denominated in currency other than the Euro, an equivalent amount expressed in Euro calculated at the prevailing exchange rate.

"**Euroclear**" means Euroclear Bank S.A./N.V., with offices at 1 boulevard du Roi Albert II, B-1210 Brussels.

"**European Economic Area**" means the region comprised of member states of the EEA which adopt the Euro currency in accordance with the Treaty.

"**Excess Assets**" means, collectively, any Eligible Asset and Top-Up Asset forming part of the Cover Pool which are in excess for the purpose of satisfying the Tests.

"**Excess Term Loan Amount**" means any amount equal to the Accrued Interest collected by the Guarantor, as specified in the relevant Servicer' s Reports.

"**Execution Date**" means (i) with respect to the assignment of the Initial Portfolio, the date falling on the date on which the Principal Seller receives from the Guarantor the letter of acceptance of the Master Assets Purchase Agreement, Master Servicing Agreement, Warranty and Indemnity Agreement and Subordinated Loan Agreement, and (ii) with respect to the assignment of each New Portfolio, the date on which each of the Principal Seller or Additional Seller (if any) receives from the Guarantor the letter of acceptance of the relevant Transfer Proposal.

"**Expenses**" means any documented fees, costs, expenses and taxes required to be paid to any third party creditors (other than the Bondholders and the Other Guarantor Creditors) arising in connection with the Programme, and required to be paid in order to preserve the existence of the Guarantor or to maintain it in good standing, or to comply with applicable laws and legislation.

"**Expenses Account**" means the account denominated in Euro and opened on behalf of the Guarantor with the Italian Account Bank, IBAN IT 81 J 01030 12000 000000736131, or any other substitutive account that may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Extended Maturity Date**" means, in relation to a specific Series or Tranche of Covered Bonds, the date falling 38 years after the relevant Maturity Date.

"**Extension Determination Date**" means, with respect to each Series or Tranche of Covered Bonds, the date falling 4 calendar days after the Maturity Date of the relevant Series.

"**Final Redemption Amount**" means, in respect of any Series or Tranche of Covered Bonds, the principal amount of such Series.

"**Final Terms**" means, in relation to any issue of any Series or Tranche of Covered Bonds, the relevant terms contained in the applicable Programme Documents and, in case of any Series or Tranche of Covered Bonds to be admitted to listing, the final terms submitted to the appropriate listing authority on or before the Issue Date of the applicable Series or Tranche of Covered Bonds.

"**Financial Laws Consolidation Act**" means Italian Legislative Decree number 58 of 24 February 1998, as amended and supplemented from time to time.

"**First Interest Payment Date**" means the date specified in the relevant Final Terms.

"**First Issue Date**" means the Issue Date of the first Covered Bonds issued under the Programme.

"**First Loan Interest Period**" means, in relation to any Term Loan, the period starting on the relevant Drawdown Date (exclusive) and ending on the first following Guarantor Payment Date (inclusive).

"**First Series of Covered Bonds**" means the first Series of Covered Bonds issued by the Issuer in the context of the Programme.

"**First Tranche of Covered Bonds**" means if applicable the first Tranche of Covered Bonds issued by the Issuer in the context of the issuance of the First Series of Covered Bonds.

"**Fitch**" means Fitch Ratings Limited.

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms.

"**Fixed Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a fixed rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Floating Interest Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which a floating rate Corresponding Interest applies as indicated in the relevant Term Loan Proposal and corresponding to the interest payable on the corresponding Series or Tranche of Covered Bonds.

"**Fixed Rate Provisions**" has the meaning set out in Condition 5 (*Fixed Rate Provisions*).

"**Floating Rate Provisions**" has the meaning given in the relevant Final Terms.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time.

"**Guarantee**" means the guarantee granted by the Guarantor for the purpose of guaranteeing the payments owed by the Issuer to the Bondholders and to the Other Guarantor Creditors pursuant to Law 130, Decree No. 310 and the Bank of Italy Regulations.

"**Guarantee Enforcement Notice**" means the notice to be served by the Representative of the Bondholders upon occurrence of certain Issuer Events of Default as better specified in Condition 11.2 (*Issuer Events of Default*).

"**Guarantee Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantee Enforcement Notice and prior to the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Guaranteed Amounts**" means the Redemption Amount, the Interest Amount and any other amounts due from time to time by the Issuer to the Bondholders with respect to each Series or Tranche of Covered Bonds, including, for avoidance of doubt and without double counting, any amount that have been already paid timely by (or on behalf of) the Issuer to the Bondholders, to the extent it was clawed-back thereafter by a bankruptcy receiver, liquidator or other duly appointed officer upon opening of any bankruptcy proceedings or other similar insolvency proceedings of the Issuer.

"**Guaranteed Obligations**" means the payment obligations with respect to the Guaranteed Amounts.

"**Guarantor**" means MPS Covered Bond S.r.l. acting in its capacity as guarantor pursuant to the Guarantee.

"**Guarantor's Accounts**" means, collectively, the Italian Collection Account, the Italian Securities Collection Account, the Main Programme Account, the Expenses Account, the Eligible Investments Securities Account and any other account opened in the context of the Programme with the exception of any Collateral Account(s) as defined pursuant to clause 7.4 of the Intercreditor Agreement.

"**Guarantor Available Funds**" means, collectively, the Interest Available Funds and the Principal Available Funds.

"**Guarantor Calculation Agent**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Cover Pool Management Agreement.

"**Guarantor Calculation Date**" means the date falling on the 22th calendar day of March, June, September and December, or, if such day is not a Business Day, the immediately succeeding Business Day.

"**Guarantor Corporate Servicer**" means Securitisation Services S.p.A. or any other entity acting in such capacity pursuant to the terms of the Corporate Services Agreement.

"**Guarantor Default Notice**" means the notice to be served by the Representative of the Bondholders in case of a Guarantor Event of Default.

"**Guarantor Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Guarantor Payment Date**" means (a) prior to the delivery of a Guarantor Default Notice, the date falling 5 Business Days after the Guarantor Calculation Date of March, June, September and December or, if such day is not a Business Day, the immediately following Business Day; and (b) following the delivery of a Guarantor Default Notice, any day on which any payment is required to be made by the Representative of the Bondholders in accordance with the Post-Enforcement Priority of Payments, the relevant Terms and Conditions and the Intercreditor Agreement.

"**Guarantor's Rights**" means the Guarantor's rights under the Programme Documents.

"**IFRS**" means international financial reporting and accounting standards issued by the International Accounting Standards Board (IASB).

"**Individual Purchase Price**" means:

(i) with respect to each Receivable transferred pursuant to the Master Assets Purchase Agreements, the most recent book value (*ultimo valore di iscrizione in bilancio*) of the relevant Receivable:

(A) *minus* the aggregate amount of (1) the accrued interest obtained at the date of the last financial statement with reference to such Receivable and included in such book value; and (2) any collections with respect to principal received by the relevant Seller with respect to such Receivable, starting from the date of the most recent financial statement (*ultimo bilancio*) until the relevant Valuation Date (included); and

(B) increased of the aggregate amount of the Accrued Interest with respect to such Receivable obtained at the relevant Valuation Date;

(ii) such other value, pursuant to article 7-*bis*, sub-paragraph 7, of Law 130, as indicated by the Principal Seller (or each Additional Seller, if any) in the relevant Transfer Proposal (also with respect to any further Eligible Assets different from the Receivables or any Top-Up Assets).

"**Initial Portfolio**" means the first portfolio of Receivables and related Security Interests to be purchased by the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Initial Portfolio Purchase Price**" means the consideration paid by the Guarantor to the Principal Seller for the transfer of the Initial Portfolio, calculated in accordance with clause 5.1 of the Master Assets Purchase Agreement.

"**Insolvency Event**" means in respect of any company, entity or corporation that:

(i) such company, entity or corporation has become subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (including, without limitation, "*fallimento*", "*liquidazione coatta amministrativa*", "*concordato preventivo*" and "*amministrazione straordinaria*", each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including the seeking of liquidation, winding-up, reorganisation, dissolution, administration) or similar proceedings or the whole or any substantial part of the undertaking or assets of such company, entity or corporation are subject to a pignoramento or any procedure having a similar effect (other than in the case of the Guarantor, any portfolio of assets

purchased by the Guarantor for the purposes of further programme of issuance of Covered Bonds), unless in the opinion of the Representative of the Bondholders, (who may in this respect rely on the advice of a legal adviser selected by it), such proceedings are being disputed in good faith with a reasonable prospect of success; or

(ii) an application for the commencement of any of the proceedings under (i) above is made in respect of or by such company, entity or corporation or such proceedings are otherwise initiated against such company, entity or corporation and, in the opinion of the Representative of the Bondholders (who may in this respect rely on the advice of a legal adviser selected by it), the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success; or

(iii) such company, entity or corporation takes any action for a re-adjustment of deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (other than, in case of the Guarantor, the creditors under the Programme Documents) or is granted by a competent court a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments (other than, in respect of the Issuer, the issuance of a resolution pursuant to Article 74 of the Consolidated Banking Act); or

(iv) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of such company, entity or corporation or any of the events under article 2448 of the Civil Code occurs with respect to such company, entity or corporation (except in any such case a winding-up or other proceeding for the purposes of or pursuant to a solvent amalgamation or reconstruction, the terms of which have been previously approved in writing by the Representative of the Bondholders); or

(v) such company, entity or corporation becomes subject to any proceedings equivalent or analogous to those above under the law of any jurisdiction in which such company or corporation is deemed to carry on business.

(vi) such company, entity or corporation becomes subject to any proceedings resulting from the implementation of directive 2014/59/UE of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**"),

"**Instalment**" means with respect to each Mortgage Loan Agreement, each instalment due from the relevant Debtor thereunder and which consists of an Interest Instalment and a Principal Instalment.

"**Instalment Amount**" has the meaning set out in Condition 8(h).

"**Insurance Policies**" means (i) each insurance policy taken out with the insurance companies in relation to each Real Estate Asset and each Mortgage Loan or (ii) any possible "umbrella" insurance policy in relation to the Real Estate Assets which have lost their previous relevant insurance coverage.

"**Intercreditor Agreement**" means the intercreditor agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Other Guarantor Creditors, as amended from time to time.

"**Interest Amount**" means, in relation to any Series or Tranche of Covered Bonds and an Interest Period, the amount of interest payable in respect of that Series or Tranche for that Interest Period.

"**Interest Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) any interest amounts collected by the Servicer in respect of the Cover Pool and credited into the Main Programme Account during the immediately preceding Collection Period;

(ii) all recoveries in the nature of interest received by the Servicer and credited to the Main Programme Account during the immediately preceding Collection Period;

(iii) all amounts of interest accrued (net of any withholding or expenses, if due) and paid on the Programme Accounts during the immediately preceding Collection Period;

(iv) any amounts standing to the credit of the Reserve Account in excess of the Required Reserve Amount, and following the service of a Guarantee Enforcement Notice, on the Guarantor, any amounts standing to the credit of the Reserve Account;

(v) any interest amounts standing to the credit of the Programme Accounts;

(vi) all interest amounts received from the Eligible Investments;

(vii) subject to item (ix) below, any amounts received under the Asset Swap Agreement and the Covered Bond Swap Agreement,

provided that, prior to the occurrence of a Guarantor Event of Default, any such amounts received on or after such Guarantor Payment Date (included) but prior to the next following Guarantor Payment Date (excluded) will be applied, together with any provision for such payments made on any preceding Guarantor Calculation Date, (i) to make payments in respect of interest due and payable, *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap Agreement or, as the case may be, (ii) to make payments in respect of interest due on the Covered Bonds under the Guarantee, *pari passu* and *pro rata* in respect of each relevant Series or Tranche of Covered Bonds, or (iii) to make provision for the payment of such relevant proportion of such amounts to be paid on any other day up to the immediately following Guarantor Payment Date, as the Guarantor Calculation Agent may reasonably determine, or otherwise;

(viii) subject to item (ix) below, any amounts received under the Covered Bond Swap Agreements other than any Swap Collateral Excluded Amounts;

(ix) any swap termination payments received from a Swap Provider under any Swap Agreement;

provided that, prior to the occurrence of a Guarantor Event of Default, such amounts will be, to the extent permitted by the relevant Swap Agreement, net of any cost

necessary to replace the swap provider and find an eligible swap counterparty to enter into a replacement swap agreement;

(x) all interest amounts received from the Principal Seller (or any Additional Seller, if any) by the Guarantor pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(xi) any amounts paid as Interest Shortfall Amount out of item (First) of the Pre-Issuer Default Principal Priority of Payments; and

(xii) any amounts (other than the amounts already allocated under other items of the Guarantor Available Funds) received by the Guarantor from any party to the Programme Documents during the immediately preceding Collection Period.

"**Interest Commencement Date**" means the Issue Date of the relevant Series or Tranche of Covered Bonds or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms.

"**Interest Coverage Test**" has the meaning as indicated pursuant to clause 2.4 of the Cover Pool Management Agreement.

"**Interest Determination Date**" has the meaning given in the relevant Final Terms.

"**Interest Instalment**" means the interest component of each Instalment.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Interest Shortfall Amount**" means, on any Guarantor Payment Date, an amount equal to the difference, if positive, between (a) the aggregate amounts payable (but for the operation of clause 13 (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement) under items *First* to *Fifth* of the Pre-Issuer Default Interest Priority of Payments; and (b) the Interest Available Funds (net of such Interest Shortfall Amount) on such Guarantor Payment Date.

"**ISDA Definitions**" has the meaning given in the relevant Final Terms.

"**ISDA Determination**" has the meaning given in the relevant Final Terms.

"**Issue Date**" means each date on which a Series or Tranche of Covered Bonds is issued.

"**Issuer**" means BMPS.

"**Issuer Event of Default**" has the meaning given to it in the Terms and Conditions of the Covered Bonds.

"**Issuer Default Notice**" means the notice to be served by the Representative of the Bondholders to upon occurrence of certain Issuer Event of Default as better specified in Condition 11.2 (*Issuer Events of Default*).

"**Istruzioni di Vigilanza**" means the regulations for banks issued by the Bank of Italy on 21 April 1999 with Circular No. 229, as subsequently amended and supplemented.

"***Istruzioni di Vigilanza per gli Intermediari Finanziari***" means the regulations for financial intermediaries issued by the Bank of Italy on 5 August 1996 with circular number 216, as subsequently amended and supplemented.

"**Italian Account Bank**" means BMPS in its capacity as Italian account bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account Bank Report**" means the report produced by the Italian Account Bank pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Account**" means each of the Italian Collection Account, the Italian Securities Collection Account, the Payments Account, the Expenses Account and the Eligible Investments Securities Account, and "**Italian Accounts**" means all of them.

"**Italian Back-Up Account Bank**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch or any other entity appointed to act as such pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Collection Account**" means any of the account denominated in Euro opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of any amount of the Collections of the Portfolios number 000008417530 (IBAN: IT 27 S 01030 14200 000008417530) and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the collections of the Portfolios transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Italian Securities Collection Account**" means any of the securities account opened in the name of the Guarantor and held by the Italian Account Bank for the deposit of the Asset Backed Securities number 184175,79 and any other account which may be opened by the Guarantor if a bank part of the Montepaschi Group will accede the Programme in its capacity as Additional Seller and Additional Servicer, for the deposit of the Asset Backed Securities transferred by such bank, in its capacity as Additional Seller, to the Guarantor, or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Joint-Arrangers**" means, collectively, Morgan Stanley & Co. International plc, BMPS and The Royal Bank of Scotland plc (trading as NatWest Markets).

"**Latest Valuation**" means, at any time with respect to any Real Estate Asset, the value given to the relevant Real Estate Asset by the most recent valuation (to be performed in accordance with the requirements provided for under the Prudential Regulations) addressed to the Seller(s) or obtained from an independently maintained valuation model, acceptable to reasonable and prudent institutional mortgage lenders in Italy.

"**Joint Regulation**" means the joint regulation of CONSOB and the Bank of Italy dated 22 February 2008 and published in the Official Gazette No. 54 of 4 March 2008, as subsequently amended and supplemented from time to time.

"**Law 130**" means Italian Law No. 130 of 30 April 1999 as the same may be amended, modified or supplemented from time to time.

"**Liabilities**" means in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgements, actions, proceedings or other liabilities whatsoever including legal fees and any taxes and penalties incurred by that person, together with any value added or similar tax charged or chargeable in respect of any sum referred to in this definition.

"**Loan Interest**" means any of the Base Interest or the Corresponding Interest, as calculated in the Subordinated Loan Agreement.

"**Loan Interest Period**" means, in relation to any Term Loan: (i) the relevant First Loan Interest Period; and thereafter (ii) each period starting on a Guarantor Payment Date (excluded) and ending on the following Guarantor Payment Date (included).

"**Main Programme Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456002 (IBAN GB58 PASC 4051 6850 4560 02), or any other substitutive account which may be opened by the Guarantor pursuant to the Cash Allocation, Management and Payments Agreement.

"**Mandate Agreement**" means the mandate agreement entered on 18 June 2010 between the Guarantor and the Representative of the Bondholders.

"**Mandatory Tests**" means the tests provided for under article 3 of Decree No. 310 as calculated pursuant to the Cover Pool Management Agreement.

"**Margin**" has the meaning set out to the term "Margine" in the Subordinated Loan Agreement.

"**Master Assets Purchase Agreement**" means the master assets purchase agreement entered on 25 May 2010 between the Guarantor, the Principal Seller and, following accession to the Programme, each Additional Seller, as amended from time to time.

"**Master Definitions Agreement**" means the master definitions agreement entered into on or about 18 June 2010 between the parties of the Programme Documents, as amended from time to time.

"**Master Servicing Agreement**" means the master servicing agreement entered on 25 May 2010 between the Guarantor, the Principal Servicer and, following accession to the Programme, each Additional Servicer, as amended from time to time.

"**Maturity Date**" means each date on which final redemption payments for a Series or Tranche of Covered Bonds become due in accordance with the Final Terms but subject to it being extended to the Extended Maturity Date.

"**Maximum Rate of Interest**" means has the meaning given in the relevant Final Terms.

"**Maximum Redemption Amount**" means has the meaning given in the relevant Final Terms.

"**Meetings**" has the meaning ascribed to such term in the Rules of the Organisation of the Bondholders.

"**Merger**" means the merger by way of incorporation of BAV in BMPS with effect as of 28 April 2013 for civil code purposes and as of 1 January 2013 for accounting and tax purposes. Following the Merger, BMPS assumed all rights and obligations of BAV in its capacity as Additional Seller; Additional Servicer and Additional Subordinated Lender under the Programme and any reference to BAV in the Programme Documents shall be deemed to be referred to BMPS, which takes over any and all activities and roles previously carried out by BAV.

"**Minimum DBRS Rating**":

Highest Rating Assigned to Rated Securities	Minimum Instruction Rating
AAA (sf)	"A"
AA (high) (sf)	"A"
AA (sf)	"A"
AA (low) (sf)	"A"
A (high) (sf)	BBB (high)
A (sf)	BBB
A (low) (sf)	BBB (low)
BBB (high) (sf)	BBB (low)
BBB (sf)	BBB (low)
BBB (low) (sf)	BBB (low)

"**Minimum Rate of Interest**" has the meaning given in the relevant Final Terms.

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms.

"**Montepaschi Group**" or "**Group**" means, together, the banks and other companies belonging from time to time to the banking group "Gruppo Montepaschi", enrolled with the register of banking groups held by the Bank of Italy pursuant to article 64 of the Consolidated Banking Act.

"**Monte Titoli**" means Monte Titoli S.p.A..

"**Monte Titoli Account Holders**" means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli (as intermediari aderenti) in accordance with article 30 of Decree No. 213 and includes any depositary banks approved by Clearstream and Euroclear.

"**Monthly Collection Period**" means (a) each period commencing on (and including) a Collection Date and ending on (but excluding) the following Collection Date; and (b) in the case of the first Monthly Collection Period, the period commencing on (and including) the Valuation Date and ending on (and including) the last calendar day of the month immediately preceding the first Guarantor Payment Date.

"**Monthly Servicer's Report**" means, with reference to the Principal Servicer the monthly report prepared by the Principal Servicer and with reference to any Additional Servicer, the monthly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Monthly Servicer's Report Date**" means (i) prior to the delivery of a Guarantor Default Notice, the date falling on the 15th calendar day of each month or, if such day is not a Business Day, the immediately preceding Business Day and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Moody's**" means Moody's Investors Service Limited.

"**Mortgage**" means the mortgage security interests (*ipoteche*) created on the Real Estate Assets pursuant to Italian law in order to secure claims in respect of the Receivables.

"**Mortgage Loan**" means a Residential Mortgage Loan, the claims in respect of which have been and/or will be transferred by the Seller to the Guarantor pursuant to the Master Assets Purchase Agreement.

"**Mortgage Loan Agreement**" means any residential mortgage loan agreement out of which the Receivables arise.

"**Mortgagor**" means any person, either a borrower or a third party, who has granted a Mortgage in favour of the relevant Seller to secure the payment or repayment of any amounts payable in respect of a Mortgage Loan, and/or his/her successor in interest.

"**Negative Carry Factor**" is a percentage calculated by reference to the weighted average margin of the Covered Bonds and will, in any event, be not less than 0.5 per cent.

"**Net Present Value Test**" has the meaning as indicated pursuant to clause 2.3 of the Cover Pool Management Agreement.

"**New Portfolio**" means any portfolio of Assets (other than the Initial Portfolio) which may be purchased by the Guarantor pursuant to the terms and subject to the conditions of the Master Assets Purchase Agreement.

"**New Portfolio Purchase Price**" means the consideration which the Guarantor shall pay to the relevant Seller for the transfer of each New Portfolio in accordance with the Master Assets Purchase Agreement and equal to the aggregate amount of the Individual Purchase Price of all the relevant Assets included in the relevant New Portfolio.

"**Nominal Value Test**" has the meaning as indicated pursuant to clause 2.2 of the Cover Pool Management Agreement.

"**Non-Performing Asset**" means, collectively, the Defaulted Receivables, the Delinquent Receivables and any Defaulted Asset Backed Securities.

"**Notice**" means any notice delivered under or in connection with any Programme Document.

"**Obligations**" means all the obligations of the Guarantor created by or arising under the Programme Documents.

"**Order**" means a final, judicial or arbitration decision, ruling or award from a court of competent jurisdiction that is not subject to possible appeal or reversal.

"**Optional Redemption Amount (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Amount (Put)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms.

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms.

"**Organisation of the Bondholders**" means the association of the Bondholders, organised pursuant to the Rules of the Organisation of the Bondholders.

"**Other Guarantor Creditors**" means the Principal Seller and each Additional Seller, if any, the Principal Servicer and each Additional Servicer, if any, the Back-up Servicer, the Principal Subordinated Lender and each Additional Subordinated Lender, if any, the Guarantor Calculation Agent, the Pre-Issuer Default Test Calculation Agent, the Post-Issuer Default Test Calculation Agent, the Representative of the Bondholders, the Asset Monitor, the Asset Swap Provider, the Covered Bond Swap Providers, the Italian Account Bank, the Back-Up Account Bank, the English Account Bank, the Principal Paying Agent, the Paying Agent(s), the Luxembourg Listing and Paying Agent, the Guarantor Corporate Servicer and the Portfolio Manager (if any).

"**Outstanding Principal Balance**" means any Principal Balance outstanding in respect of any asset included in the Cover Pool.

"**Pass Through Series**" means:

(a) any Series of Covered Bonds in respect of which:

   (i) the Issuer has failed to repay in whole or in part the relevant Final Redemption Amount on the applicable Maturity Date and a Guarantee Enforcement Notice has been served on the Guarantor; and

   (ii) the Guarantor has insufficient moneys available under the relevant Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of Covered Bonds on the relevant Extension Determination Date;

(b) all Series of Covered Bonds if a Guarantee Enforcement Notice has been delivered (and, in case of a Guarantee Enforcement Notice delivered as result of an Article 74 Event, prior to the delivery of an Article 74 Event Cure Notice) and a breach of the Amortisation Test has occurred.

"**Paying Agent**" means the Principal Paying Agent and each other paying agent appointed from time to time under the terms of the Cash Allocation, Management and Payments Agreement.

"**Payment Business Day**" means a day on which banks in the relevant Place of Payment are open for payment of amounts due in respect of debt securities and for dealings in foreign currencies and any day which is:

(i) if the currency of payment is Euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not Euro, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

"**Payments Account**" means the account denominated in Euro that will be opened in the name of the Guarantor and held with the Payments Account Bank or any other substitutive account which may be opened pursuant to the Cash Allocation, Management and Payments Agreement.

"**Payments Report**" means the report to be prepared and delivered by the Guarantor Calculation Agent pursuant to the Cash Allocation, Management and Payments Agreement.

"**Performing Receivables**" means any Receivable which has not been classified as Delinquent Receivable or Defaulted Receivable.

"**Place of Payment**" means, in respect of any Bondholders, the place at which such Bondholder receives payment of interest or principal on the Covered Bonds.

"**Portfolio**" means collectively the Initial Portfolio and any other New Portfolios which has been purchased and which will be purchased by the Guarantor in accordance with the terms of the Master Assets Purchase Agreement.

"**Portfolio Manager**" means the subject appointed as portfolio manager pursuant to the Cover Pool Management Agreement or any other entity acting in such capacity pursuant to the Cover Pool Management Agreement.

"**Post-Enforcement Priority of Payments**" means the order of priority pursuant to which the Guarantor Available Funds shall be applied on each Guarantor Payment Date, following the delivery of a Guarantor Default Notice, in accordance with the Intercreditor Agreement.

"**Post-Issuer Default Test Calculation Agent**" means Securitisation Services S.p.A..

"**Post-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date during the period after the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Pre-Issuer Default Test Calculation Agent**" means BMPS.

"**Pre-Issuer Default Interest Priority of Payments**" means the order of priority pursuant to which the Interest Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Principal Priority of Payments**" means the order of priority pursuant to which the Principal Available Funds shall be applied on each Guarantor Payment Date, prior to the delivery of a Guarantee Enforcement Notice, in accordance with the Intercreditor Agreement.

"**Pre-Issuer Default Test Performance Report**" means, on each Test Calculation Date and Quarterly Test Calculation Date prior to the service of a Guarantee Enforcement Notice, the relevant report prepared by the Post-Issuer Default Test Calculation Agent setting out the calculations carried out by it with respect of the relevant Tests and specifying whether any of such Tests was not met.

"**Premium**" means, on each Guarantor Payment Date, an amount payable by the Guarantor on each Programme Term Loan in accordance with the relevant Priority of Payments and equal to the Guarantor Available Funds as at such date, after all amounts payable in priority thereto have been made in accordance with the relevant Priority of Payments.

"**Principal Amount Outstanding**" means, on any day: (a) in relation to a Covered Bond, the principal amount of that Covered Bond upon issue less the aggregate amount of any principal payments in respect of that Covered Bond which have become due and payable (and been paid) on or prior to that day; and (b) in relation to the Covered Bonds outstanding at any time, the aggregate of the amount in (a) in respect of all Covered Bonds outstanding.

"**Principal Available Funds**" means in respect of any Guarantor Payment Date, the aggregate of:

(i) all principal amounts collected by the Servicer in respect of the Cover Pool and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(ii) all other recoveries in respect of principal received by the Principal Servicer (and any Additional Seller, if any) and credited to the Main Programme Account of the Guarantor during the immediately preceding Collection Period;

(iii) all principal amounts received by the Guarantor from the Seller pursuant to the Master Assets Purchase Agreement during the immediately preceding Collection Period;

(iv) the proceeds of any disposal of Assets and any disinvestment of Assets or Eligible Investments;

(v) any amounts granted by the Seller under the Subordinated Loan Agreement and not used to fund the payment of the Purchase Price for any Eligible Assets and/or Top-Up Asset;

(vi) all amounts in respect of principal (if any) received under any Swap Agreements other than any Swap Collateral Excluded Amounts;

(vii) any amounts paid out of item *Ninth* of the Pre-Issuer Default Interest Priority of Payments; and

(viii) any principal amounts standing to the credit of the Programme Accounts.

"**Principal Balance**" means

(i) for any Mortgage Loan as at any given date, the aggregate of: (a) the original principal amount advanced to the relevant Debtor and any further amount advanced on or before the given date to the relevant Debtor secured or intended to be secured by the related Security Interest; and (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Loan or with the relevant Debtor's consent and added to the amounts secured or intended to be secured by that Mortgage Loan; and (c) any other amount (including, for the avoidance of doubt, Accrued Interest and interest in arrears) which is due or accrued (whether or not due) and which has not been paid by the relevant Debtor and has not been capitalised, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date;

(ii) for any Asset Backed Security as at any given date, the principal amount outstanding of that Asset Backed Security (plus any accrued but unpaid interest thereon).

"**Principal Instalment**" means the principal component of each Instalment.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency *provided, however,* that in relation to Euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee.

"**Principal Paying Agent**" means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch in its capacity as Paying Agent pursuant to the Cash Allocation, Management and Payments Agreement or any other entity acting in such capacity pursuant to the Cash Allocation, Management and Payments Agreement.

"**Principal Seller**" means BMPS.

"**Principal Servicer**" means BMPS.

"**Principal Subordinated Lender**" means BMPS in its capacity as Subordinated Lender pursuant to the relevant Subordinated Loan Agreement.

"**Priority of Payments**" means each of the orders in which the Guarantor Available Funds shall be applied on each Guarantor Payment Date in accordance with the Intercreditor Agreement.

"**Privacy Law**" means Italia Law number 675 of 1996, as subsequently amended and supplemented.

"**Programme**" means the programme for the issuance of each series of Covered Bonds (*Obbligazioni Bancarie Garantite*) by the Issuer in accordance with article 7-*bis* of Law 130.

"**Programme Accounts**" means, collectively, the Italian Accounts and the English Accounts and any other account opened from time to time in connection with the Programme.

"**Programme Agreement**" means the programme agreement entered on 18 June 2010 between, *inter alios*, the Guarantor, the Principal Seller, the Issuer, the Representative of the Bondholders and the Dealers, as amended from time to time.

"**Programme Documents**" means the Master Assets Purchase Agreement, the Master Servicing Agreement, the Warranty and Indemnity Agreement, the Cash Allocation, Management and Payments Agreement, the Cover Pool Management Agreement, the Programme Agreement, the Intercreditor Agreement, each Subordinated Loan Agreement, the Asset Monitor Agreement, the Guarantee, the Corporate Services Agreement, the Swap Agreements, the Mandate Agreement, the English Account Bank Agreement, the Quotaholders' Agreement, the Prospectus, the Terms and Conditions, the Deed of Pledge, the Master Definitions Agreement, any Final Term agreed in the context of the issuance of each Series or Tranche of Covered Bonds and any other agreement entered into in connection with the Programme.

"**Programme Limit**" means € 20,000,000,000.

"**Programme Term Loan**" means any Term Loan granted under the Subordinated Loan Agreement in respect of which the Base Interest applies pursuant to terms of the relevant Subordinated Loan Agreement.

"**Prospectus**" means the base prospectus prepared in the context of the issuance of the Covered Bonds.

"**Prospectus Directive**" means Directive 2003/71/EC of 4 November 2003, as subsequently amended and supplemented.

"**Prudential Regulations**" means the prudential regulations for banks issued by the Bank of Italy on 27 December 2006 with Circular No. 263, as subsequently amended and supplemented.

"**Public Entity Receivables**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, any receivables owned by or receivables which have been benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Public Entity Securities**" means pursuant to article 2, sub-paragraph 1, of Decree No. 310, any securities issued by or which have benefit of a guarantee eligible for credit risk mitigation granted by public entities.

"**Purchase Price**" means, as applicable, the consideration for the Initial Portfolio Purchase Price or the consideration for the New Portfolio Purchase Price pursuant to the Master Assets Purchase Agreement.

"**Put Option**" has the meaning given in the relevant Final Terms.

"**Put Option Notice**" means a notice in the form obtainable from the Principal Paying Agent which must be delivered to the Principal Paying Agent by any Bondholder wanting to exercise a right to redeem Covered Bonds at the option of the Bondholders.

"**Put Option Receipt**" means a receipt issued by the Principal Paying Agent to a Bondholder having deposited a Put Option Notice.

"**Quarterly Collection Period**" means (a) prior to the service of a Guarantor Default Notice, each period commencing on (and including) the Collection Dates in December, March, June and September and ending on (but excluding), respectively, the Collection Dates in March, June, September and December; (b) following the service of a Guarantor Default Notice, each period commencing on (and including) the last day of the preceding Quarterly Collection Period and ending on (but excluding) the date falling 10 calendar days prior to the next following quarterly Collection Date.

"**Quarterly Servicer's Report**" with reference to the Principal Servicer the quarterly report prepared by the Principal Servicer and with reference to any Additional Servicer, the quarterly report prepared by any Additional Servicer pursuant to the Master Servicing Agreement.

"**Quarterly Servicer's Report Date**" means (a) prior to the delivery of a Guarantor Default Notice, the Monthly Servicer's Report Date falling in March, June, September and December of each year or, if such day is not a Business Day, the immediately preceding Business Day; and (b) following the delivery of a Guarantor Default Notice, such date as may be indicated by the Representative of the Bondholders.

"**Quarterly Test Calculation Date**" means the Test Calculation Date falling in March, June, September and December, of each year or, if such day is not a Business Day, the immediately preceding Business Day.

"**Quota Capital**" means the quota capital of the Guarantor.

"**Quota Capital Account**" means the account denominated in Euro opened in the name of the Guarantor with Banca Antonveneta, Conegliano, Agenzia 1, IBAN IT 32 I 05040 61621 000001228269 for the deposit of the Quota Capital.

"**Quotaholder**" means BMPS and any other quotaholder of the Guarantor.

"**Quotaholders' Agreement**" means the Quotaholders' agreement entered on 18 June 2010 between, *inter alios*, the Guarantor and the Quotaholders.

"**Rate of Exchange**" has the meaning set out in the relevant Final Terms.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Series or Tranche of Covered Bonds specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms.

"**Rating Agencies**" means Fitch, Moody's and DBRS.

"**Real Estate Asset**s" means the real estate properties which have been mortgaged in order to secure the Receivables.

"**Receivables**" means specifically each and every right arising under the Mortgage Loans pursuant to the law and the Mortgage Loan Agreements, including but not limited to:

(i) all rights and claims in respect of the repayment of the Principal Instalments due and not paid at the Valuation Date (excluded);

(ii) all rights and claims in respect of the payment of interest (including the default interest) accruing on the Mortgage Loans, which are due from (but excluding) the Valuation Date;

(iii) the Accrued Interest;

(iv) all rights and claims in respect of each Mortgage and any Collateral Security relating to the relevant Mortgage Loan Agreement;

(v) all rights and claims under and in respect of the Insurance Policies; and

(vi) any privileges and priority rights (*diritti di prelazione*) transferable pursuant to the law, as well as any other right, claim or action (including any legal proceeding for the recovery of suffered damages, the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors) and any substantial and procedural action and defence, including the remedy of termination (*risoluzione per inadempimento*) and the declaration of acceleration of the debt (*decadenza dal beneficio del termine*) with respect to the Debtors, inherent in or ancillary to the aforesaid rights and claims;

excluding any expenses for the correspondence and any expenses connected to the ancillary services requested by the relevant Debtor.

"**Recoveries**" means any amounts received or recovered by the Servicer in relation to any Defaulted Receivables and any Delinquent Receivables.

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount (as any such terms are defined in the Conditions) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms.

"**Reference Banks**" (A) with respect to the Covered Bonds, has the meaning ascribed to it in the relevant Final Terms or, if none, four major banks selected by the Principal Paying Agent in the market that is most closely connected with the Reference Rate; and, (B) with respect to the Subordinated Loan Agreement, means four financial institutions of the greatest importance, acting on the interbank market of the member states of the EEA, as selected by the Principal Subordinated Lender and communicated to the Guarantor Calculation Agent.

"**Reference Price**" has the meaning given in the relevant Final Terms.

"**Reference Rate**" has the meaning ascribed to it in the relevant Final Terms.

"**Regular Period**" means:

(i) in the case of Covered Bonds where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Covered Bonds where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and

including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Covered Bonds where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Clearing System**" means Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than Monte Titoli) specified in the relevant Final Terms as a clearing system through which payments under the Covered Bonds may be made.

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms.

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning given in the relevant Final Terms.

"**Representative of the Bondholders**" means BNY Mellon Corporate Trustee Services Limited or any other entity acting in such capacity pursuant to the Programme Documents.

"**Required Redemption Amount**" means (i) to the extent that no Series of Covered Bonds have become Pass Through Series, the Euro Equivalent of the Principal Amount Outstanding in respect of the Earliest Maturing Covered Bonds, multiplied by (1 + Negative Carry Factor x (days to maturity of the relevant Series or Tranche of Covered Bonds/365)) and thereafter (ii) zero.

"**Required Reserve Amount**" means the aggregate of the amounts calculated by the Guarantor Calculation Agent on each Guarantor Calculation Date, in accordance with the following formula:

- **A plus B**, if BMPS is the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, or if no Covered Bond Swap Agreement has been entered into with respect to the relevant Series of Covered Bonds; and

- **A plus C**, if BMPS is not the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement, where

  "**A**" is the sum of all the amounts to be paid by the Guarantor on the next following Guarantor Payment Date (i) under item First of the Pre-Issuer Default Interest Priority of Payments and (ii) as compensation for the activity of any of the Principal Servicer or the Additional Servicer under the terms of the Master Servicing Agreement."

"**B**" is the aggregate amount of all interest payable with respect of each Series of Covered Bonds during the six months period following the relevant Guarantor Calculation Date; and

"**C**" the sum of the Floating Amount (as defined in the Swap Agreement related to the relevant Series of Covered Bond) due by the Guarantor during the six months period following the relevant Guarantor Calculation Date.

"**Reserve Account**" means the account denominated in Euro opened in the name of the Guarantor and held by the English Account Bank, number 50456001 (IBAN: GB85 PASC 4051 6850 4560 01) or any other substitutive account which may be opened pursuant to the English Account Bank Agreement.

"**Reserve Amount**" means the funds standing to the credit of the Reserve Account from time to time.

"**Residential Mortgage Loan**" means, pursuant to article 2, sub-paragraph 1, of Decree No. 310, a residential mortgage loan in respect of which the relevant amount outstanding added to the principal amount outstanding of any higher ranking mortgage loans secured by the same property, does not exceed 80 per cent. of the value of the property.

"**Residential Real Estate Assets**" means the Real Estate Assets relating to Residential Mortgage Loans.

"**Retention Amount**" means an amount equal to €50,000.00.

"**Rules of the Organisation of the Bondholders**" means the rules of the organisation of the Bondholders attached as Exhibit 1 to the Terms and Conditions, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

"**Screen Rate Determination**" has the meaning given in the relevant Final Terms.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**Security**" means the security created pursuant to the Deed of Pledge.

"**Security Interest**" means

(i) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;

(ii) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(iii) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Segregation Event**" has the meaning given to the definition "Segregation Event" pursuant to the Terms and Conditions.

"**Selected Assets**" means the Eligible Assets and Top-Up Assets from time to time sold by the Guarantor in accordance with the provisions of the Cover Pool Management Agreement.

"**Seller**" means the Principal Seller pursuant to the Master Assets Purchase Agreement and each Additional Seller (if any).

"**Series**" or "**Series of Covered Bonds**" means each series of Covered Bonds issued in the context of the Programme.

"**Servicer**" means any of BMPS in its capacity as Principal Servicer pursuant to the Master Servicing Agreement and any Additional Servicer pursuant to the terms and conditions provided therein.

"**Servicer's Report Date**" means any of the Monthly Servicer's Report Date or any of the Quarterly Servicer's Report Date.

"**Servicer's Reports**" means any of the Monthly Servicer's Report and the Quarterly Servicer's Report.

"**Servicer Termination Event**" means any event as indicated in clause 11.1 of the Master Servicing Agreement.

"**Specific Criteria**" means the specific criteria specified in schedule 1 to the Master Assets Purchase Agreement.

"**Specified Currency**" means the currency as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Representative of the Bondholders (as set out in the applicable Final Terms).

"**Specified Denomination**" has the meaning given in the relevant Final Terms.

"**Specified Office(s)**" means, in relation to any Paying Agent, the office currently specified in the Cash Management Payments and Allocation Agreement or as further specified by notice to the Issuer and the other parties to the Cash Management Payments and Allocation Agreement in the manner provided therein or in the relevant Final Terms, as the case may be.

"**Specified Period**" has the meaning set out in the relevant Final Terms.

"**Stock Exchange**" means the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*).

"**Subordinated Lender**" means any of the Principal Subordinated Lender and any Additional Subordinated Lender(s), if any.

"**Subordinated Loan Agreement**" means each subordinated loan agreement entered between a Subordinated Lender and the Guarantor, as amended from time to time.

"**Subordinated Loan Availability Period**" means the period starting from the date of execution of the Subordinated Loan Agreement (or, in respect of any Additional Seller, the relevant Subordinated Loan Agreement) and ending on the date on which all the Covered Bonds issued in the context of the Programme have been cancelled or redeemed in full pursuant

to the relevant Final Terms, in which the Subordinated Lender has the right to grant to the Guarantor, on each Drawdown Date, a Term Loan.

"**Subscription Agreement**" means any subscription agreement entered on or about the Issue Date of each Series or Tranche of Covered Bonds between, *inter alios*, each Dealer and the Guarantor

"**Substitute Servicer**" means the substitute of the Servicer which will take over the servicing activities in the event of a Servicer Termination Event pursuant to clause 12 of the Master Servicing Agreement.

"**Swap Agreements**" means, collectively, the Covered Bond Swap Agreement(s), the Asset Swap Agreement and any other swap agreement which may be entered into by the Guarantor in the context of the Programme.

"**Swap Collateral Excluded Amounts**" means at any time, the amounts of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Guarantor or, as the case may be, the Issuer including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

"**Swap Providers**" means, as applicable, the Asset Swap Provider(s), the Covered Bond Swap Providers and any other entity which may act as swap counterparty to the Guarantor by entering into a Swap Agreement.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET Settlement Day**" means any day on which the TARGET2 is open for the settlement of payments in Euro.

"**Tax**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Italy or any political sub-division thereof or any authority thereof or therein.

"**Term Loan**" means any term loan in the form of a Programme Term Loan or Fixed Interest Term Loan or Floating Interest Term Loan, made or to be made available to the Guarantor on each Drawdown Date under the Subordinated Loan Agreement or the principal amount outstanding for the time being of that loan.

"**Term Loan Proposal**" means an "*Offerta di Finanziamento Subordinato*" as such term is defined in the relevant Subordinated Loan Agreement.

"**Terms and Conditions**" means the Terms and Conditions of the Covered Bonds.

"**Test Calculation Agent**" means any of the Pre-Issuer Default Test Calculation Agent and the Post-Issuer Default Test Calculation Agent.

"**Test Calculation Date**" means the date on which the calculation of the Tests are performed, being a date falling on or before the Test Performance Report Date, provided that following

the delivery of a Guarantee Enforcement Notice the first Test Calculation Date will fall 7 Business Days after the delivery of such Guarantee Enforcement Notice.

"**Test Grace Period**" means the period starting on the date on which the breach of any of the Mandatory Tests or of the Asset Coverage Test is notified by the Pre-Issuer Default Test Calculation Agent and ending on the immediately following Test Performance Report Date.

"**Test Performance Report**" means, respectively (i) the Pre-Issuer Default Test Performance Report to be issued by the Pre-Issuer Default Test Calculation Agent and (ii) the Post-Issuer Default Test Performance Report to be issued by the Post-Issuer Default Test Calculation Agent, each setting out the calculations carried out by it with respect to the relevant Tests.

"**Test Performance Report Date**" means the date falling the 22nd calendar day of each month.

"**Test Remedy Period**" means the period starting from the date on which a Breach of Test Notice is delivered and ending on the Test Performance Report Date falling 5 months thereafter.

"**Tests**" means, as appropriate, the Mandatory Tests, the Asset Coverage Test, the Amortisation Test.

"**Top-Up Assets**" means, in accordance with article 2, sub-paragraph 3.2 and 3.3 of Decree No. 310, each of the following assets:

(i) deposits held with banks which have their registered office in the European Economic Area or Switzerland or in a country for which a 0 per cent. risk weight is applicable in accordance with the Bank of Italy's Prudential Regulations for banks - standardised approach; and

(ii) securities issued by the banks indicated in item (i) above, which have a residual maturity not exceeding one year.

"**Total Commitment**" means, in respect of each Subordinated Lender, the commitment specified in the relevant Subordinated Loan Agreement.

"**Tranche**" or "**Tranches of Covered Bonds**" means each tranche of Covered Bonds which may be comprised in a Series of Covered Bonds.

"**Transfer Proposal**" means, in respect to each New Portfolio, the transfer proposal which will be sent by the relevant Seller and addressed to the Guarantor substantially in the form set out in schedule 7 to the Master Assets Purchase Agreement.

"**Treaty**" means the treaty establishing the European Community.

"**Usury Law**" means Italian Law number 108 of 7 March 1996, together with Decree number 349 of 29 December 2000 as converted into Law number 24 of 28 February 2001.

"**Valuation Date**" means, with respect to the Initial Portfolio, the 21 of May 2010 and with respect to any New Portfolios, the date that will be established jointly by the Principal Seller or any Additional Seller and the Guarantor.

"**Warranty and Indemnity Agreement**" means the warranty and indemnity agreement entered on 25 May 2010 between the Principal Seller and the Guarantor.

"**Zero Coupon Provisions**" has the meaning set out in Condition 7 (*Zero Coupon Provisions*).

ISSUER

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