



MONTEPASCHI GROUP

POLICY ON PREVENTION AND COUNTERING OF MONEY LAUNDERING AND TERRORISM FINANCING

1 - OVERVIEW

1.1 – KEY REGULATIONS AND GUIDANCE

This document sets forth the Montepaschi Group's global anti-money laundering and counter-terrorism financing Policy and is applied to all subsidiaries and foreign branches; standards are to be considered complementary and applicable since they are not in conflict with the provisions issued by the local Authorities.

1.2 – RECIPIENTS AND METHODS OF IMPLEMENTATION

The Policy is intended for the Parent Company and all Group Companies.

The Group Companies implement the Policy by resolution of their own Managing Boards, aligning responsibilities, processes and internal rules with respect to their own structure and size.

Implementation must be notified to the following functions and departments of the Parent Company:

- Secretariat Office of Head Office Divisions to whom the single Group Company report to;
- AML/CTF Department (email: antiriciclaggio@mps.it);
- Organization Division (e-mail: area.organizzazione@mps.it).

2 – GENERAL PRINCIPLES

The laundering of proceeds from illegal and criminal activities is one of the most serious forms of crime in the financial markets and is an area of specific interest for organised criminal activities.

Money laundering has a significant negative impact on the entire economy: reinvesting illegal proceeds in legal activities and collusion between individuals or financial institutions and criminal organisations deeply affect market mechanisms, undermine the efficiency and fairness of financial activities and have a weakening effect on the economy. Financing terrorist activities may involve using legally derived proceeds and/or criminally derived proceeds.

The Montepaschi Group has adopted this Policy as a reflection of its commitment to countering the above criminal activities, with particular attention being given to all AML and CTF measures, in the knowledge that the pursuit of profitability and efficiency should always go hand in hand with the effort to effectively ensure the company's integrity.

This Global Anti-Money Laundering and Counter Terrorism Financing Policy applies to the Montepaschi Group (hereinafter also "the Bank") and describes the policies adopted by the Group in accordance with the rules and principles established by national and EU regulations, in compliance with AML/CTF international standards.

The Policy must be applied to all Group entities in parallel with the Group's AML Directive, the Code of Ethics and all internal procedures governed by domestic AML and CTF laws, rules and regulations, specifying processes, roles and responsibilities within the organisation.

This Policy has been approved by the Parent Company's Board of Directors.

The Bank affirms its unwavering commitment to ensuring that its operational organisation and monitoring systems fully, adequately, functionally and reliably provide strategic supervision to protect the Group from becoming involved in or showing tolerance towards any illegal acts which may harm its reputation and affect its stability.

For these reasons, the Montepaschi Group has adopted organisational and behavioural rules as well as monitoring and control systems to ensure that all Governing and Control bodies, employees, external staff and consultants of Group Companies comply with the regulations in force.

The Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF) regulatory framework is based on a comprehensive set of national, EU and international regulatory sources.

At international level, a key contribution to regulatory harmonisation has come from the Financial Action Task Force (FATF), the foremost international body active in the fight against money laundering, terrorist financing and the proliferation of weapons of mass destruction.

In fulfilling its responsibilities, the FATF established a set of international standards, the "40 recommendations", to which a further 9 special recommendations were added in 2001 to combat international terrorism financing. The subject was fully revised in February 2012 with the adoption of International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, then summarised in the new "40 Recommendations".

As part of the fight against the proliferation of weapons of mass destruction, the United Nations prepared a set of measures to combat financing of proliferation programs, including the prohibition to assist or finance any persons involved in such activities.

In implementing the Resolutions adopted in the framework of the United Nations, the European Union issued a set of provisions in order to implement restrictive measures such as the freezing of funds and economic resources of persons or entities involved in developing proliferation-sensitive activities.

The FATF has developed guidelines to implement the financial sanctions adopted by the United Nations.

Specific measures addressing the proliferation of weapons of mass destruction have recently been included in the Recommendations, in accordance with the resolutions of the United Nations Security Council.

EU guidelines on preventing the use of the financial system for money laundering and terrorist financing are contained in **EU Directive 2015/849** of the European Parliament and of the Council of 20 May 2015 (Fourth Anti-Money Laundering Directive), which repealed Directive 2005/60/EC of the European Parliament and Directive 2006/70/EC of the Council and Commission.

At national level, prevention and fight against money laundering and terrorism financing is regulated by the following primary laws:

- **Italian Legislative Decree no. 109 of 26 June 2007** which sets forth "Provisions to prevent, counter and repress the financing of terrorism and the activity of Countries that threaten peace and international security", as modified by Legislative Decree 90/2017 which implemented Directive 2015/849/EU;
- **Italian Legislative Decree no. 231 of 21 November 2007**, transposing Directive 2005/60/CE on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and Directive 2006/70/EC (introducing implementing measures of Directive 2005/60/CE), as modified by Legislative Decree 90/2017 which implemented Directive 2015/849/EU.

The Montepaschi Group has transposed these decrees in its internal regulatory documents.

Considering that at an international level the sources of EU and national regulations referred to are the same, the AML and CTF guidelines are applied at Group level by both the domestic and foreign entities in coherence with applicable laws, and are published on Banca MPS's website along with the document "AML declaration and questionnaire".

The Bank is committed to complying with this regulatory framework as well as any implementing provisions issued by the Bank of Italy on customer due diligence, data and information retention, organization, procedures, controls and enhanced controls against the financing of programs aimed at the proliferation of weapons of mass destruction.

The Bank also relies on indicators of anomalies and patterns of irregular behaviors in the economic and financial environment, which are issued over time by the Financial Intelligence Unit (FIU) in relation to potential money laundering and terrorist financing activities.

3 – GROUP MODELS AND METHODOLOGIES

Obligations deriving from the national regulatory framework for the prevention of money laundering and terrorism financing require the Bank to:

- perform customer due diligence with a risk-based approach;
- retain data and information;
- report suspicious transactions;
- apply restrictions on the use of cash and bearer securities, applicable to all subjects, and report to the Ministry of Economy and Finance (MEF) infringements of art. 49 and 50 of Legislative Decree 231/07;
- adopt appropriate organisational structures, procedures and internal control measures;

with regard to counter-terrorist financing activities, Italian legislation requires the obligated parties to do the following:

- freezing of funds and economic resources of certain persons included in EU lists;
- informing the Financial Intelligence Unit (FIU) of the measures applied for the freezing of funds, or the Special Currency Police Unit of the *Guardia di Finanza* (Financial Police) in case of economic resources;
- informing the FIU of suspicious transactions, business relationships and any other information available regarding parties included in the blacklists published by the FIU itself;
- reporting suspicious transactions which, on the basis of available information, are either directly or indirectly related to terrorist financing activities;
- reporting any infringements of articles 49 and 50 of Legislative Decree n. 231/07 to the MEF.

The main requirements set forth by the described regulatory framework are therefore:

- obligation to adopt consistent and coherent procedures for analysis and evaluation of the risks related to money laundering and terrorism financing and establish supervision, controls and procedures needed to mitigate and manage those risks.
- customer due diligence, through which the Bank acquires and verifies information regarding the identity of a customer and any beneficial owner, as well as the purpose and intended nature of the relationship or of the transaction, whilst ensuring the constant monitoring of all transactions undertaken by the customer;
- a risk-based approach, whereby customer due diligence obligations are divided into different degrees of due diligence commensurate with the customer's risk profile;

- obligation to retain documents, data and information in order to allow their timely acquisition, transparency, completeness, inalterability and integrity, and an overall and prompt accessibility.
- reporting of suspicious transactions;
- refraining from entering into any new customer relationship, conducting occasional transactions or maintaining an existing customer relationship where due diligence has not been conducted or it is suspected that there may be a link to money laundering or terrorist financing;
- limitations on the use of cash or bearer securities;
- monitoring all transactions with natural and legal persons and/or with Countries included in European Union Council Lists, OFAC Lists or in the Provisions issued by the National Authorities containing specific restrictive measures for combating terrorism;
- monitoring transactions entered into with countries considered as non-cooperative in matters of tax, financial supervision and anti-money laundering, generally referred to as "tax havens" or "offshore financial centres";
- adopting appropriate staff training programs to ensure the implementation and proper application of laws and regulations;
- providing FIU with objective communications (the standards of which are yet to be defined in Bank of Italy's implementing decree expected in March/April 2018);
- extending disclosure obligations regarding any breaches or infringements that may come to their attention to the Board of Statutory Auditors, to the other supervisory bodies of the Bank and to the Supervisory Committee pursuant to Legislative Decree No. 231/01;
- obligation to adopt procedures to manage internal reporting of violations submitted by employees (Whistleblowing).

The Bank undertakes all customer due diligence measures when:

- establishing business relations;
- performing occasional transactions, arranged by customers, such as wire transfers or other transactions equal to or above the applicable designated threshold, regardless of whether the transaction is carried out in a single operation or in several related operations;
- there is a suspicion of money laundering or terrorist financing, regardless of any derogation, exemption or designated threshold that may apply; there are doubts about the veracity or adequacy of previously obtained customer identification data.

Customer due diligence obligations are as follows:

- identifying the Customer, the beneficial owner and the executor and verifying their identity on the basis of documents, data or information obtained from a reliable and independent source;
- obtaining and assessing information on the purpose and intended nature of the business relationship;
- performing ongoing monitoring of the customer's behavior throughout the entire period of the business relationship;

The Bank identifies low-risk customers applying a risk-based approach, to whom a simplified due diligence procedure may be applied taking into account the risk indicators specifically outlined by the relevant regulations with respect to well-defined customer types (e.g. companies listed on a regulated market for which adequate transparency of ultimate beneficial ownership is

ensured, public administrations) or products, services and transactions categories (e.g. life insurance contracts with premium within the threshold permitted by regulations).

The Bank applies enhanced customer due diligence measures where: (i) there is a higher risk of money laundering or terrorism financing, (ii) the customer is residing in a high-risk Country, (iii) the customer is not physically present during on-boarding and/or re-evaluation procedures, (iv) a correspondent banking relationship is set up with a bank or an institution located in a third country, (v) relationships or transactions in which the customer or the ultimate beneficial owner is a politically exposed person¹, (vi) the customer is a legal person that has issued bearer shares and is controlled by a trustee.

The Bank shall not enter into or continue a correspondent relationship with a shell bank or a business relationship with entities whose ownership structure (corporate, fiscal and financial) is characterised by a high degree of opacity which prevents the clear identification of the beneficial owner or the purpose of the structure.

In addition, the Bank refrains from entering into or continuing a business relationship with persons particularly exposed to the risk of money-laundering/terrorist financing, such as:

- Trust companies, with the exception of those included, or required to be included, in the Register of Financial Intermediaries pursuant to article 106 of the Italian Banking Act – separate section of the Trust Companies – that have their registered office in a country specified by the FATF as having a higher risk of money laundering or apply measures that are not compliant with the requirements imposed by Italian Legislative Decree no. 231/07 or by European Directives;
- Trusts for which appropriate, accurate and updated information on the beneficial ownership of the trust and its nature and purpose is not available;
- Gaming companies, including on-line gambling, casinos and Bingo operators for which authorisation and/or licenses required under Italian legislation have not been issued and/or verified;
- Payment service providers (money transfer agents and/or companies) which do not engage exclusively in financial activities and/or transfer money to countries known to be at risk of money laundering and terrorist financing;
- Private limited companies or companies controlled through bearer shares, headquartered in high-risk Countries.

The Bank uses all the information acquired during the due diligence process regarding its customers and their transactions to determine whether a transaction or business relationship is, directly or indirectly, linked to persons or entities involved in money laundering, terrorist financing or in the development of weapons of mass destruction.

The Bank does not establish a business relationship if: it is unable to comply with its customer due diligence obligations; it knows or has reasonable grounds to suspect that funds are the proceeds of criminal activity; a customer is or may be a terrorist or is subject to international sanctions including the freezing of assets.

In order to comply with the obligations of enhanced due diligence and counter terrorism financing and the financing of the proliferation of weapons of mass destruction, the Bank has adopted control procedures capable of verifying the consistency between customer identification data obtained through the due diligence process and that contained in the lists produced by the UE and other international institutions and bodies, such as:

¹ Politically Exposed Persons (PEP): individuals, resident and non-resident, that are entrusted with a prominent public office or have ceased to hold office for less than a year, their family members and those having close ties with them as listed by art. 1, paragraph 2, letter dd) Legislative Decree 231/07.

- individuals, resident and non-resident, that are entrusted with a prominent public office or have ceased to hold office for less than a year (PEP), their family members and those having close ties with them;
- natural and legal persons operating, even partially, in States which do not impose equivalent measures and regulations, according to the guidelines of the Bank of Italy or other national or supranational institutions engaged in the prevention of crime;
- natural and legal persons subject to embargo measures or freezing of funds/economic resources and financial assets (ONU, EU, OFACSanctions List).

The Bank retains all documents and records all data obtained through the customer due diligence process, so that they may be used for any investigations into possible money laundering or terrorist financing transactions, or to comply with requests for information from the Regulators or from other competent Authorities.

To that end, the Group's financial intermediaries based in Italy have set up a Single Electronic Archive (AUI – Archivio Unico Informatico), which electronically stores all identification data and other information regarding ongoing business relationships and customer transactions as required by applicable Law.

Regarding customer due diligence measures, the Bank keeps copies or records of all documents required for a period of ten years, after the business relationship is ended.

As for transactions and business relationships, all supporting evidence and records, e.g. original documents or copies admissible in court proceedings, are kept for a period of ten years, after the execution of the transaction or after the business relationship is ended.

Whenever the Parent Company or any Group company suspects or has reasonable grounds for suspecting that a money laundering or terrorist financing operation has been or is being conducted or attempted:

- it submits a suspicious transaction report to the Financial Intelligence Unit (FIU), if the transaction is based in Italy;
- if the transaction is based in another Country, it complies with the provisions of local legislation and, where the latter provides for the application of measures that are equivalent to those laid down by EU Law, it promptly informs the Parent Company's Group Head of Anti-Money Laundering, taking all the necessary precautions to protect the identity of the persons reporting the suspicious transaction.

The Bank has put in place procedures and processes to monitor, identify and report suspicious activities in accordance with the timing and methods required by applicable Law. Employees promptly report any knowledge or suspicion of money laundering, terrorist financing or other criminal activities to their Manager and/or Delegated Person within the reporting process. Until the report has been submitted, employees refrain from executing the transaction, unless that is impossible due to the normal conduct of business or where it might obstruct investigations. In these cases, the report is submitted immediately after the transaction has been executed.

Grounds for suspicion include the characteristics, scale and nature of the transaction and any other circumstance whatsoever which comes to the employees' knowledge as a result of their duties, also taking into account the financial scope and nature of the business carried out by the subject of the suspicious transaction, as understood from the information acquired by the Bank as a result of its activities.

To limit the Bank's risk of involvement – even if unintentional – in the illegal activities mentioned above, an enhanced due diligence process is activated in fund transfer arrangements where the players involved in this type of transaction (originator, beneficiary, the banks involved in the fund transfer) may lead to the suspicion of money laundering, terrorist financing or violations of applicable international restrictions on certain goods, persons or entities.

For effective AML and CTF risk management, the Bank establishes the organisational units, resources and procedures in line and commensurate with the type, size, organisational complexity and operational nature of the activities carried out.

4 – LIST OF PROCEDURES

4.1 – MONEY-LAUNDERING AND TERRORIST FINANCING RISK MANAGEMENT

The “money-laundering and terrorism financing risk management” procedure is performed within the Group to mitigate the risk of non-compliance with anti-money laundering and counter-terrorism financing requirements. The procedure involves the following activities:

- Identifying the risk of non-compliance with AML/CTF requirements;
- Gap analysis and assessing the status of compliance;
- Management and mitigation of AML/CTF risks;
- Compliance controls (ex-ante and ex-post);
- Advisory and support on AML/CTF issues;
- On-going AML/CTF risks monitoring and control;
- Reporting to top management, governing bodies, supervisory bodies and regulators;
- Structuring and provision of specific AML/CTF training courses.

Group rules and responsibilities regarding the procedure are reported in internal regulation no. 1030D01289 - “Group Directive on Anti-Money Laundering and Counter-Terrorism Financing”.

4.2 – MANAGING RELATIONS WITH SUPERVISORY AUTHORITIES ON AML AND CTF ISSUES

The “managing relations with Supervisory Authorities” procedure is performed within the Group to manage, analyse, steer and monitor all communications with Regulators for matters relating to Anti-Money Laundering and Counter Terrorism Financing, one of the objectives being to archive documents in a single “repository”.

Within this procedure the following activities are performed:

- managing relations with Supervisory Authorities on AML and CTF issues;
- managing AML administrative proceedings initiated by the relevant Authority (MEF – Ministry of Economy and Finance).

Group rules and responsibilities regarding the procedure are reported in internal regulation no. 1030D01289 - “Group Directive on Anti-Money Laundering and Counter-Terrorism Financing”.

4.3 – MANAGING OPERATIONAL REQUIREMENTS FOR COUNTERING OF MONEY LAUNDERING AND TERRORISM FINANCING

The procedure for “managing operational requirements for countering of money laundering and terrorism financing” is performed within the Group with the goal of meeting all regulatory requirements through the following activities:

- Implementation of requirements concerning limits to the use of cash and bearer securities;
- Implementation of obligations concerning customer due diligence;
- Implementation of requirements on AML/CTF suspicious activity reporting;

- On-going supervision of procedures implemented against terrorism financing;
- Management of obligations related to data/information collection and retention.

Group rules and responsibilities related to this procedure are reported in internal regulation no. 1030D01289 - "Group Directive on Anti-Money Laundering and Terrorism Financing".

5 - MPS GROUP ORGANISATIONAL FRAMEWORKS AND CONTROL BODIES

In accordance with current regulations, the Parent Company has established its organisational structure and corporate governance so as to protect the interests of the Group while, at the same time, ensuring sound and prudent management and avoid the risk - even if unintentional - of any direct involvement in acts of money laundering and/or terrorist financing.

To that end, in accordance with the Internal Control System adopted by the Group, the Board of Directors and Statutory Auditors are involved in mitigating the above risks through clearly defined tasks and responsibilities.

In addition, Parent Company has established a centralized unit for the management of the internal violations reporting system, with the responsibility of supervising the activities of receiving, analyzing and evaluating alerts forwarded by employees via the Whistleblowing procedure (internal regulation n. 1030D02064).

6 – REVIEWING AND UPDATING THE POLICY

The AML/CTF Department reviews the policy at least annually, updates it if and where necessary and submits the new text to the Chief Executive Officer for the approval of the Board of Directors.

Any changes to the Policy are subsequently disclosed to all branches and subsidiaries (Italian and foreign) in order to apply all necessary implementations.