BASE PROSPECTUS dated 8 March 2019

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

€50,000,000,000
Debt Issuance Programme

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

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

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

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

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

References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

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

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

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

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

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

Amounts payable under the Floating Rate Notes and/or the Reset Notes may be calculated by reference to EURIBOR or LIBOR, as specified in the relevant Final Terms. As at the date of this Base Prospectus, the ICE Benchmark Administration (as administrator of LIBOR) is included in the register of administrators maintained by the European Securities and Markets Authority ("**ESMA**") under Article 36 of the Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As at the date of this Base Prospectus, the European Money Markets Institute (as administrator of EURIBOR) is not included in the ESMA's register of administrators under Article 36 of the Benchmarks Regulation.

As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the administrator of EURIBOR is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

ARRANGER

NatWest Markets

DEALERS

Barclays

BofA Merrill Lynch

Citigroup

Crédit Agricole CIB

Credit Suisse

Deutsche Bank

Goldman Sachs International

HSBC

J.P. Morgan

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

Morgan Stanley

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

NatWest Markets

Société Générale Corporate & Investment Banking

UBS Investment Bank

IMPORTANT INFORMATION

Responsibility Statement

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

This Base Prospectus constitutes a base prospectus for the issuance of Notes under the Programme by BMPS. This base prospectus constitutes a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, Prospectus Directive means Directive 2003/71/EC (as amended or superseded) and includes any relevant implementing measures in a relevant Member State of the European Economic Area).

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

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

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

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

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

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

MIFID II product governance / target market – The Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (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 Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, 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.

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

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

SUITABILITY OF INVESTMENT

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each

potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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

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

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

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

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

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

PRESENTATION OF INFORMATION

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

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

Unless otherwise indicated, any reference in this Base Prospectus to "Consolidated Financial Statements" is to the consolidated financial statements of the Group as at and for the years ended 31 December 2017 and 2016 audited by EY S.p.A., independent accountant, and incorporated by reference in this Base Prospectus.

The Consolidated Financial Statements are denominated in euro.

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STABILISATION

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

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

RISK FACTORS

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

Any reference in the Risk Factors to "Form of Final Terms" or "Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" or "Pricing Supplement" where relevant in the case of Exempt Notes.

RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

Risks associated with the failed realisation of the Restructuring Plan

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

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

The Restructuring Plan groups together common risks of an industrial plan, such as (i) those reporting in quantitative and qualitative terms the directors' purposes related to competitive strategies of a company and the actions that will be implemented for the purpose of achieving the strategic goals and (ii) assumptions of formal commitments given to the European Commission – consistent with the limits provided for the purpose of "State aid" by the European Commission – concerning the compliance with certain objectives whose grade of achievement will be periodically monitored by an independent subject (monitoring trustee) (the "**Commitments**"). The Issuer proposed – with favourable opinion of the ECB Directorate General Competition ("**DG Comp**") – the appointment of Degroof Petercam Finance as monitoring trustee (that acted as monitoring trustee for the Commitments of the BMPS' restructuring plan 2013-2017 as well). The first monitoring was carried out during the last quarter of 2017 with reference to the data available as at 30 September 2017; subsequently, the monitoring activity has been, and continues to be, carried out quarterly.

In summary, the Restructuring Plan provides for:

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

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

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

(iii) radically improved management of credit risk, with a new organisational structure of the chief lending officer, which will allow the strengthening of the Bank's early detection processes and improve the cure rate, which will lead to a risk cost lower than 60 basis points and a ratio between the gross value of the Impaired Loans (as defined below) and the total amount of the receivables ("**Gross NPE ratio**") lower than 13 per cent. in 2021; and

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

b) the disposal of almost the entire Doubtful Loan portfolio as at 31 December 2016 for gross Euro 28.6 billion, which as of the date of this Base Prospectus has been completed.

The Restructuring Plan, by means of the planned improvement guidelines and after the reduction trend of the Bank's market share on the main aggregate assets, aims at stabilising the commercial penetration level as effect of a progressive re-approaching of the performance to those realised by the main competitors.

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

Furthermore, the Restructuring Plan is consistent with and reflects the Commitments given to the European Commission and is in line with the parameters set out in the letter relating to the annual review and supervisory assessment (the "**Supervisory Review and Evaluation Process**" or "**SREP**") received on 19 June 2017 ("**SREP Decision 2017**"). In said document, the European Central Bank ("**ECB**") required the Bank to comply, starting from 2018, with a level of Total SREP Capital Requirement ("**TSCR**") on a consolidated basis equal to 11 per cent., including the minimum requirement of Common Equity Tier 1 ("**Pillar I**") equal to 8 per cent. and an additional requirement equal to 3 per cent. ("**Pillar II**"), entirely based on Common Equity Tier 1. Consequently, the Group is required to comply with the following requirements at consolidated level as of 1 January 2018: with a CET1 ratio on a transitional basis equal to 9.44 per cent. and a total capital ratio, again on a transitional basis, equal to 12.94 per cent., including, in addition to Pillar I and Pillar II, a capital conservation buffer equal to 1.875 per cent. and an Other Systemically Important Institutions Buffer ("**O-SII Buffer**") equal to 0.06 per cent. As from 1 January 2019, the capital conservation buffer is equal to 2.5 per cent. It should be noted that, starting from 1 January 2019, the Group is not required to comply with the O-SII Buffer since it has not been qualified by the Bank of Italy as a national systemically important institution authorised to operate in Italy. For more information on the capital adequacy requirements which the Bank has to comply with, please see "*Risk associated with capital adequacy*".

In this respect, it should be noted that, on 5 December 2018, BMPS received a draft decision from the supervisory authority which sets out the prudential requirements, based on the revision and evaluation process (Supervisory Review and Evaluation Process – SREP) carried out according to article 4, par. 1, letter f), of Regulation (EU) no. 1024/2013, with reference date as of 31 December 2017 (the "**Draft SREP Decision**"). Based on the results arising from the SREP 2018 (as defined below), the Draft SREP

Decision sets out the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations.

With specific reference to the coverage of the non-performing loans, BMPS has received some recommendations from the ECB aiming at ensuring constant improvements in the reduction of pre-existing risks in the Euro Area and to accomplish the same coverage level for the amounts and flows of the non-performing loans in the mid-term. With a press release published last year (11 July 2018), the ECB announced that it would have communicated with each bank for determining the individual supervisory expectations, on the basis of a comparative evaluation (benchmarking) between similar banks, taking into account the current level of NPL ratio and other financial indicators of each bank. In this context, BMPS has been advised to develop, in the next years (up to the end of 2026), a gradual increase of the coverage levels over the stock of the non-performing loans resulting as such at the end of March 2018, according to a collateral logic to the indications provided in the addendum to the ECB Guidelines for banks on non-performing loans issued starting from April 2018.

The Bank received the final version of the letter on 8 February 2019 further to the completion of the SREP process with reference date as of 31 December 2017 (respectively, the "**2018 SREP Decision**" and the "**SREP 2018**"). The 2018 SREP Decision confirmed the prudential requirements and the recommendations for BMPS contained in the Draft SREP Decision.

For further information relating to the Draft SREP Decision, reference is made to "*Risks associated with the investigations of supervisory authorities*" below.

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

Furthermore, it should be noted that, on 7 February 2019, the Board of Directors of the Bank reviewed and approved the consolidated results as at 31 December 2018 in the context of which the Bank has updated its multiannual internal estimates of income statement and balance sheet figures. Such estimates are lower than those contained in the Restructuring Plan, but nonetheless show capital ratios which are above the relevant regulatory requirements. Please refer to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – Other events relating to 2017-2019*" of this Base Prospectus.

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

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

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

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

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

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

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

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

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

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

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

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

Should the Issuer be unable to achieve the Commitments, in whole or in part, it might suffer the adverse effects, including any material adverse effects, of any orders adopted by the European Commission vis-à-vis the Italian State as a consequence of the failure to comply with the Commitments undertaken as part of the Restructuring Plan, with potential adverse effects, including material adverse effects, on the Issuer's and/or Group's assets, liabilities and financial situation.

Investors shall consider that there is no certainty that the Bank will be able to realise, in whole or in part, the objectives and Commitments undertaken in the context of the Restructuring Plan and that they will be able to adequately address the weakness profiles which may be found by the ECB (specifically in the context of the SREP Decision) or which may be found by the competent authorities in the future. In particular, the Restructuring Plan contains a set of forecasts and estimates based on the realisation of future events and actions to be undertaken, by directors and the management, inclusive of hypothetical assumptions subject to the risks and uncertainties which characterise, *inter alia*, the current macroeconomic scenario (e.g. the trend of the spread BTP-bund) and the evolution of the legislative framework, relating to future events and actions which will not necessarily occur, over which directors and the management have only partial or no control, on the performance of the main capital and economic figures or of other factors affecting the evolution thereof. Accordingly, it cannot be excluded that the assumptions on which the forecasts and estimates contained in the Restructuring Plan are based may prove to be unreliable or may not take place, even due to external facts that the Issuer cannot control.

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

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

Risks associated with capital adequacy

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

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

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

a) Risks of capital adequacy applicable to the Issuer

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

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

- capital conservation buffer equal to 2.5 per cent. as from 1 January 2019;
- institution specific countercyclical capital buffer, to be applied to periods of credit overgrowth, calculated on a quarterly basis depending on the geographic distribution of the relevant credit exposures of the Group and on the decisions of each competent national authorities setting the specific ratios applicable in each country. The Bank of Italy published, for the first quarter of 2019, the decision whereby the countercyclical capital buffer ratio applicable to the exposures towards the Italian counterparts was set to 0 per cent.;
- buffer for Global Systemically Important Institutions ("**G-SII**"), not including, among others, the Issuer as at the date of this Base Prospectus;
- buffer for other systemically important institutions at a local level ("**O-SII**"), not including, from 1 January 2019 and as at the date of this Base Prospectus, the Issuer. In this respect, it should be noted that in 2018 the Group was qualified as a national systemically important institution authorised to operate in Italy and, therefore, the capital buffer provided for the O-SII was equal to 0.06 per cent.; and
- systemic risk buffer, aimed at preventing and minimising – in the long term – the macroprudential countercyclical systemic risk not provided by the CRR (not applicable as at the date of this Base Prospectus).

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

With respect to the SREP to which the Group was subject during 2016, it should be noted that on 19 June 2017, the ECB required the Bank to comply, starting from 1 January 2018, with a level of TSCR on a consolidated basis equal to 11 per cent., including:

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

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

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

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

In this respect, it is to be noted that according to the Draft SREP Decision received by the Bank on 5 December 2018 – setting out the prudential requirements both quantitative (own funds) and qualitative for BMPS, and providing the Bank with some recommendations, on the basis of the results arising from the SREP process – the ECB requires the Issuer, with respect to own funds, to maintain on a consolidated base a Total SREP Capital Requirement (TSCR) of 11 per cent., which includes a minimum 8 per cent. requirement of Pillar I and an additional 3 per cent. requirement of Pillar II. Pillar II requirement level is, therefore, unchanged compared to 2018.

Moreover, with respect to Pillar II Capital Guidance, according to the Draft SREP Decision the ECB expects that BMPS complies with 1.3 per cent. threshold on a consolidated base, compared to 1.5 per cent. threshold in 2018, as mentioned above.

All these requirements have been confirmed upon the completion of the SREP 2018 process and included in the 2018 SREP Decision.

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

For more information on the SREP Decision, please see "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – 2017 – SREP annual process*".

For further information relating to the Draft SREP Decision, reference is made to "*Risks associated with the investigations of supervisory authorities*" below.

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

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

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

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

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

In 2018, the Group, like the other major European banks subject to SSM, continued its work on Targeted Review of Internal Models ("**TRIM**"), which is expected to be completed in 2019. Probably, the final outcome of TRIM will result in further methodological changes to the current internal models with significant impacts on RWA; in particular, the introduction of the new definition of default (expected by 31 December 2020) and the introduction of specific standards for calculating LGD on Defaulted Assets and Expected Loss Best Estimate (ELBE) could imply a major revision of all Probability of Default ("**PD**") and LGD, with a consequent possible change in capital requirements, not quantifiable to date. In this case, it cannot be excluded that the Issuer may have to resort to capital strengthening measures and that it may not be able to establish and/or maintain the capital requirements determined, from time to time, by the supervisory authority.

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

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

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

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

With respect to the relevance of the two foreign branches within the Group, it is highlighted that, as at 30 September 2018, the contribution to the Group RWA of Banca Monte Paschi Belgio S.A. and Monte Paschi Banque S.A. is equal to, respectively, 1.3 per cent. and 1 per cent.

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

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

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

Finally, it is specified that the assignment of foreign branches (meaning Banca Monte dei Paschi Belgio S.A. and Monte dei Paschi Banque S.A.) constitutes also one of the Restructuring Plan's Commitments and, therefore, in the event of the failed realisation of such assignment, the Issuer will have to adopt alternative measures, such as severely restricting the two banks' business to that closely aimed at deleveraging commitments, excluding the development of new activities and the entry into new markets, with consequent negative impact on the economic, capital and/or financial condition, also due to the significant restructuring costs and any reduction in the deposit collection. In particular, with respect to MP Banque, the Issuer has already resolved upon the start of the orderly winding-down process by setting up a plan in compliance with the provisions set out in Commitment no. 14 "Disposal of Participations and business". With respect to MP Belgio, it should be noted that, on 5 October 2018, BMPS entered into an agreement with a company controlled by funds managed by Warburg Pincus for the sale of MP Belgio as provided for by the Commitments of the Restructuring Plan. As of the date of this Base Prospectus, the transfer is not effective yet and is subject to the approval of the Belgian national bank and the ECB. Should the Issuer be unable to achieve this Commitment, in whole or in part, it might suffer the adverse effects of any orders adopted by the European Commission vis-à-vis the Italian State as a consequence of the failure to comply with the Commitments undertaken as part of the Restructuring Plan, with potential adverse effects, including material adverse effects, on the Issuer's and/or Group's assets, liabilities and financial situation.

For more information on risks associated with the failed compliance with the Restructuring Plan's Commitments, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*".

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Investors should consider that it cannot be excluded that in the future the Issuer may find itself, also in light of external factors and unforeseeable events outside its control and/or after further requests by the supervisory authority (also, *inter alia*, following the receipt of the 2018 SREP Decision), having to resort to capital enhancement interventions, nor can it be excluded that the Issuer or the Group may not be able to achieve in the prescribed times and/or maintain (both at individual and consolidated level) the minimum capital requirements provided for by the legislation in force from time to time or established from time to time by the supervisory authority, with also possible material negative impact on the business and capital, economic and financial condition of the Issuer and/or the Group.

In this case, it cannot be excluded that the Issuer and/or the Group may be subject to extraordinary actions and/or measures by competent authorities, which may include, *inter alia*, the application of the resolution tools as per Legislative Decree No. 180 of 16 November 2015, as amended from time to time ("**Decree 180**"), implementing Directive 2014/59/EU for the recovery and resolution of credit institutions ("**BRRD**") in Italy.

Risks associated with the investigations of supervisory authorities

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

Starting from 4 November 2014, the Single Supervisory Mechanism was launched, which comprises the ECB and the national competent authorities of the participating Member States, among which is the Bank of Italy. The SSM is in charge of the prudential supervision of all "significant" credit institutions in the participating Member States. As of this date, accordingly, with BMPS being a "significant" bank, it is subject to the direct supervision of the ECB, which exercises its powers in close cooperation with the national supervisory authorities (in Italy, the Bank of Italy, which in any case retained some supervisory powers towards the Issuer, in accordance with the provisions of 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 SREP, the purpose of which is to ascertain that the credit institution has adequate capital and organisational control measures compared to the risks taken, assuring the overall balance of management. Specifically, the SREP process is based on the following four pillars: (i) assessment of feasibility and sustainability of the business model; (ii) assessment of the adequacy of governance and risk management; (iii) assessment of capital risks; and (iv) assessment of liquidity risks. At the end of the annual SREP process, the supervisory authority expresses a decision ("**SREP Decision**") with which quantitative capital and/or liquidity requirements are notified together with any other possible recommendation on organisational and controls matters that the credit institution shall comply with, in the set time and manner.

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

For a description of the inspection activities recently carried out by the supervisory authorities on the Issuer and the relevant administrative proceedings, please see "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – ECB/Bank of Italy inspections concluded during the period 2015-2019*" of this Base Prospectus.

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

SREP Decision received by the Issuer on 19 June 2017 and Draft SREP Decision

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

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

Furthermore, on 5 December 2018, BMPS received the Draft SREP Decision from the supervisory authority. Based on the results arising from the SREP 2018, the Draft SREP Decision sets out the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations.

With respect to own funds, according to the Draft SREP Decision, the ECB requires the Issuer to maintain on a consolidated base a Total SREP Capital Requirement (TSCR) of 11 per cent., which includes a minimum 8 per cent. requirement of Pillar I and an additional 3 per cent. requirement of Pillar II. Pillar II requirement level is, therefore, unchanged compared to 2018.

Moreover, with respect to Pillar II Capital Guidance, and according to the Draft SREP Decision, the ECB expects that BMPS complies with 1.3 per cent. threshold on a consolidated base compared to 1.5 per cent. threshold in 2018.

With specific reference to the coverage of the non-performing loans, BMPS has received some recommendations from the ECB aiming at ensuring constant improvements in the reduction of pre-existing risks in the Euro Area and to accomplish the same coverage level for the amounts and flows of the non-performing loans in the mid-term. With a press release published last year (11 July 2018), the ECB announced that it would have communicated with each bank for determining the individual supervisory expectations, on the basis of a comparative evaluation (benchmarking) between similar banks, taking into account the current level of NPL ratio and other financial indicators of each bank. In this context, BMPS has been advised to develop, in the next years (up to the end of 2026), a gradual increase of the coverage levels over the stock of the non-performing loans resulting as such at the end of March 2018, according to a collateral logic to the indications provided in the addendum to the ECB Guidelines for banks on non-performing loans issued starting from April 2018.

In the Draft SREP Decision, the ECB has underlined also the weaknesses/matters that need attention that BMPS has to face. The most relevant ones relate to the ability to achieve the objectives set out in the Restructuring Plan: increase the profitability (lower than expected according to the restructuring Plan), and the capital position, affected by the impossibility to proceed with the second issuance of T2 notes within 2018 and from the indirect and direct effects of the BTP-Bund spread dynamic, considering in particular the substantial exposure of BMPS to the Italian sovereign debt.

Furthermore, the Draft SREP Decision highlights the significant challenges set by the Restructuring Plan in relation to the funding and to the capability of BMPS of successfully carrying out the funding strategy, given the turmoil happening in the Italian markets.

On 8 February 2019, the Bank received the 2018 SREP Decision which confirmed the prudential requirements and the recommendations for BMPS contained in the draft SREP Decision.

In light of the above, there is the risk that the Issuer may find itself in the future, also in light of external factors and unforeseeable events outside the Group's control, having to acknowledge failed compliance with qualitative requirements, with the consequent need to comply with further requests of the supervisory authority as well as the failure to comply with quantitative requirements set by the supervisory authority and by SREP 2018. 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.

As highlighted above, the BMPS Group is also active in France and Belgium with the two subsidiaries Banca Monte Paschi Belgio S.A and Monte Paschi Banque S.A. and, accordingly, the Group results are also affected by the results and operations of the companies of the Group. Any deterioration of profitability conditions and variables affecting the capital adequacy level of the foreign branches, among which the setting of new and more demanding requirements after the SREP process and more in general linked to the regulator's requests, may require the Group to support functional plans for the restoration of capital resources and to support the subsidiaries' level of assets and investments and this may have a negative impact also on the economic, capital and/or financial condition of the Group.

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

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

The ECB and the Bank of Italy, within the limits of their competence and powers, may carry out investigations, both ordinary and extraordinary, on the Bank and/or the other supervised Group companies.

For more information on inspection activities carried out by the supervisory authority, please see "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – ECB/Bank of Italy inspections concluded during the period 2015-2019*" of this Base Prospectus.

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

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

From December 2017 to April 2018, within the context of TRIM the Group and the Issuer were subject to an on-site inspection, in relation to the internal models on credit risks with specific reference to PD and LGD parameters within the context of the retail exposures area – excluding SMEs – associated with real estate guarantees. On 10 July 2018, the Bank received from the ECB the inspection assessment report setting out 19 findings in relation to which the Bank sent a letter providing for an action plan. The Issuer is waiting for the reply of the ECB.

Furthermore, in the context of the revision process of the internal models (TRIM – Targeted Review of Internal Models), the Issuer has received notice from the ECB of an on-site inspection, starting 21 January 2019, relating to the internal model on credit risk for the Issuer and the Group, with respect to parameters Probability to Default, Loss Given at Default and Credit Conversion Factor, in the context of the exposures called Corporate – others.

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

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

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

In particular, between 8 May and 28 August 2018, the Financial Information Unit ("**UIF**") carried out an inspection relating to the assessment of the procedures created to verify potential anomalies relating to the activity of the Issuer's clients. The supervisory authority has notified eight branch-owners of likewise verbal processes of inspection and notification for a missing warning of suspect transactions, for which the Issuer is jointly liable.

On 5 June 2018, the Bank of Italy started an inspection on the Bank and Banca Widiba with the aim of verifying the compliance with anti-money laundering provisions. This inspection ended on 27 September 2018.

For more information on these inspections, please see "*ECB/Bank of Italy inspections concluded during the period 2015-2019*" of this Base Prospectus.

<u>Inspection activity of the Bank of Italy in the field of usury.</u>

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

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

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In light of the above, the Issuer, as at the date of this Base Prospectus, identified mitigation actions for each area of improvement emerging from the investigations, some of which have already been closed and positively evaluated by the supervisory authority, while others have been closed but are waiting for evaluation by the supervisory authority and others are in the process of being implemented.

However, it cannot be excluded that, in the future, there will be deviations in respect of the identified remedy actions which are being implemented.

It being understood that the Issuer may not be certain about what possible measures the EU supervisory authority may adopt in case of failed fulfilment of the measures in progress according to the manner and time provided and, therefore, what risk profiles may arise for the Issuer from such possibility, it is possible that in this circumstance the EU supervisory authority may send the Issuer a formal letter with further requests for in-depth analyses and activities to be realised within specific deadlines. It is further possible that – in a prospective view – this may entail a negative evaluation on the outcome of the SREP process – which is still pending – and, as a consequence, the ECB may ask the Issuer for specific intervention measures and/or the application of higher capital requirements. In this respect, reference is made to "*a) Supervisory activities by the ECB and the Bank of Italy – SREP Decision received by the Issuer on 19 June 2017 and Draft SREP Decision*" above for further details in relation to the contents of the Draft SREP Decision received by the Bank on 5 December 2018 as confirmed by the 2018 SREP Decision which sets out, based on the results arising from the SREP 2018, the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations.

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

c) CONSOB investigations

In relation to matters entrusted by Legislative Decree No. 58 of 24 February 1998 (as amended, the "**Consolidated Finance Act**") to the competence of CONSOB, such supervisory authority may exercise the powers granted thereto against the Issuer and the Group. Specifically, CONSOB may – *inter alia* – submit the Issuer to investigations, even of ordinary nature and with periodic frequency, and/or ask to be provided with specific information or to publicly disclose other information.

Although, as at the date of this Base Prospectus, no investigation is pending against the Issuer and/or the Group companies, it cannot be excluded that the Issuer and/or the Group companies may in the future be subject to assessments or specific requests by the authority provided that the Bank is ordinarily subject to CONSOB informative supervision.

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

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

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

In such case it cannot be assured that the Issuer will satisfy the minimum parameters set in the context of such exercises and that accordingly, in case of failure the ECB may impose measures providing for, *inter alia*, the implementation of new capitalisation measures or other measures suitable to restore the capital shortage found in the Bank's own funds and/or the further requests which might derive from the SREP 2018, with a potential negative impact on the business and the economic, capital and financial condition of the Issuer and/or the Group. In this respect, reference is made to "*a) Supervisory activities by the ECB and the Bank of Italy – SREP Decision received by the Issuer on 19 June 2017 and Draft SREP Decision*" above for further details in relation to the contents of the Draft SREP Decision received by the Bank on 5 December 2018 as confirmed by the 2018 SREP Decision which sets out, based on the results arising from the SREP 2018, the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations.

Risks associated with the Group's exposure to Impaired Loans

As at 30 September 2018, net loans to customers amounted to Euro 87.5 billion, substantially stable compared to Euro 86.4 billion as at 31 December 2017 (Euro 106.7 billion as at 31 December 2016). Within the aggregate figure, non-impaired loans to customers amounted to Euro 79.5 billion and Impaired Loans (as defined in Circular No. 272 issued by the Bank of Italy on 30 July 2008 – as amended from time to time, the "**Impaired Loans**") to Euro 8.0 billion, respectively, corresponding to 90.9 per cent. and 9.1 per cent. of total loans to customers (88.0 per cent. and 12.0 per cent. as at 31 December 2017; 81.0 per cent. and 19.0 per cent. as at 31 December 2016).

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

With reference to the various aggregate figures, the first nine months of 2018 recorded a decrease by Euro 24 billion of "Doubtful Loans", mainly due to the derecognition of the portfolio of non-performing loans ("**NPL Portfolio**"), a contraction of "Unlikely to Pay" by Euro 2.4 billion and of "Past Due Impaired Exposures" (Euro 0.1 billion) (together and respectively, the "**Doubtful Loans**", the "**Unlikely to Pay**", and the "**Past Due Impaired Exposures**" as defined in Circular No. 272 issued by the Bank of Italy on 30 July 2008 – as amended from time to time).

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

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

As at 30 September 2018, the Group recorded net value adjustments for credit risk for Euro 361 million, decreased by Euro 4,411 million compared to those recorded in the same period of the prior financial year, mainly due to adjustments recorded during 2017 over the perimeter of Doubtful Loans included in the NPL Portfolio, for the purpose of aligning the book value to the expected assignment price in the context of the assignment of the NPL Portfolio.

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

In relation to the 2016 financial year, the Group recorded net value adjustments for Impaired Loans to banks and customers for aggregate Euro 4,467 million, significantly increased compared to Euro 1,991 million of the prior financial year. The difference is mostly due to higher adjustments due to the updated methodologies and parameters used in the credit assessment. Specifically, such variations, which already took into account the indications contained in the draft "*Guidance to banks on non–performing loans*" published in December 2016 as well as internal valuations, concerned the changes in the calculation methodology of the fund for discounting Unlikely to Pay, the increase of the analytical assessment threshold of Unlikely to Pay, the update of haircuts on real estate guarantee and the definition of minimum coverage floors on the so-called "extended doubtful loans".

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

It should be noted that the Restructuring Plan assumed the successful completion of the assignment of the NPL Portfolio, which was structured in more phases and was completed with the derecognition of the NPL Portfolio on 22 June 2018. Furthermore, the Restructuring Plan assumed the realisation of certain measures undertaken by the management aimed at improving efficiency of (i) the management of the Unlikely to Pay portfolio, in which respect the cure rate is expected to increase and the danger rate is expected to decrease; and (ii) the management of the non-impaired portfolio, confirmed by the expected reduction of the default rate. The assumed successful evolution of the NPE ratio in the period 2017-2021 takes the advantages also of the effects connected to further assignments/reduction of (i) small ticket and leasing positions classified as non-performing loans with a global gross exposure of Euro 2.5 billion which will be accounted in the 2018 financial statements (for further information in this respect, reference is made to "*Disposals of non-performing loans for a total amount of Euro 3.5* billion" of this Base Prospectus); (ii) the positions belonging to Unlikely to Pay portfolio, in the period from 2017 to 2019 (other than the assignment of the NPL Portfolio) for an overall exposure of around Euro 4.5 billion, of which Euro 2.5 billion was realised as of 30 September 2018; and (iii) the transfer of Unlikely to Pay receivables' for an overall exposure of around Euro 2 billion, in the period 2020-2021. Finally, the evolution of the NPE ratio is further correlated (other than to the positive completion of the activities set out in the Restructuring Plan) with factors which are outside the control of the management such as the improvement of the reference macroeconomic environment.

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

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

For further information relating to the Draft SREP Decision, as confirmed by the 2018 SREP Decision, specifically to the recommendations received by the Bank in relation to the coverage of the non-performing loans, reference is made to "*Risks associated with the investigations of supervisory authorities*" above.

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

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

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

Credit risk and risk of credit quality deterioration

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

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

As at 30 September 2018, loans to customers amounted to Euro 88,563 million, down by 2.7 per cent. compared to Euro 91,042 million as at 31 December 2017. Within the aggregate figure, performing loans to customers amounted to Euro 80,052 million and Impaired Loans to Euro 8,511 million, respectively corresponding to 90.4 per cent. and 9.6 per cent. of total loans to customers (83.8 per cent. and 16.2 per cent. as at 31 December 2017).

As at 30 September 2018, bad loans of the Group were equal to Euro 8,511 million, representing a decrease of Euro 6,287 million compared to 31 December 2017 (Euro 14,798 million) mainly as a consequence of the derecognition of the bad loans transferred and the several transfers of Unlikely to Pay realising during the first semester 2018. In particular, as at 30 September 2018 (i) the bad loans were equal to Euro 3,040 million compared to Euro 7,532 million as of 31 December 2017 (-59.6 per cent.), (ii) the Unlikely to Pay are equal to Euro 5,211 million representing a decrease compared to Euro 6,880 million as of 31 December 2017 (-24.3 per cent.) and (iii) the Past Due Impaired Exposures are equal to Euro 260 million representing a decrease compared to Euro 387 million as of 31 December 2017 (-32.8 per cent.).

As at 30 September 2018, exposures the subject matter of forbearance measures amount to Euro 6,176 million (of which Euro 4,018 million are impaired and Euro 2,158 million are not impaired) and can be fully referred to the "Loans to customers" and "Non-current assets and groups of assets held for sale and discontinued operations" portfolios.

Concentration risk is closely related to credit risk, deriving from exposures to counterparties and groups of related counterparties belonging to the same economic sector, exercising the same activity or coming from the same geographical area. In relation to the main Group's credit exposures to customers, the analysis of the first 100 amounts as at 30 September 2018 highlights an overall credit exposure to the first ten counterparties equal to Euro 2.7 billion.

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

Forborne exposures

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

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

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

In the course of 2016 and 2017 interventions continued to fine-tune the tools available to the network for the identification of forbearance measures upon granting and their subsequent management, with the purpose of making the identification and management process more and more accurate. The training activities of all roles within the network and the general direction involved for various reasons in the identification and management of forbearance measures also continued.

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

- the state of financial difficulty the debtor faces or is on the verge of facing in meeting its financial commitments; and

- the concession of a tolerance in light of current financial difficulties or difficulties which would have materialised in the absence of the intervention of total or partial debt renegotiation/refinancing.

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

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

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

- renegotiation of payment terms of an instalment loan;

- extension of a temporary credit line approaching maturity; and

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

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

Possible amendment requests to loan assessment methodologies and parameters by supervisory authorities and/or other amendments thereto as a consequence of evolutions in the reference legislation may entail increased Impaired Loans and related provisions as well as possible amendments to credit risk estimates, with a potential negative impact on the business and the economic, capital and/or financial condition of the Issuer and/or the Group.

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

Large Exposures

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

Large Exposures were comprised as follows: (i) no. 9 positions as at 30 September 2018, (ii) no. 11 positions as at 31 December 2017 and (iii) no. 16 positions as at 31 December 2016.

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

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

The book value of Large Exposures is also significantly affected by the trend of the operation with central counterparties, and reached the highest point in December 2016 with over Euro 37 billion dropping to less than half at the end of 2017, then rising to over Euro 21 billion in September 2018.

Finally, although risks associated with Large Exposures are periodically monitored at Group level, it should be noted that an excessive concentration of exposures to a sole counterparty, a small group of counterparties or groups of related counterparties may determine, in case of deterioration of the related creditworthiness, negative impacts on the economic, capital and/or financial condition of the Issuer and/or the Group.

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

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

In addition it should also be noted that, at the end of 2016, the new chief lending officer direction was set up with the purpose of speeding up the management rationalisation and improvement process launched in 2015 of the relevant amount of non-performing exposures and making risk monitoring on performing exposures more efficient and effective. To this end, an organisational structure dedicated to the management of high risk positions has in fact been set up. The intervention enabled the transfer of the responsibility for risk management of these positions to a specific chain of command, redirecting the Group's focus on the most risky performing positions with the goal of intervening in a more timely manner upon the arising of the first signals of impairment. Finally, at organisational level, an area has been created directly reporting to the chief lending officer with transversal governance and direction duties over both the entire performing and non-performing loan portfolio.

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

With respect to the compliance, reliability and comparability evaluation of regulatory requirements of the internal model currently used from the banks, the ECB launched different inspections (TRIM – Targeted Review of Internal Models). For a further description of such supervisory activities, reference is made to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – ECB/Bank of Italy inspections concluded during the period 2015-2019 - ECB inspection activity in relation to the review of the internal models (TRIM-2939)*" and to "*Banca Monte dei Paschi di Siena S.P.A. – Major Events – Recent developments – ECB/Bank of Italy inspections concluded during the period 2015-2019 – Internal Model Investingation – IMI 40*" of this Base Prospectus.

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

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

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

In the second quarter of 2016, this exercise was replicated within the same structures, thorough specific follow-up activities from which an overall improvement of previously found criticalities emerged, thanks to mitigation interventions, of a training nature, put in place in the meantime by the competent Bank functions, solicited by the board of statutory auditors to increase the culture of risk and compliance with rules and corporate policies.

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

The findings of the review in the matter of credit recovery were then included in the ARGO 2 (as defined below) programme, specifically for the aspects associated with the failed update of the informative sheets relating to each non performing file (the so-called business plan) as well as for the times, both of transfer of doubtful positions and of activation of recovery actions, which both resulted in not being functional. As part of the planning of the verification activities for 2017, specific focus continued to be dedicated to the credit process, in respect of which, in continuity with the activities carried out in 2016, specific verifications have been defined – both at central and peripheral level – to be conducted during the year, with the usual support of the internal audit functions.

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

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

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

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

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

– credit origination; and

– document management.

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

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

Within the monitoring activity conducted by the board of statutory auditors on the recommendation of the Joint Supervisory Team (JST), the one connected with ARGO 2, aimed at achieving the improvements linked with the findings highlighted by the ECB during the on-site inspection of the loans portfolio conducted by the same supervisory authority during 2015 is noticed. These verifications testified the overall strengthening of credit risk safeguards obtained in particular with the restructuring of the underlying rules and processes. In fact, the regulatory framework, the operational processes and the IT supporting systems have been revised.

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

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

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

Liquidity risk

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

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

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

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

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

In relation to liquidity risk, as highlighted in the SREP Decision 2017 notified by the ECB on 19 June 2017, BMPS implemented strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk as well as improved its structural liquidity position (funding). Notwithstanding the above, the SREP decision highlighted that risk profiles still remain linked to commercial deposits' volatility and to the Bank's exposure to stress events, as observed in the last quarter of 2016 following the failure of the 2016 Transaction. After the significant outflows of deposits on occasion of the failed perfection of the 2016 Transaction, deposits highlighted an increase after the Issuer's request to activate the precautionary recapitalisation and the granting of state guarantee over the issue of new liabilities. Specifically, from January to March 2017, the Issuer issued liabilities guaranteed by the Italian State for an overall nominal amount equal to Euro 11 billion, of which Euro 3 billion of securities due and redeemed on 20 January 2018, Euro 4 billion of securities due 25 January 2020 and Euro 4 billion of securities due 15 March 2020.

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

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

Furthermore, please note that on 5 December 2018, BMPS received the Draft SREP Decision from the supervisory authority. In respect of the liquidity matter, the Draft SREP Decision (as confirmed by the 2018 SREP Decision) highlights the significant challenges set by the Restructuring Plan in relation to the funding and to the capability of BMPS of successfully carrying out the funding strategy, given the turmoil happening in the Italian markets. For further information relating to the Draft SREP Decision, reference is made to "*Risks associated with the investigations of supervisory authorities*" above.

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

a) Liquidity indicators relating to the Issuer

The main indicators used by the Issuer for the assessment of the liquidity profile are the Liquidity Coverage Ratio, the Net Stable Funding Ratio, and the Loan to Deposit Ratio, representing the ratio between lending to customers and direct deposit collection, excluding transactions with central counterparties.

The Liquidity Coverage Ratio (LCR), as short term liquidity indicator, as at 30 September 2018 was equal to 185.9 per cent., above the minimum regulatory requirement applicable for 2018, 13.6 per cent. lower compared to 31 December 2017, as a consequence of the decrease of the liquidity buffer which has not been completely counterbalanced by the decrease of net outflow.

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

The Net Stable Funding Ratio (NSFR), as medium/long term liquidity indicator, as at 30 September 2018 is equal to 110.6 per cent., stable compared to December 2017, equal to 110.0 per cent. As at 30 September 2018 (most recent available data since calculated on financial statement data), the Group's loan-to-deposit ratio amounted to 93.1 per cent. compared to 88.4 per cent. as at 31 December 2017 and 102.0 per cent. as at 31 December 2016 compared to an Italian banking system average equal to 91.4 per cent. as at 31 December 2017 and 89.6 per cent. as at 31 December 2016.

On a monthly basis, the Group monitors concentration risks of funding sources of both a financial and commercial nature, with specific focus on the detail of the main non-retail counterparties. The risk of concentration of the deposits collection's sources held by BMPS Group exists and is linked to a significant depositor, the average in stock of which is affected by the seasonality with a sensible reduction expected for the end of the year. The risks' measures include any evolution of such balance and the related adequacy evaluations on the actual and future liquidity have highlighted positive results both in the ordinary operations and under stress conditions. As at 30 September 2018, in accordance with the results of the regulatory *Additional Liquidity Monitoring Metrics* (ALMM) deposit collection through unsecured channels amounted to approximately 69 per cent. of total collections, of which 11 per cent. were related to financial non-retail counterparties and 17 per cent. were related to non-financial non-retail counterparties. In this latter category the main counterparty is "CSEA – *Cassa per i Servizi Energetici e Ambientali*", with an overall exposure of 24 per cent. of total non-financial non-retail counterparties (corresponding to 6 per cent. of total deposit collections carried out through unsecured channels).

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

As at 31 December 2017, the unencumbered counterbalancing capacity level amounted to Euro 21.1 billion (Euro 6.9 billion as at 31 December 2016) and the TTS under stress was equal to 136 calendar days (zero calendar days as at 31 December 2016). As at 30 September 2018, the operational liquidity position recorded a level of unencumbered counterbalancing capacity equal to Euro 18.5 billion and the TTS under stress was equal to 125 calendar days.

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

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

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

In the last few years, the macroeconomic scenario in which the Group operates has been characterised by persistent and long-lasting periods of high volatility and instability of financial markets which significantly reduced liquidity supply sources for financial institutions, including the Group.

The difficulty to access the market continued also in 2016 and 2017, mainly as a consequence of: (i) the introduction of the bail-in regime (which consists of 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 (MREL – as defined below), ie of minimum requirements of own funds and eligible liabilities required, (ii) market concerns associated with the burden of NPLs on the Group's balance sheet, also subsequent to the letter received from the ECB on 23 June 2016 and (iii) the failed finalisation of the 2016 Transaction.

The realisation of the Capital Enhancement completed in 2017 and the following securitisation transaction and derecognition of the NPL Portfolio completed in June 2018 allowed the Issuer and the Group, *inter alia*, to restore normal access conditions to the capital market. On the other side, it cannot be excluded that in case of negative macroeconomic trends, the Bank's profitability situation may not be in line with expectations, specifically those of the Restructuring Plan, or due to unforeseeable external factors or in any case factors outside the Bank's control – the Group may find new difficulties in accessing the market.

c) Risks associated with the Issuer indebtedness

The Group, as other Italian and European financial institutions, resorts to the refinancing transactions launched by the ECB ("**TLTROs**") and guaranteed by assets pledged by the Issuer, within the limits and according to the rules established in the Eurosystem. As at the date of this Base Prospectus, refinancing transactions outstanding with the ECB are equal to Euro 16,689 million and are the following: (i) TLTRO II launched on 23 June 2016, with maturity on 24 June 2020 for an amount equal to Euro 10,158 million and (ii) TLTRO II launched on 21 September 2016, with maturity on 30 September 2020 for an amount equal to Euro 6,531 million.

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

The amount of cash and free assets eligible for the ECB was equal, as at 31 December 2017, to Euro 21,095 million and Euro 18,463 million as at 30 September 2018. The amount of eligible free assets (expressing the assets recognised by the ECB to be eligible as collateral/guarantee for further financing transactions with the ECB, to the extent not committed by the Bank to other transactions) is mainly represented by government securities (Euro 13,866 million as at 31 December 2017 and Euro 12,512 million as at 30 September 2018).

The TLTROs will continue to represent, in the presence of financial instruments made available by the same ECB, the main medium/long-term exposure to the ECB. Uses of MROs (Main Refinancing Operation) launched on a weekly basis and used to manage short-term liquidity, or other funding sources possibly made available by the ECB, may in any case take place for short-term liquidity management purposes, liquidity that may also be obtained by accessing the market through repo transactions.

In respect of the maturity of senior unsecured bond issues addressed to institutional investors, in financial year 2019, the Bank will redeem an aggregate amount of Euro 744 million while there were no maturities in 2018. In the first months of 2017, the Issuer also finalised three issuances of Italian state guaranteed liabilities, on the basis of Decree 237, for an aggregate nominal amount equal to Euro 11 billion of which Euro 3 billion of securities became due and were redeemed on 20 January 2018, Euro 4 billion of securities is due 25 January 2020 and Euro 4 billion of securities is due 15 March 2020. Such liabilities have been fully subscribed for by the Bank, upon issuance, and subsequently in part placed on the market and, in part, used as collateral as guarantees of financing transactions.

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

On 23 January 2019, for the first time since November 2015, the Issuer completed a "covered bond" issue (bonds backed by Italian residential mortgages) for an amount equal to Euro 1 billion with the settlement date on 29 January 2019 and the maturity date in January 2024, intended for institutional investors. It should be also noted that, although the Bank in the context of the Restructuring Plan provided for actions to cover for the aforementioned redemption needs, it cannot be excluded that such actions may never be executed – possibly due to factors outside the management’s control – and that, accordingly, the need to repay outstanding exposures prior to the aforementioned maturity dates may cause tensions on the Group liquidity, generating an increased need for funding that may be obtained under more burdensome conditions, with a consequently negative impact, even relevant, on the business and on the economic, capital and/or financial condition of the Bank and/or the Group.

d) Reputational risk

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

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

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

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

The impact of the consequent downgrade of BMPS issuances guaranteed by the Italian State pursuant to Legislative Decree No. 237/2016 (which rating is aligned to that of the Italian State) would add on to this negative impact. Italian state guaranteed BMPS issuances in fact have the same rating as the Republic of Italy and, accordingly, in case of downgrade of the same Republic of Italy, would be correspondingly downgraded. Such event could determine a reduction in the price of securities, with the need to pay margins on funding transactions which BMPS has in place on such government guaranteed securities (repos), amounting to around a nominal amount of Euro 4.25 billion at 31 December 2017. Furthermore, a downgrade (in particular if especially severe) may induce counterparties of financing transactions (repos), to ask for the early termination, where provided for, or not to reschedule the maturity thereof.

f) Risk associated with internal systems to manage liquidity risk

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

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

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

- controlling and monitoring liquidity risk for the Group and the single subsidiaries.

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

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

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

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

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

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

By the end of the first quarter of 2019, the Issuer will set up a new "Funding Plan" and a new "Contingency Plan" which will be proposed to the board of directors in order to be approved and, successively, will be sent to the Joint Supervisory Team of the ECB.

It cannot be excluded that the ECB will require, also following the mentioned approval, further information or formalisations/corrective interventions, even substantial, on such plans determining a variation of the modalities and composition of the Bank's envisaged funding sources and the related costs.

Furthermore, it cannot be excluded that such plans may be subject to review by the Bank, and, in such a case, resubmitted to the board of directors of the Issuer, with subsequent submission also to the Joint Supervisory Team of the ECB.

Risks associated with the Group's exposure to sovereign debt

The Group's overall exposure to central governments or other public entities, is almost entirely held vis-à-vis Italy, and is concentrated in the "Financial activities valued at fair value affecting the overall profitability" accounting category. For further details on the Group's overall exposure to sovereign debt, reference is made to the 2016 Consolidated Financial Statements, the 2017 Consolidated Financial

Statements, the 2018 First Half Financial Report and the 2018 Interim Financial Report (each as defined below), incorporated by reference into this Base Prospectus.

The Group is accordingly exposed to the movements in government securities in general and, in particular, in Italian public debt securities. The persisting tensions on the Government securities market or the volatility thereof may cause negative impacts, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group. In particular, a lowering of the creditworthiness of the Republic of Italy, together with a consequent decrease in the securities value, would cause a negative impact on the economic results in respect of the portfolio of "Financial activities valued at fair value affecting the income statement" and an increased negative value of the valuation reserves (specifically "*Fair Value Through Other Comprehensive Income*", the "**FVTOCI Reserve**") linked to the "*Financial activities valued at fair value affecting the overall profitability*" accounting category.

The FVTOCI Reserve, linked to Italian government securities, is sensitive both to the Republic of Italy credit spread and to interest rate fluctuations. In particular, the fair value sensitivity to the spread of the Republic of Italy recorded a negative value of Euro 3.3 million as at 30 September 2018 (down in absolute terms compared to a negative value of approximately Euro 5.6 million as at 31 December 2017) due to a +1 basis point movement in the Italian credit curve, i.e. there is a positive effect on the FVTOCI Reserve in case the spread narrows. The sensitivity to interest rates was instead negative by around Euro 1.3 million as at 30 September 2018 (negative by approximately Euro 1.9 million as at 31 December 2017) due to a +1 basis point movement in the rate curve so as there is a negative impact on the FVTOCI Reserve in case of increased interest rates.

Due to the aforementioned exposures, the Group recorded a negative FVTOCI Reserve (net of tax effect) equal to Euro 260.3 million as at 30 September 2018 (up compared to 31 December 2017 when it was negative by around Euro 63.8 million).

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

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

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

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

In the context of the 2017 SREP process, the ECB indicated, among weakness profiles/focus points, the significant sensitivity of the Italian government securities portfolio to market variables, among which the credit spread, as well as the amount of the exposure, is still deemed significant. In this respect, it has to be noted that the Issuer already realised a significant reduction of the exposure in government securities in line with the provisions of the BMPS' restructuring plan 2013-2017 and it expects to realise a further progressive reduction in line with the provisions of the Restructuring Plan. It should be noted that the government securities portfolio accounted as "*Financial activities valued at fair value affecting the overall profitability*" and equal to around Euro 12.5 billion as at 30 September 2018, (compared to Euro 12.9

billion as at 31 December 2017) is already in line with the level required by the Restructuring Plan. Should the Bank not be able to maintain the reduction of the Italian government securities portfolio already realised and to comply with the further reduction request provided for in the commitment linked to the Restructuring Plan, being forced to assign Italian government securities also in unfavourable market conditions, could entail negative impacts on the business and the economic, capital and/or financial condition of the Bank and/or the Group. For more information on the risks associated with the failed realisation of the Restructuring Plan, reference is made to "*Risks associated with the failed realisation of the Restructuring Plan*" above.

Loans granted by the Group to central governments and other public entities shall be added to sovereign exposures in debt securities. Among those, attention shall be paid to loans granted in favour of the Italian State and other Italian local entities for Euro 2,256 million as at 30 September 2018 (down compared to Euro 2.394 million recorded as at 31 December 2017). The possible deterioration of the creditworthiness of such counterparties may lead to write-downs, even significant, for such type of clients, according to current Italian credit evaluation policies and, therefore, may give rise to negative impacts, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

In addition to the aforementioned exposures, the Group recorded an exposure to credit derivatives on government securities, expressed in terms of net protection sales, for a nominal value of Euro 2,189 million as at 30 September 2018, up compared to Euro 1,759 million recorded as at 31 December 2017. This exposure almost exclusively refers to the Republic of Italy. The possible deterioration of the creditworthiness of Italy and, to a lesser extent, that of the other countries to which the Group is exposed, as well as movements in interest rates may cause a reduction of the value of securities and/or derivatives, with a consequently negative impact, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks associated with the application of Burden Sharing in the context of precautionary recapitalisation intervention

Further to the failed completion of the transaction announced by the Issuer's board of directors on 29 July 2016 (the "**2016 Transaction**"), and the application of the Bank for extraordinary and temporary support for access to the so-called "precautionary recapitalisation", as provided for by article 32, subsection 4 of the BRRD, the MEF issued two ministerial decrees which were published in the Official Gazette of 28 July 2017, general series no. 175 (the "**Recapitalisation Decree**" and the "**Burden Sharing Decree**"), in order to provide for (a) under the Recapitalisation Decree, the Bank's capital increase for an amount of Euro 3,854,215,456.30 to service the subscription of 593,869,870 shares by the MEF executed on 3 August 2017 (the "**Capital Increase**"), and (b) under the Burden Sharing Decree, the application of burden sharing measures as per art. 22, subsections 2 and 4 of Legislative Decree No. 237 of 23 December 2016 ("**Decree 237**"), as well as the Bank's capital increase for an amount of Euro 4,472,909,844.60 with consequent issuance of 517,099,404 shares. Such shares have been granted on 1 August 2017 to the holders of certain subordinated notes and other subordinated liabilities (respectively the "**Burden Sharing Notes**", the "**Burden Sharing**" and, together with the Capital Increase, the "**Capital Enhancement**").

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

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

The Burden Sharing Decree also provided for that – under art. 22, paragraph 4 of Decree 237 – for the contractual or non-contractual clauses executed by the Issuer over own notes or capital instruments and relating to the capital rights to be paid on the same, hindering or limiting their full computability in the Common Equity Tier 1, shall be ineffective.

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

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

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

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

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

On 20 October 2017, furthermore, the Bank sent two letters: i) one to JPM in relation to the application of Decree 237, wherein the Issuer specified it deemed as terminated both the usufruct agreement and the company swap agreement, and ii) by the other letter the Bank communicated that, as at 30 June 2017 – as also shown in the interim financial report as at 30 June 2017 – there had occurred a capital deficiency event as provided for in the FRESH 2008 terms and conditions (i.e. a reduction of the capital ratios below the minimum regulatory levels) since the Group's capital ratios were, on that date, lower than the coefficients provided for in article 92 of the CRR.

As a consequence of the application of Decree 237 to FRESH 2008, as resolved by the Bank, and in light of the above, some FRESH 2008 holders summoned the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which had replaced the Bank that issued the Bank of New York Mellon Luxembourg securities), the English company J.P. Morgan Securities PLC and the American company J.P. Morgan Chase Bank NA (which executed a swap agreement with the loan security issuer, "**JPM Chase**") before the Court of Luxembourg, asking to (i) ascertain that Decree 237 does not apply to the FRESH 2008 holders, (ii) as a consequence, obtain a declaration that the aforementioned securities cannot coercively be converted into shares and that the above securities are still valid and effective in accordance with their terms and conditions, as governed by the law of Luxembourg and (iii) eventually, to ascertain that BMPS shall not be entitled, lacking any conversion of the FRESH 2008, to obtain from J.P. Morgan Securities Ltd ("**JPM**") payment of approximately Euro 49.9 million as damages suffered by the holders of FRESH 2008. The Court of Luxembourg has not set a date for the hearings yet.

For the sake of completeness, it should be also noted that, following the start of the abovementioned proceeding, on 19 April 2018 BMPS brought an action before the Court of Milan against J.P. Morgan Securities Ltd, J.P. Morgan Chase Bank N.A. London Branch, as well as against the representative of FRESH 2008 holders and Mitsubishi UFJ Investors Services & Banking (Luxembourg) SA in order to obtain a declaration stating that the Italian Court shall have exclusive jurisdiction over the termination (if any) of the Usufruct Agreement and over the Company Swap Agreement executed by the Bank with the first two defendants as part of the 2008 capital increase. As a consequence, the Bank asked: (i) a declaration of ineffectiveness of the Usufruct Agreement and of the Company Swap Agreement – from which arise obligations of payment in favour of JPM and JPM Chase by virtue of the entry into force and application of Decree 237; (ii) a declaration of ineffectiveness and/or termination and/or expiration of the

Usufruct Agreement or, subordinately (iii) a declaration of occurred termination of the Usufruct Agreement due to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, deeming existing the prejudicial issue raised by the defendants in relation to the jurisdiction and considered the existence of a dispute with the same petitum and legal issue pending before the Court of Luxembourg, has granted the parties time limits to replicate against the ritual objections and has adjourned the hearing to 16 April 2019 to discuss the controversial issue. For more information on the state of this dispute, reference is made to section "*Banca Monte dei Paschi S.p.A. – Legal Proceedings*" of this Base Prospectus.

In the event that, following the above mentioned proceedings, the FRESH 2008 framework remains valid and/or the article 22, paragraph 4 of the Decree 237 is deemed not applicable, the Bank may be forced to continue paying the remuneration in accordance with the FRESH 2008, in the event that certain requirements are met (such as the existence of profits to be distributed and the payment of dividends related to the Bank's ordinary shares). It would follow that from a prudential standpoint, the FRESH 2008 transaction would not fail and it should continue being qualified as Additional Tier 1, as opposed to the representation set out in the Restructuring Plan.

Therefore, the failed cancellation of the FRESH 2008 framework and/or the failed application of article 22, paragraph 4 of the Decree 237 – following any legal actions started against the Bank – may involve, with respect to the prospective figures of the Restructuring Plan, the impossibility to implement the requalification aforementioned and, consequently, the CET1 Ratio would be lower by around 0.3 per cent. in 2021, with Tier1 equal to Total Capital Ratio.

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

Risks deriving from judicial and administrative proceedings

As at the date of this Base Prospectus, a number of judicial proceedings (including civil, criminal and administrative actions) are pending against the Issuer. Some of these derive from the extraordinary and exceptional context related to criminal investigations ordered by courts involving the Issuer in 2012 and 2013. In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, (ii) labour disputes, (iii) tax disputes and (iv) disputes arising from Burden Sharing.

The 67 claims brought by former holders of notes subject to Burden Sharing are included in the Bank judicial proceedings relating to investment services activities. In such proceedings the relevant plaintiffs are claiming the violation of the general principles set forth by the Consolidated Finance Act and the general principles of correctness, transparency and duty of care with respect to the sale of such securities.

As at 30 September 2018, the overall petitum in relation to civil proceedings of the Group was equal to Euro 4,555 million of which approximately Euro 3,373 relating to the proceedings for the ordinary activities of the Issuer and approximately Euro 764 million for the civil proceedings relating to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases, approximately Euro 606 million in relation to threatened litigations brought against the Issuer relating to the same capital increase transactions and approximately Euro 118 million with respect to requestes brought by the civil claimants, where quantified, relating to criminal proceedings no. 29634/14 and no. 955/16 which the Issuer is part of (for further information, please see Section "*Legal Proceedings*", respectively, paragraphs "*Disputes deriving from ordinary business*" and "*Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*" of this Base Prospectus). The overall petitum for tax proceedings of the Group is equal to approximately Euro 120 million for taxes and sanctions (Euro 130 million as at the date of this Base Prospectus) while the overall petitum relating to the labour proceedings is equal to Euro 113.9 million (including the labour proceedings brought by certain employees of Fruendo S.r.l.).

In light of the estimates made on the risks of adverse outcome in the aforementioned proceedings, as at 30 September 2018, "legal disputes" included under the item provision for risks and charges, amounted to Euro 574.3 million, comprising claw-backs for Euro 61.9 million and civil disputes for Euro 512.4 million. Furthermore, as at the same date, the provision for risks and charges includes tax disputes for Euro 33.0 million and labour disputes for Euro 34.4 million.

Allocations to item provision for risks and charges have been made for amounts representing the best possible estimate relating to each dispute, quantified with sufficient reasonableness and, in any case, in accordance with the criteria set forth in the Issuer's policies. Included among the components of the overall provision for risks and charges are, in addition to the allocations provided for "legal disputes", also allocations versus expected losses on estimated disbursements for client complaints. The estimate of liabilities is based on the information available from time to time and in any case it implies multiple and significant evaluation elements, due to the several uncertainty factors characterising the different judicial proceedings. In particular, sometimes it is not possible to produce a reliable estimate such as – for instance and without limitation – in case proceedings have not been initiated, in case of possible counterclaims or in the presence of uncertainties in law or in fact so as to make any estimate unreliable. In particular, for further information relating to the methodology used to account allocations into the "provision for risks and charges" with respect to civil and criminal legal proceedings, including threatened litigations, relating to the purchase of securities issued in connection with the capital increase transactions of 2008, 2011, 2014 and 2015, and/or in connection with trading activities based on the allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2015, reference is made to "*Legal proceedings*" of this the Base Prospectus.

Accordingly, although the Bank believes the overall provision for risks and charges recorded in the financial statement to be considered adequate in respect of the liabilities potentially consequent to negative impacts, if any, of the aforementioned disputes, it may occur that the provision, if any, may be insufficient to fully cover for the charges, expenses, sanctions and compensation and restitution requests associated with the pending proceedings, also in relation to the bringing of civil actions, or that the Group may in the future be called to satisfy compensation and restitution costs and obligations not covered by provisions, with a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

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

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

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

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

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

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

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

In this respect it has to be specified that, with the consent of the public prosecutor's office, on 2 July 2016, BMPS 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 0.6 million and a confiscation of Euro 10 million.

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

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

The bringing of civil action by the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also dismissed on the assumption of a Bank's liability for complicity with the defendants. As at 30 September 2018, civil plaintiffs that appeared against the Bank were in aggregate around 1,243 and the overall *petitum*, where quantified, was equal to Euro 42 million.

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

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

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

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

The hearing scheduled to discuss the civil actions brought as part of criminal proceedings by the civil claimants already joined in the proceedings during the previous hearing held on 17 July 2018 was duly held on 16 October 2018, to which further 165 civil parties were added. The defendants' and the Bank's counsels have claimed that the latter have joined in the proceedings beyond expiry of the relevant terms.

At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272 (the *petitum* relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million), ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the objections relating to the lack of territorial competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties. By order issued on 3 December 2018, the Courts rejected the request.

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In relation to the aforementioned risks under points (a1) and (a2) above, investors must take into account that, as at the date of this Base Prospectus, a precise monetary figure relating to the total of compensatory requests and accordingly the economic burden the Bank will have to bear cannot be predicted, except to the extent of the *petitum* quantified as highlighted above, since most of civil plaintiffs' requests are not quantified and such quantification shall wait for the development of the proceedings. Furthermore, there is the risk that, should the Bank and/or other Group companies or their representatives (even former) be convicted after the established violation of criminally relevant provisions, such circumstance may have an impact under a reputational point of view for the Bank and/or the Group, as well as entail a liability under the Legislative Decree No. 231/2001. For further information, reference is made to "*Risks associated with the organisation and management model pursuant to Legislative Decree 231/2001*" below.

(a3) Risks deriving from sanctioning procedures

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

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

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

It should also be noted that, also as a consequence of the aforementioned investigations initiated by judges in 2012 and of the aforementioned proceedings, further criminal, sanctioning and civil proceedings have been initiated by judges, supervisory authorities, consumer associations, investors and the Bank itself. The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity, which inspired the actions undertaken by the new management, aimed at identifying the best initiatives in protection of the Bank, the assets and the image thereof, even through direct legal actions against the former top management and counterparties involved.

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

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

In this respect, amongst the initiatives against the Issuer, some investors and/or shareholders of the Bank initiated actions aimed at obtaining the compensation for alleged damages suffered by the same subjects due to the alleged inaccuracy of the disclosure provided by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, due to the assumed unfairness of the price-sensitive information provided from 2008 to 2015. As at the date of this Base Prospectus, 30 proceedings with compensatory aims have been initiated before different Courts. In such claims, the plaintiffs mainly act for the declaration of the Bank's liability pursuant to article 94 of the Consolidated Finance Act, as well as for the cancellation of the capital increases' subscription agreement because of wilful and/or essential error pursuant to the Italian Civil Code. As at the same date, the overall petitum for such actions is equal to around Euro 764 million of which Euro 688 million referred to four principal actions.

Furthermore, as at the date of this Base Prospectus, various complaints have been filed individually by investors – through consumers or legal associations – 69 of which, on a total amount of 903, have taken part into the claim initiated by Marangoni Arnaldo (as described under "*Banca Monte dei Paschi S.p.A. – Legal Proceedings – Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*") – for a total of around Euro 654 million of claimed amounts, where quantified, associated with alleged losses incurred linked to allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2011. Of such requests, around 10 per cent. turned into civil judicial initiatives (in the great majority with intervention in the proceedings initiated by one single shareholder).

Such requests – individually or collectively through two professionals and the ADUSBEF (*Associazione Difesa Utenti Servizi Bancari e Finanziari*) – although heterogeneous, are mainly reasoned with generic references to the alleged infringement, by the Bank, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank as generic, ungrounded, and unsupported by suitable documental evidences and in some instances time barred. The residual petitum claimed by complainants who did not initiate judicial proceedings is equal to around Euro 591 million as at the date of this Base Prospectus.

In addition, there were also 59 threatened litigations relating to the 2014-2015 capital increases for a total requested amount equal to approximately Euro 17 million (and, therefore, the overall requested amount is approximately equal to Euro 607 million as at the date of this Base Prospectus).

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 this Base Prospectus. Furthermore, it cannot be excluded that the number of complaints concerning the above described cases may increase – even significantly – or that already filed complaints would turn into true and proper disputes before judicial authorities. Finally, it has to be deemed that an increased number of disputes and/or complaints may occur also as a consequence of the evolution of criminal proceedings initiated after judicial investigations initiated during 2012 and of the Bank's involvement as a civilly liable party, in the context of such proceedings, pending before the Courts of Milan as specified below.

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

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

In light of the estimates made about the risk of unfavourable outcome in the cases under this risk factor, as at 30 September 2018, allocations for legal disputes – with respect to the disputes deriving from the ordinary business — have been made to the provision for risks and charges equal to Euro 574.3 million.

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

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

(d) <u>Risk deriving from sanctioning procedures promoted by the authorities</u>

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

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

In particular, it has to be underlined that the procedure I794 – commenced by the Italian antitrust authority (*Autorità Garante della Concorrenza e del Mercato,* hereinafter, the "**AGCM**") against the Italian banking association (*Associazione Bancaria Italiana*) in respect of the remuneration of the SEDA service and subsequently extended to the 11 most important Italian banks, among which was BMPS, concerning the alleged materiality of the interbank agreement for the remuneration of the SEDA service as agreement restricting competition pursuant to art. 101 of the Treaty on the Functioning of the European Union (according to AGCM the agreement would imply "the absence of any competitive pressure", with consequent possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers) – was also closed.

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

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

It should be further noted that with the measure of 25 January 2017, the AGCM opened proceedings PS 10678 against Diamond Private Investment S.p.A. ("**DPI**") for two infringements of the Consumer Code (Legislative Decree No. 206/05) in the sale thereby of investment diamonds. On 27 April 2017, the AGCM extended such proceedings to BMPS and another bank. With a communication dated 26 July 2017, the AGCM deemed BMPS and the other bank involved in the proceedings not chargeable for one of the two infringements; against BMPS, therefore, the proceeding continued only with regard to the residual infringement related to the low transparency of the contractual and commercial documentation. On 30 October 2017, by the measure conducting such proceeding, the authority recognised the occurrence of an unfair commercial practice under Legislative Decree No. 206/05 and, consequently, ordered sanctions for all parties involved therein; BMPS has been charged with a sanction of Euro 2 million. The Bank is carrying on the challenge against such measure in front of the TAR of Lazio, provided that the payment deriving from such measure was executed by BMPS on a timely basis, making use of a fund risk set out in advance for this specific purpose. As a consequence, BMPS received some claims from its clients, in light of which a negative impact on the future economic and financial results of BMPS cannot be excluded.

BMPS had previously entered with DPI into a customer referral agreement, and AGCM held that the bank was actively involved in the promotion and sale of investment diamonds. The proceedings ended with the decision taken by AGCM during the hearing held on 20 September 2017 and notified to the parties on 30 October 2017. AGCM held that the breaches the parties had been charged with had actually been committed, and sentenced BMPS to pay a fine of Euro 2 million. The Bank paid the fine within the relevant terms and challenged the decision before the TAR of Lazio; at the hearing held on 17 October 2018 the Court reserved its decision. Meanwhile, the Bank has taken action to reimburse the customers previously referred to DPI, who have purchased diamonds from the latter and intend to exit from their investment. With decision published on 14 November 2018, the TAR of Lazio rejected the appeal of BMPS and confirmed the AGCM sanctions; the Bank, following proper evaluations of the legal grounds of the events, has decided not to appeal against such decision which, consequently, became the final judgment.

For the sake of completeness, it is highlighted that, with reference to such events, in the context of the criminal proceedings pending for alleged fraud, the judge for preliminary investigations of the Court of Milan notified the Bank of two seizure decrees, also for the alleged offence of self-laundering in relation to which the Bank would be liable pursuant to Legislative Decree 231/2001.

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*" of this Base Prospectus.

Risks associated with assignments of Impaired Loans

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

Without prejudice to what is provided in the Restructuring Plan, in the context of the assignment of the NPL Portfolio and the relevant derecognition, it has to be noted that the Issuer may find itself having to resort to new Impaired Loan assignment transactions in respect of a possible further deterioration of credit quality, should the Group be forced to pursue more demanding reduction targets of the amount of Impaired Loans in terms of amount or times compared to planned ones, even as a consequence of requests by the supervisory authority, with a consequently negative impact on the economic, capital and financial condition of the Issuer and the Group.

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

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

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

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

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

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

As at 30 September 2018 the Group achieved an income from banking activities of Euro 2,475 million, down 4.3 per cent. with respect to 30 September 2017, mainly due to the reduction in interest margin, net fees and net revenues from trading activities. The changes in revenues were influenced by the trend in net interest income, equal to Euro 1,312 million (-4.5 per cent. as compared to the same period of the previous year), which was mainly affected by the decrease in interest-bearing assets, especially loans (reduction in average volumes and in the relevant yields). This reduction was only partially mitigated by the decrease in interest payable, as a consequence of the lower costs incurred for bank accounts and term deposits and the reimbursement of bonds with more unfavourable terms (including Burden Sharing Notes). Net fees and commission income for the first nine months of 2018, equal to Euro 1,163 million, were down 4.1 per cent. as compared to the final data posted for the same period of 2017, as a consequence of both the lower revenues from asset management and the lower fees obtained in such period from payment services (debit and credit cards) further to the assignment of the merchant acquiring business on 30 June 2017. As at 30 September 2018, dividends, similar income and gains (losses) on equity investments, down by Euro 13.7 million as at 30 September 2017, amount to Euro 55 million, mostly consisting of the AXA-MPS contribution. Net profit (loss) from trading and financial assets/liabilities, measured at amortised cost, and the corresponding value posted in the profit and loss account as at 30 September 2018 are equal to Euro 6 million, down as compared to the same period of the previous year (Euro 571 million), which included the profit from the Burden Sharing. An analysis of the main aggregate data revealed a reduction in revenues from the trading activity as compared to the same period of the previous year. However, such revenues have increased since the quarter ended on 30 June 2018, in spite of having been affected by the trend of the BTP-Bund spread; the net loss of the other assets and liabilities, posted at fair value in the profit and loss account, has increased, which may be ascribed to the net loss of assets/liabilities mandatorily valued at their fair value; as at 30 September 2018 the gains on disposals/repurchase, equal to Euro 60 million, have decreased by Euro 491.9 million from the same period in 2017, which had been affected by the Burden Sharing.

As at 30 September 2018 the net impairment (losses)/reversals on financial assets measured at amortised cost and financial assets designated at fair value through comprehensive income have dropped to Euro 368 million, from Euro 4,835 million as at 30 September 2017 (-92.4 per cent.), which included credit adjustments made on the non-performing loans assigned after adjustment to their realisable value. Operating expenses (Euro 1,715 million) were down 9.4 per cent. for the same period in the previous year. This change was mainly influenced by the reduction (i) in personnel costs (mainly related to staff reduction, firstly the 600 redundancies as part of the *Fondo di Solidarietà* of the Group on 1 May 2017 and another 1,200 as part of the same *Fondo di Solidarietà* on 1 November 2017), (ii) in administrative costs (structural reduction of costs), (iii) in net provisions for risks and charges, commitments and guarantees issued and net adjustments to the value of tangible and intangible assets. There was an increase in net operating income equal to Euro 3,940 million respect to 30 September 2017.

As at 30 September 2018, the Group posted a net profit of Euro 379 million, including the capital gain achieved by assigning the Issuer's servicing platform for non-performing loans (Euro 50 million) and the partial reassessment of DTAs from tax losses (Euro 163 million).

In such respect, it cannot be ruled out that the future results of the Issuer and/or the Group might be adversely affected by general and domestic economic conditions, as well as by the economic conditions in the entire Euro Area, by the trends in financial markets and by compliance with some Commitments set out in the Restructuring Plan (personnel reduction, further assignment of bad debts, run-off of foreign subsidiaries). For more details on: (i) the risks related to the Restructuring Plan, please refer to paragraph "*Risks associated with the failed realisation of the Restructuring Plan*" above, (ii) the risk related to loans becoming non-performing, please refer to paragraph "*Credit risk and risk of credit quality deterioration*" above, and (iii) the risks related to the assignment of non-performing loans please refer to paragraph "*Risks associated with the Group's exposure to Impaired Loans*" above.

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

In order to provide a complete overview of the Bank's position, please be informed that the Bank's share capital was increased in August 2017 by an overall amount of Euro 8,327 million, through the conversion of Burden Sharing Notes into ordinary shares for a value of Euro 4,472 million, and through the subscription by the MEF of a number of ordinary shares for a value of Euro 3,854 million. During the extraordinary shareholders' meeting held on 18 December 2017 the Bank, taking into account (i) the balance sheet as at 30 September 2017 and the loss for such period, equal to Euro 2,506 million, (ii) previous losses for Euro 2,324 million carried forward by resolution taken by the shareholders' meeting on 24 November 2016, and (iii) capital adjustments for Euro 534 million, decided to balance the overall loss of Euro 5,364 million reducing the share capital by the same amount.

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

Risks associated with the failed distribution of dividends

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

Furthermore, among the Commitments of the Restructuring Plan, it is provided that the Bank cannot proceed to the distribution of dividends, unless it has a CET1 and a Total Capital ratio higher than a predetermined level in respect of the SREP thresholds as set periodically by the ECB in order to promote the capitalisation of the dividend not distributed. Accordingly, the Bank is required to adopt dividends distribution policies allowing to maintain – at individual and consolidated level – actual and perspective capital adequacy conditions in line with aggregate risks taken, suitable to favour the alignment to the prudential requirements set by the CRD IV and the CRR and to guarantee the coverage of internal capital levels calculated in the context of the Internal Capital Adequacy Assessment Process ("**ICAAP**").

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

In financial years 2017 and 2016, losses recorded and/or the absence of reserves available for distribution impacted on the Issuer's ability to distribute dividends. The economic results of such financial years have been impacted by events which, should they repeat themselves in future years, may impede or limit the distribution of dividends even for such years, even if ECB prohibitions were to be withdrawn, with a consequently negative impact on the return on the investments in the Issuer shares.

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

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

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

As at 31 December 2017, the Group's exposure to over the counter ("**OTC**") traded credit and financial derivatives with any counterparty (institutional, retail, etc.) and regardless of the reference portfolio (trading or banking) in terms of positive fair value, gross of netting arrangements, amounted to Euro 4,740 million, down compared to Euro 5,786 million as at 31 December 2016.

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

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

OTC derivatives operations provide for the Group, in the first place, to assume market risks, namely the potential loss that may be recorded on positions held as a result of unfavourable movements in market parameters. The main risk factors to which such operations are subject are: interest rates, exchange rates, indices, commodities and the relating volatilities and correlations. Contextually, such operations expose the Group even to counterparty risks, namely the risk for the counterparty of a transaction, concerning certain financial instruments, to not fulfil its obligations or to default before the maturity of the relevant agreement. Therefore, it might not be excluded that the potential non-performance of the obligations undertaken pursuant to the derivatives contracts by the counterparties or the realisation of the relevant collateral for a value lower than the secured payment obligation could have a negative impact on the economic and financial situation of the Issuer and/or the Group.

Risks associated with possible aggregations

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

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

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

Other risks associated with the banking and financial business

(a) Market and interest rate risk

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

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

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

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

As at 30 September 2018 the sensitivity of the banking portfolio, meant as a variation of the economic value produced by the movement in interest rates, was equal to around Euro +210.8 million for a parallel movement of +100 basis points in the rates curve, while it was equal to around Euro +175.5 million as at 31 December 2017. For management purposes, market risk is monitored using a VaR measure, which represents the maximum loss that could be realised in a specified time horizon in a specified confidence range. As at 30 September 2018, the VaR of the Group's trading portfolio, calculated with a confidence range of 99 per cent. and a time horizon of one day, amounted to approximately Euro 10.5 million with a trend influenced by the high volatility of the Italian spread between May 2018 and June 2018, which resulted in new loss scenarios. The average VaR registered during the financial year and updated as at 30 September 2018 was equal to around Euro 6.9 million, while during financial year 2017, the average VaR had been equal to approximately Euro 7 million. As at 30 September 2018, the relating capital requirements for supervisory purposes were equal to around Euro 230.4 million (as at 31 December 2017 they were equal to around Euro 199.4 million).

In the context of the SREP 2017, in relation to interest rate risk of the banking portfolio some weakness areas have been underlined on the adoption of the behavioural models contributing to the positioning of the Group. Therefore, during 2017, the Group improved its behavioural models for on demand items with a relevant operational use starting from the *Risk Appetite Framework* ("**RAF**") 2018. Although the Group has in place specific policies and procedures aimed at identifying, monitoring and managing such types of risk, the occurrence of unexpected events or the inadequacy of procedures adopted may have a negative impact, even relevant, on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

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

(b) Counterparty risk

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

In relation to the Group's operations in derivatives, the positive fair value of trading derivatives, defined as per the Bank of Italy's Circular no. 262 of 22 December 2005, as at 30 September 2018 amounted to Euro 3,165 million, down by 5.0 per cent. compared to Euro 3,332 million as at 31 December 2017. As at the same date, the negative fair value of trading derivatives amounted to Euro 1,304 million overall down by 17.2 per cent. compared to Euro 1,574 million as at 31 December 2017.

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

In relation to operations in repos the Group enters into contracts mainly with institutional counterparties and to a lower extent, with ordinary clients. As at 30 September 2018, the Group's exposure to repos amounted to Euro 4.271 million, recording a 21.2 per cent. decrease compared to the level of Euro 5,424 million at the end of December 2017. As at 30 September 2018, instead, the exposure to reverse repos amounted to Euro 12,559 million, recording an increase equal to 22.7 per cent. compared to the value of Euro 10,237 million as at 31 December 2017.

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

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

Such risk, which became more pronounced after the 2007-2008 financial crisis and the consequent financial market volatility, may cause an additional prejudice, in case collaterals, if any, given in favour of the Bank or another Group company are not or may not be realised or liquidated in the time, manner and size sufficient to cover the exposure to the counterparty.

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

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

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

(c) Concentration risk

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

Specifically, concentration risk may be split into two types:

– *single entity concentration risk* (concentration of entities belonging to the same economic group and/or related groups); and

– *sectorial concentration risk* (concentration of specific economic sectors and/or geographic areas).

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

Risk management

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

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

The risk appetite process is structured so as to be consistent with the ICAAP and Internal Liquidity Adequacy Assessment Process ("**ILAAP**") and with the planning and budgeting and recovery processes, in terms of governance, roles, responsibilities, metrics, stress methodologies and monitoring of key risk indicators.

The key principles characterising the risk management process within the Group are based on a clear and strict distinction of roles and responsibilities among the business, control and internal audit functions.

In particular:

- the Bank's board of directors defines and approves the strategic guidance and management policies of risks and, at least once a year, expresses the overall level of the Group's risk appetite under a quantitative point of view. In this context, the board of directors of the Bank defines the "Risk Appetite Framework" (RAF) for the Group and it approves at least annually the "Group Risk Appetite Statement" (RAS). The Risk Appetite Statement sets out annually a series of risk/revenue objectives and, simultaneously, a system of limits, which in case of exceeding will determine the start of some procedures of escalation intended to undertake the necessary managerial measures;

- the board of statutory auditors and the risk committee assess the degree of efficiency and adequacy of the internal control system, with specific reference to risk control;

- the chief executive officer and/or the director general guarantees compliance with the policies and procedures in the matter of risks;

- the director in charge of the internal control and risk management system, set up in compliance with the corporate governance code, is accountable for setting up and maintaining an effective internal control and risk management system;

- the risk management committee drafts the policy in the matter of risk management, assesses the Issuer's risk appetite in accordance with annual and multi-annual targets and verifies and monitors, also prospectively, the overall dynamic of the risks, both in ordinary and stress conditions, and the overall compliance with the limits assigned to the various responsibility levels;

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

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

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

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

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

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

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

However, (i) should such actions, the policies and procedures of the Group companies aimed at identifying, monitoring and managing risks prove not to be adequate, or the evaluations and assumptions on which such policies and procedures are based prove to be incorrect, r (ii) should the Bank be notified with requests of the supervisory authority in the context of the SREP process to comply with higher Pillar II requirements compared to current ones, (iii) notwithstanding the existence of the aforementioned internal procedures aimed at identifying and managing risk, should the Group's structures not be able to handle such risks in carrying out certain activities, exposing the Bank to unexpected or unquantified risks, the Bank and/or the Group may incur losses, even relevant, with a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group. Finally, it cannot be excluded that the review of the internal models and procedure could become necessary in case of changes in the relevant laws and regulations.

Risks associated with debt restructuring transactions

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

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

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

Furthermore, certain entities of the Sorgenia group entered into restructuring agreements with the Issuer. As at the date of this Base Prospectus, there is no certainty that the Sorgenia group will be able to fulfil the undertakings given in the context of such restructuring agreements. Should the Sorgenia group not be able to fulfil the related obligations undertaken, the economic, capital and/or financial condition of the Issuer may be negatively affected, by virtue of the exposures to the Sorgenia group.

Again, among the debt restructuring transactions relevant for the Issuer and within the context of a credit securitisation transaction pursuant to Law 130/99 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 BMPS 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 the creditors' procedure pursuant to art.160 and 186-*bis* of the Bankruptcy Law). On 1 July 2017, BMPS and MPS Capital Services assigned to the vehicle Norma SPV s.r.l. the receivables due by Rizzo Bottiglieri De Carlini Armatori S.p.A. On 21 July 2017, the issue of notes by Norma SPV S.r.l. was carried out. BMPS and MPS Capital Services purchased the mezzanine and junior notes proportionately to the receivables assigned, which therefore have not been subject to derecognition within their respective financial statements.

Risks associated with the ownership structure

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

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

Risks associated with the ratings assigned to the Issuer

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

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

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

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

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

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

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

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

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

Moody's (3 December 2018): the rating agency Moody's downgraded the long-term senior unsecured rating of BMPS from 'B3' to 'Caa1', thereby confirming the long-term deposit rating of 'B1' and the standalone baseline credit assessment ("**BCA**") of 'Caa1'. The outlook on the long-term deposit rating was changed to 'negative' from 'stable', in line with the negative outlook assigned to the senior unsecured debt. The confirmation of BCA of 'Caa1' reflects improving but still very high asset risk, pressures on capitalisation and weak profitability. The stock of Impaired Loans of the Bank remarkably decreased following the securitisation of NPLs and Moody's expects that the asset risk will keep on improving following further disposals of Impaired Loans planned for the next months. The capitalisation of BMPS is under pressure due to the impact of the widening of spread on Italian Government bonds. The Bank returned to profitability during the first three quarters of 2018 after many quarters of heavy losses; however, the rating agency holds that BMPS has yet to demonstrate that it is able to sustain this profitability, given the residual stock of NPLs and its funding structure. The downgrade of the long-term senior unsecured rating to 'Caa1' reflects the limited stock of senior securities due to the repayment, in recent months, of material amounts not replaced by new issuances. An upgrade of BMPS' long-term ratings is unlikely in the short term, given the negative outlooks. The BCA could be upgraded following tangible and sustainable progress towards the targets set by the Bank's Restructuring Plan, more specifically: (i) a ROA above 0.4 per cent.; (ii) an Impaired Loans ratio below 15 per cent. of loans; and (iii) increased deposit funding or senior and subordinated debt securities issuances not secured by way of a Government guarantee. Moody's could downgrade the senior unsecured debt and deposit ratings if the stock of senior debt continues to decrease. The BCA could be downgraded if (i) the Bank failed to return to sustainable profit generation; (ii) capital ratios fell materially; and (iii) the Bank experienced material deposit outflows.

* * * *

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

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

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

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

Risks associated with the assignment and evaluation of equity interests

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

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

As at 30 September 2018, the assessment of equity interests impairment indicators entailed value adjustments equal to around Euro 6 million, primarily due to the depreciation of equity interests Trixia S.r.l..

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

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

In the context of the Restructuring Plan and of the undertakings given by the Bank in the context of the "State aid" procedure, the assignment of non-strategic assets held by the Bank is provided for, among which the foreign banks, Monte Paschi Banque S.A. and Banca Monte Paschi Belgio S.A. As at the date of this Base Prospectus:

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

- with respect to Banca Monte Paschi Belgio S.A., the negotiations for the transfer have been concluded. On 5 October 2018, the Bank entered into an agreement with a company controlled by funds managed by Warburg Pincus for the sale of Banca Monte Paschi Belgio S.A.. As of the date of this Base Prospectus, the transfer is subject to the approval of the Belgian national bank and the ECB.

The expected loss related to the transfer has been set out in the Interim Financial Report for the period ending on 30 September 2018.

Operational Risk

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

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

After five years from the initial acknowledgement of internal models on operational risks for the purpose of calculating capital requirements, the AMA has been reshaped to align it with the market best practices and include requirement reduction techniques within the calculation, such as the deduction of expected losses and the diversification among risk classes. In January 2014 the Group was authorised to use such operational risk requirement reduction techniques by the Bank of Italy in respect of data as at 31 December 2013. Starting from 31 December 2014, BMPS has been authorised to adopt methodological amendments concerning both the quantitative and qualitative integration. Finally, in February 2017 the Group was authorised to use scaling[1] techniques of external loss data for the calculation of the requirement starting from 30 June 2017.

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

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

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

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

Although the Issuer deems the above described organisational and control measures adequate, there is the risk that certain types of risk may still occur in the future, even due to unforeseeable events, fully or partially outside the Group's control (including, without limitation, frauds, scams or losses deriving from

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

employee disloyalties and/or the violation of control procedures, the attack of IT viruses or the malfunctioning of electrical and/or telecommunication services, possible terrorist attacks).

Risks associated with securitisations

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

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

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

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

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

During the first semester of 2018, BMPS completed (i) on 9 January 2018, the transfer of 95 per cent. of Mezzanine Notes for a nominal amount equal to Euro 847.6 million with Quaestio SGR on behalf of the Italian Recovery Fund (formerly Atlante II, a closed-end alternative investment fund established under Italian law reserved to professional investors and managed by Quaestio Capital SGR S.p.A.) (the "**Italian Recovery Fund**") and (ii) on 22 June 2018, the transfer of 95 per cent. of Junior Notes for a nominal amount equal to Euro 565 million. The Senior Notes are currently held by the Assigning Banks (as defined below), which will be able to assess their potential placing in the market.

Following the sale of 95 per cent. of the Mezzanine Notes and the Junior Notes and the complete outsourcing of the recovery activities related to the portfolio, on 22 June 2018, the full derecognition of the NPL Portfolio had been completed. From that date, the Bank accounts an overall amount of Euro 2,677.1 million in its financial statements in relation to the exposures against the tranches issued and not sold.

In light of the above, the Issuer will retain certain exposures to the securitisation, and accordingly to the performance of collections and recoveries of the securitised portfolio and will remain exposed to the related risks, in terms of the 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 a consequently negative impact on the economic, capital and financial condition of the Bank and the Group.

The value of each class of asset-backed notes held, on a temporary or permanent basis, by the assigning banks will depend upon not only the value of and return on the NPL Portfolio, but also the value, costs, terms and conditions of any other amount the payment of which is, due *pari passu* or with priority, compared to each such class of asset-backed notes.

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

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

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

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

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

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

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

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

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

Loans to customers

As at 30 September 2018, the Group's net loans to customers amounted to Euro 87,465 million (Euro 86,456 million as at 31 December 2017) and represent one of the valuation items exposed the most to the choices made in the matter of risk delivery, management and monitoring. In detail, the Group manages financed counterparties' default risk, by monitoring on an on-going basis the evolution of relations with customers for the purpose of assessing repayment capacity, on the basis of their economic-financial condition, and the presumable recoverable value of real estate properties and collaterals. Such monitoring activity allows to intercept loan impairment signs and accordingly to assign value adjustments on an analytical or flat-rate basis. These adjustments are calculated pursuant to the new impairment model provided for by IFRS 9, which introduces the concept of expect credit loss (ECL), defined as the weighted average of losses on credit, using as "weights" the relevant risks of default. This model is characterised by the use of forward looking information and macroeconomic variables, entailing a faster recognition of losses, which are recognised also on performance activities even if not already incurred. Furthermore the adjustments of value calculation changes on the basis of the stage allocation of the single asset, determined in relation to the worsening of the credit quality compared to the initial recording.

Therefore, in assessing loans, not only final data and certain information existing as at the drafting date of the financial statement are of key relevance, but also other factors such as:

- the reference context, at macroeconomic and legislative-regulatory level, affecting the management view in terms of future and rigour expectations in the assessment process;
- the outcome of the application of cash flow predictive models which it is expected single debtors (or portfolios of homogeneous debtors under a risk profile) will be able to pay to fulfil, in whole or in part, the obligations undertaken to the Group; and
- the macroeconomic scenarios and the expected loss estimates calculated for each scenario considering the PD and LGD specifications.

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

In the context of a range of possible approaches relating to the estimate models permitted by reference to international accounting standards, resorting to a methodology or selecting certain estimate parameters may significantly affect the assessment of loans. Such methodologies and parameters are necessarily subject to an on-going updating process for the purpose of better representing the presumable recoverable value. In particular, for Impaired Loans the definition of a different portfolio perimeter to be subjected to flat-rate assessment, typically represented by exposures of lower amount, may involve the detection of further adjustments compared to those recorded on the basis of an analytical assessment.

It cannot therefore be excluded that different monitoring criteria or different methodologies, parameters or assumptions in the estimate process of the recoverable value of the Group's credit exposures may determine significantly different evaluations compared to those of the interim financial report for the period ending on 30 September 2018, also after a possible further worsening of the economic-financial crisis, with consequent impact on the economic and financial and condition of the Group.

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

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

Assets valued at fair value on a recurrent basis and classified in correspondence of Level 3 in the fair value hierarchy as at 30 September 2018 amounted to Euro 821 million (Euro 910 million as at 1 January 2018, including the effects of the reclassification linked to the implementation of IFRS 9; equal to Euro 336 million as at 31 December 2017); they are assets for which the measurement of fair value is based to a relevant extent on inputs not coming from the market, involving estimates and assumptions by the management. As at 30 September 2018, the impact of financial assets evaluated at fair value and classified within Levels 2 and 3 of the hierarchy compared to total assets evaluated at fair value on a recurrent basis is equal to 19.0 per cent. and 3.2 per cent. respectively (17.8 per cent. and 1.4 per cent. as at 31 December 2017).

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

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

Risks relating to DTAs

As at 30 September 2018, deferred tax assets ("**DTA**") amounted in aggregate to Euro 2,901 million (compared to Euro 2,937 million as at 31 December 2017), of which Euro 1,002 million (compared to Euro 1,313 million as at 31 December 2017) is eligible to be converted into tax credit pursuant to Law of 22 December 2011, no. 214 ("**Law 214/2011**").

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

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

In such legislative framework, accordingly, the recovery of DTAs eligible for conversion seems guaranteed for the Issuer also in case the latter does not generate adequate future taxable income capable of ordinarily absorbing the deductions correspondent to DTAs recorded. The tax regime introduced by Law 214/2011, as stated in the Bank of Italy/CONSOB/ISVAP (now IVASS) document "Accounting treatment of deferred taxes deriving from Law 214/2011" no. 5 of 15 May 2012, in granting "certainty" to the recovery of DTAs eligible for conversion, impacts in particular on the recoverability test laid down by accounting standard IAS 12, basically making it automatically satisfied. Even the regulatory legislation provides for a more favourable treatment for DTAs eligible for conversion compared to the other types of DTAs; the first in fact, for the purpose of the capital adequacy requirements the Group shall comply with, do not constitute negative elements at equity level and are included among RWA with a 100 per cent. weighting.

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

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

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

Subsequently, the article 26-*bis* of Decree 237 amended the article 11 of Law Decree 59/2016, substantially moving the DTA fee's reference period from 2015-2029 to 2016-2030. Consequently, the fee already paid on 31 July 2016 in relation to 2015 is deemed deferred, the amount remaining unchanged, to 2016; as a consequence of the exercise of the option, the Bank also proceeded with the payment of the fee due for 2017 and 2018 for the amount of Euro 141.8 million.

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

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

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

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

Deferred tax assets relating to write-downs and credit losses as at 30 September 2018 amounted to Euro 557 million (Euro 734 million as at 31 December 2017) and is naturally destined to reduce itself over time as a consequence of the progressive conversion thereof from deferred to current, until its coming to zero in financial year 2025, according with the time mechanism predefined by the tax provisions in force (Law Decree No. 83/2015).

Deferred tax assets relating to goodwill and other intangible assets freed up as at 30 September 2018 amounted to Euro 441 million (Euro 576 million as at 31 December 2017), is equally naturally destined to reduce itself over time as a consequence of the progressive conversion thereof from deferred to current. The tax amortisation of such assets in fact, takes place on a straight line basis over more financial years. On the contrary, no possible increases are currently foreseen, which may exclusively derive from the freeing up of the goodwill recorded as a consequence of the possible acquisition of new equity interest or business units.

Deferred tax assets relating to administrative costs deductible in financial years subsequent to those of recognition in the financial statements (allocations to the provision for risks and charges, costs associated with capital increases, etc.) amount as at 30 September 2018 to Euro 300 million (Euro 312 million as at 31 December 2017).

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

As at 30 September 2018, DTAs are, furthermore, recognised as tax losses for Euro 1,097 million (Euro 901 million as at 31 December 2017) and EGS surpluses for Euro 177 million (Euro 146 million as at 31 December 2017). EGS surpluses refer to the portion of tax incentive known as "Economic Growth Support" (EGS) introduced by art. 1 of Law Decree No. 201/2011 not used in the prior financial years, due to insufficient taxable income. It has to be noted that such incentive provides, for companies that have increased their capital resources compared to the respective size as at 31 December 2010, for the right to operate a downward amendment to their taxable income by an amount equal to the notional return on the capital increase realised. This downward amendment is recognised for the financial year in which the capital increase took place, as well as for each of the subsequent years and, in case of insufficient taxable income of one of those, may be deducted from the following years' income.

The notional return is valuated, for the tax period current as at 30 September 2018 and for the subsequent ones, as equal to 1.5 per cent. (measure currently set by article 7 of Law Decree No. 50/2017). Although the carry forward of tax losses and EGS surpluses is not subject – according to the tax regime in force – to any time limit, regulatory provisions concerning the respective DTAs provide for a more unfavourable treatment compared to that of the other DTAs not eligible for conversion into tax credits pursuant to Law no. 214/2011, since they are deducted from equity according to the phasing-in percentages without the benefit of the excess mechanism.

DTAs for tax losses and EGS surpluses, together with the other DTAs not eligible for conversion into tax credits pursuant to Law no. 214/2011, have been recorded in the Interim Financial Statements 2018, as well as in Financial Statement 2017, to the extent the existence of future taxable income has been reasonably proved, as derived from the business plan most recently approved by the board of directors, sufficient to guarantee their absorption in the coming financial years (probability test). Furthermore, since the interim financial statements as at 30 June 2016, the execution methodology of the probability test provided for by IAS 12 for the recognition of DTAs has been reviewed. The methodological evolution was necessary in light of unrealised tax losses, the tax loss being created in 2016 and the consequent deviation compared to expectations, as well as the planned derecognition transaction of Doubtful Loans which, in combination, extended the time horizon for the recovery of deferred tax assets. The decision to update such methodology further derived from the amendments intervened in the tax regime, such as, specifically, the amendment to the tax regime of loans to customers adjustments (Law Decree 83/2015), which provided for the full deductibility thereof in the financial year in which they are recognised.

The methodological evolution introduced in the probability test consists in the application of an increasing discount factor to future taxable income (the so-called risk adjusted profits approach) so as to reflect with the highest reasonableness possible the probability of its occurrence. Such complex methodology, applied to the most recent forecasts on the Group's future profitability as provided for in the new business plan, determines, as at 30 September 2018, the failed recognition of DTAs potentially accrued from tax losses and EGSs for Euro 1,965 million (Euro 1,786 million as at 31 December 2017).

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

Risks deriving from tax disputes

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

As at the date of this Base Prospectus, around 60 cases are pending, for an overall amount of around Euro 130 million for taxes and sanctions (Euro 120 million as at 30 September 2018). The value of disputes also includes that associated with tax verifications closed, for which no dispute is currently pending since the tax authority has not yet formalised any claim or contestation.

Pending disputes with likely unfavourable outcomes are of limited number and amount (approximately Euro 10 million) and are guarded by adequate allocations to the overall provision for risks and charges.

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

At the end of the verification, on 20 October 2016, contestation minutes were notified to the company, with which, for financial years 2011 to 2015, higher taxes have been contested for Euro 17.5 million, for IRES and IRAP purposes, and for Euro 9.1 million for VAT purposes, plus the relating legal sanctions, not estimated. Following the settlement and the dialogue with the tax authority, as of the date of this Base Prospectus the overall charges amount to Euro 3.9 million of which: Euro 1.2 million for VAT sanctions, Euro 2.2 million for higher IRES taxation and Euro 0.5 million for the relevant reduced sanctions.

With reference to the IVA remarks, the Bank challenged the provision imposing sanctions in relation to fiscal year 2011 and it submitted a defensive statement concerning the dispute act relating to 2012. With respect to the rest of the remarks for the purposes of IRES, relating to the tax periods between 2013 and 2015, considering that on 15 December 2017 the Bank had determined through a tax assessment the contestations regarding 2012, depending on the discussion with the tax authority and, given the similarity of the findings, it is perfectly reasonable to assume that a similar way of definition will also be applied for the next annuity; this will allow to close the dispute with a disbursement in the form of taxes for approximately Euro 2.2 billion, in addition to around Euro 0.5 million for reduced fines.

The Bank deems that the particular cases subject to contestation in the context of such tax assessment do not have any recurring effect on the years following 2015.

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

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

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

The Issuer adopted its own organisation and management model as provided for by Legislative Decree 231/2001, establishing a set of rules suitable to prevent the adoption of unlawful behaviours by top managers, managers and/or employees. Furthermore, also considering the current ownership structure and the participation of the MEF in the share capital of the Bank, the Issuer supplemented its organisational model to prevent the criminal offences pursuant to Legislative Decree 231/2001 with the guidelines for the prevention of corruption within the Group. These guidelines supplement the organisational model for the prevention of the criminal offences provided for by Legislative Decree 231/2001 and therefore contain also the controls provided for by this model. It cannot be excluded that potential illicit offences could expose the Bank to administrative liability with consequent negative effects on the capital, economic and financial position of the Bank.

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

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

As at the date of this Base Prospectus, the Bank was indicted (for administrative liability profiles of entities pursuant to Legislative Decree No. 231/2001) in the context of proceedings initiated by the public prosecutor's office at the Courts of Forlì against various natural persons and three legal persons for the crimes of money laundering and obstruction to the supervisory authority. The Bank was charged with three administrative offences deriving from crimes: (i) of obstruction to the exercise of the functions of public supervisory authorities (art. 2638 of the Italian Civil Code); (ii) of money laundering (art.648-*bis* of the Italian Criminal Code); and (iii) of criminal association (art. 416 of the Italian Criminal Code), of a transnational nature. The same Courts of Forlì at the hearing of 12 February 2015 declared its incompetence, deeming competent, in respect of the charges against the Bank, the Courts of Rimini. The aforementioned Courts of Rimini, by order of 3 March 2015, raised in the matter a negative conflict of territorial competence referring to the Supreme Court of Cassation the documents necessary for the decision on the identification of the competent Court to know the proceedings. The Supreme Court of Cassation deemed that, for the aspects of confirmation of pre-trial measures submitted for its evaluation, the documents of the proceedings should be transferred to the competent Courts of Forlì. The PHJ of the Courts of Rimini, the venue to continue the proceedings to be determined, at the hearing of 28 April 2016, denied its territorial competence to know the merits thereof, in favour of the Courts of Forlì, raising a negative conflict of competence and referring the documents to the Supreme Court of Cassation for the resolution of the conflict. On 13 December 2016 the hearing was held before the Supreme Court of Cassation for the resolution of the conflict, and it was determined that the Courts of Forlì were competent, and accordingly the hearing to discuss was held on 1 December 2017 before such Courts. At the hearing of 1 December 2017, the proceeding were postponed to 5 June 2018 for the discussion of the preliminary issues; the hearing was postponed to 17 April 2019.

Following the mandatory charge ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the suspects for the administrative offences pursuant to art. 25-*ter*, lett. b) and art. 25-*sexies* of Legislative Decree No. 231/01.

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

At the preliminary hearing of 29 September 2017, the pending proceedings against the Bank, as an administrative accountable entity, was merged with the one pending against the individuals.

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

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

On 30 July 2013 the "*Communication of the European Commission relating to the application, from 1 August 2013, of the provisions on* "*State aid*" *to support measures to banks in the context of the financial crisis*" (the "**Communication**") was published on the Official Gazette of the European Union. Such Communication enhanced the requirements on Burden Sharing, asking of shareholders and those who have subscribed for subordinated debt or hybrid capital securities to contribute to the recovery of the Bank prior to the granting of "State aid" (the so-called burden-sharing). Specifically, "State aid" shall not be granted before equity, hybrid instruments and subordinated notes have been fully used to set off possible losses of the Bank (see paragraphs 41-44 of the 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 European Commission confirmed the compliance of the Restructuring Plan with the "staid aid" provisions to the Bank and therefore, it was able to start the precautionary recapitalisation and apply the Burden Sharing. In this respect, should the Bank newly access measures eligible for qualification as "State aid" pursuant to the EU regime or amend, in whole or in part, the Restructuring Plan, it shall do it in accordance with the provisions of the above described legislative framework.

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

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

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

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

In particular, the Group is subject to the primary and secondary legislation applicable to companies with financial instruments listed on regulated markets, the legislation in the matter of banking and financial services (governing, *inter alia*, the sale and placement activities of financial instruments and the marketing thereof), as well as the regulatory regime of the countries, including those other than Italy, in which it operates. The supervision by the aforementioned authorities covers various sectors of the Issuer business and may concern, *inter alia*, liquidity, capital adequacy and financial leverage levels, the prevention and combating of money laundering, privacy protection, transparency and fairness in the relations with clients, and reporting and recording obligations.

For the purpose of operating in accordance with such legislations, the Group put in place specific internal procedures and policies and adopted, pursuant to Legislative Decree No. 231/2001, a complex and constantly monitored organisational model. Such procedures and policies mitigate the possibility of violations in the various legislations to occur, which may cause negative impacts on the business, reputation as well as on the capital, economic and/or financial condition of the Bank and/or of the Group.

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

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

- ***Basel III and the CRD IV Package***

The above shall also be accompanied by the more demanding rules adopted by international authorities in the matter of banks' capitalisation. Starting from 1 January 2014, parts of such laws and regulations have been amended in accordance with the guidelines set out under Basel III, mainly for the purpose of strengthening minimum capital requirements and introducing leverage ratios and policies and quantitative rules intended to mitigate the banks' liquidity risk.

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

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

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

In addition to Common Equity Tier 1 (necessary to satisfy the aforementioned capital requirements), the banks are expected to maintain a capital conservation buffer equal to 1.875 per cent. for 2018 and 2.5 per cent. starting from 2019 of the overall exposure to risk.

Furthermore, from 1 January 2016, banks were obliged to create: (i) a countercyclical capital buffer, to be calculated, with the modalities set out in the same Circular No. 285, on the basis of each bank's overall exposure to risk; and (ii) systemic buffers, should they be qualified as G-SIIs or O-SIIs (i.e. G-SII risk buffer or O-SII risk buffer).

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

With respect to the SREP to which the Group was subject during 2016, it should be noted that on 19 June 2017, the ECB required the Bank to comply, starting from 1 January 2018, with a level of TSCR on a consolidated basis equal to 11 per cent., including:

- the minimum Total Capital Ratio requirement of 8 per cent. in line with article 92, first subsection of the CRR; and

- an additional 3 per cent. requirement (Pillar II), in line with article 16, second subsection, lett. (a) of the SSM Regulation, which shall be fully composed of Common Equity Tier 1.

Furthermore, the ECB notified to the Issuer the expectation for the Group to comply with an additional 1.5 per cent. threshold (Pillar II capital guidance) to be fully satisfied with Common Equity Tier 1, in addition to (i) the Pillar I, (ii) the Pillar II and (iii) the combined capital requirement.

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

Furthermore, on 5 December 2018, BMPS received the Draft SREP Decision from the supervisory authority. Based on the results arising from the SREP 2018, the Draft SREP Decision sets out the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations. Such prudential requirements and recommendations for BMPS were confirmed by the 2018 SREP Decision.

For further information relating to the Draft SREP Decision and the contents therein, reference is made to "*Risks associated with the investigations of supervisory authorities*" above.

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.

With regard to liquidity, the CRR provides, *inter alia*, for compliance with a short term indicator (the LCR), aiming at the constitution and retention of a liquidity buffer capable of allowing the Bank's survival for 30 days in case of serious stress, and with a long-term structural ratio designed to address liquidity mismatches (the NSFR) with a one year time horizon, introduced to ensure that assets and liabilities show a sustainable maturity structure. In respect of such parameters, please note that:

– for the LCR parameter, a value of 100 per cent. starting from 1 January 2018 is provided for; and

– as to the NSFR, in November 2016, the European Commission adopted a legislative proposal for a regulation (the CRR II Regulation or "**CRR II**" (2016/0360A (COD))) that is expected to make extensive amendments to the CRR, including with regard to, among other things, the introduction into EU law of the NSFR. The implementation date and final contents of CRR II (and therefore, of NSFR requirements) depend on the timing and outcome of the relevant legislative process. It is currently expected that the mandatory minimum threshold of the ratio shall be equal to 100 per cent..

Furthermore, Basel III (as defined below) provides that banks shall monitor their leverage ratio calculated as the ratio between the Tier 1 capital and the aggregate exposures of the credit institution, according to the provisions of art. 429 of the CRR, as amended and supplemented by delegated Regulation of the European Commission no. 62/2015. Such indicator was subject to reporting obligations by banks starting from 2015; however, to date, the minimum threshold and the commencement date of the index at hand have not yet been defined. Full implementation of the leverage ratio as a measurement of the Pillar I in the EU is currently under consultation as part of the CRR II and CRD V (2016/0364 (COD)) group of reforms, whose implementation date and final contents shall depend on the timing and outcome of the conclusion of the relevant legislative process.

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

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

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

- ***The Single Supervisory Mechanism***

On 4 November 2014, the Single Supervisory Mechanism ("**SSM**") 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, as BMPS is classified as a significant bank pursuant to article 39 of Regulation (EU) No. 468/2014 of the ECB of 16 April 2014 ("**SSM Framework Regulation**").

According to the SSM Regulation (1024/2013), supervisory tasks not conferred on the ECB, such as (among others) conducting the function of competent authorities over credit institution in relation to markets in financial instruments, remain with the national authorities. The Issuer is therefore also subject to, *inter alia*, CONSOB supervision, given its activities carried out in relation to the sale, placement and marketing of financial instruments.

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

- ***The Bank Recovery and Resolution Directive***

The BRRD completes the legislative framework of the provisions applicable to banks, identifying the powers and tools national authorities in charge of the resolution of banking crises may adopt for the resolution of a bank's crisis or collapse situation. This was for the purpose of guaranteeing continuity of the essential functions of the institution, reducing to a minimum the collapse impact on the economy and the financial system as well as on costs for taxpayers. On 9 July 2015, the enabling act for the implementation of the BRRD was approved, identifying, *inter alia*, the Bank of Italy, as resolution authority pursuant to article 3 of the BRRD. On 16 November 2015, contemporaneously with the publication in the Official Gazette, Legislative Decrees no. 180 and 181 of 16 November entered into force and respectively implemented the BRRD and adapted the provisions of the Italian Banking Act to the changed legislative framework.

With specific reference to the bail-in instrument, please also note the introduction through the BRRD of a minimum requirement for own funds and eligible liabilities ("**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 Delegated Regulation EU 2015/1450 published in the Official Gazette of the European Union on 3 September 2016.

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

The BRRD also requires member states to ensure national insolvency laws contain a prescribed creditor hierarchy. The Insolvency Hierarchy Directive (Directive (EU) 2017/2399), due to be transposed in member states by 29 December 2018, amends this hierarchy by introducing a new asset class of non-preferred senior debt that can only be bailed-in in resolution after capital instruments but before senior liabilities.

On 23 November 2016, the European Commission published a set of amendment proposals to the BRRD in relation to, *inter alia*, the loss absorption and recapitalisation capacity of credit institutions (COM (2016) 852 ("**BRRD II Directive**"). The main amendments introduced by the reform concern, substantially, the structure of MREL and its level of application, the powers of the resolution authorities in case of breach of MREL and the banks' disclosure obligations to resolution authorities and the public. Agreement on the main elements of these proposals was reached in December 2018, with legislation expected to be finalised and published in 2019.

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

- ***The FSB's TLAC Standard***

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 this Base Prospectus, the Issuer is not included. The European Commission, in the context of the BRRD II Directive, intends to align the existing MREL requirements (already defined by the EU regime and applicable to all banks) with the TLAC standards and to make other technical amendments to the MREL regime. Agreement on the main elements of these proposals was reached in December 2018, with legislation expected to be finalised and published in 2019.

- ***Calculation Criteria of RWAs***

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, ie 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. In March 2018, the Basel Committee published a consultative document containing proposals intended to address certain concerns identified by the Committee in relation to the 2016 FRTB framework. In January 2019, a revised FRTB standard was published, which reflects the proposals made in the March 2018 consultation. The revised standard supersedes the 2016 one and is expected to take effect as of 1 January 2022.

The replacement project of the transitional capital floor for RWA replacing the Basel I provisions with a new floor calculated by reference to the RWAs determined on the basis of the standardised approach, as possibly amended as a result of the abovementioned review processes of the various risk categories, is also relevant.

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

On 23 November 2016, with the first legislative proposal of review of the CRR and the CRD IV (i.e., the CRR II and the CRD V proposals), the EU regulatory process implementing in the European Union the Basel Committee standards in the matter of market risk (FRTB), leverage ratio, NSFR, TLAC and standardised approach to counterparty risk, started. In the context of such amendment proposals, the European Commission proposes the introduction of the NSFR, the calibration phase thereof is preparatory to the definition of parameter calculation rules and accordingly of minimum requirements to be complied with, and the introduction of, a 3 per cent. leverage ratio. Agreement on the main elements of these proposals was reached in December 2018. The entry into force of the majority of the proposed amendments will depend on when the technical details of the legislative process are finalised and the amending directives are published.

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

- ***The Regulatory Treatment of NPLs***

Furthermore, on 20 March 2017 the ECB published the "*Guidance to banks on non-performing loans*", and on 15 March 2018 the "*Addendum to ECB Guidance to banks on non-performing loans*", both addressed to credit institutions, as defined pursuant to article 4, paragraph 1, of the CRR. These guidance papers are addressed, in general, to all significant institutions subject to direct supervision in the context of the SSM, including their international subsidiaries. The ECB banking supervision identified in the aforementioned guidance a set of practices it deemed useful to indicate and which should be viewed as expectations of ECB banking supervision. The documents define the measures, processes and best practices which should be integrated in the treatment of NPLs by banks, for which this issue should represent a priority. The ECB expects full adherence by banks to these guidance papers regarding the treatment of NPLs, which is expected to take into account the length of time a loan has been non-performing and the extent and valuation of collateral (if any). The ECB's March 2018 addendum provides that, with respect to all the loans that will be qualified as Impaired Loans from 2018, full coverage is expected for the unsecured portion of the NPL within two years and within seven years for secured portion at the latest. Therefore, it cannot be excluded that the Bank shall increase the coverage levels with respect to loans that may be qualified as Impaired Loans from 2018 for the purposes of complying with the regulation, with consequent negative impacts on the Group's capital adequacy indicators.

On 14 March 2018, the European Commission presented an amendment proposal to the European rules on the prudential requirements of credit institutions in terms of Impaired Loans (*Proposal for a Regulation of the European Parliament and the Council amending the Regulation (EU) No. 575/2013 regarding the minimum coverage of losses on impaired exposures* (2018/0060 (COD))). The Commission aims to create the appropriate environment for banks to deal with NPLs on their balance sheets, and to reduce the risk of future NPL accumulation by suggesting the introduction of a statutory prudential backstop against any excessive future build-up of NPLs without sufficient loss coverage on banks' balance sheets. Political agreement on the proposed Regulation was reached in December 2018 and it is expected that the European Parliament will further consider in early 2019.

- ***The Securitisation Framework***

Following the enactment of Regulation (EU) 2017/2402 (the "**Securitisation Regulation**") and Regulation (EU) 2017/2401 (the "**CRR Amendment Regulation**") (together, the "**securitisation framework**"), effective from 1 January 2019, new provisions regarding securitisation transactions have been introduced in the European legislation. The Securitisation Regulation introduces important changes with regards to the in-scope transactions and to the securitisation obligations regarding risk retention, transparency and due diligence. In addition, the Securitisation Regulation introduces the concept of "simple, transparent and standardised" ("**STS**") securitisations that are afforded a more flexible regulatory treatment than other securitisations. Technical standards and guidelines regarding the application of the Securitisation Regulation have yet to be adopted by the Commission or published. The CRR Amendment Regulation introduces changes to the regulatory capital treatment of securitisation positions held by, among others, credit institutions under the CRR, to reflect Basel III requirements. The implementation of the more stringent securitisation framework requirements may have a negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

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

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

Risks associated with competition in the banking and financial sector

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

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

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

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

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

Risks associated with the reduction of the system liquidity support

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

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

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

Furthermore, in its June 2014 meeting, the ECB launched a purchase plan of asset-backed securities and covered bonds with the purpose of increasing its financial statement assets by Euro 1,000 billion by the end of 2016. The purchase plan, which provides for the joint intervention in the market of the ECB and national central banks, has subsequently been extended also to other assets, among which government securities, bond securities issued by local and regional governments, as communicated in the most recent ECB meeting of 2015, and also to Euro investment grade bonds issued by non-banking companies located in the Euro Area, as communicated in the meeting of 10 March 2016. This purchase plan ended on September 2018.

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

As at 30 September 2018, the Group refinancing with the ECB was constituted by the TLTRO II four-year auctions with maturity on 24 June 2020 and maturity on 30 September 2020, for an overall exposure, net of accrued interests, equal to Euro 16,689 million.

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

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

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

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

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

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

Risks associated with the uncertainty of future outcomes of stress tests or asset quality review exercises

On 4 November 2014, the Single Supervisory Mechanism, including the ECB and the competent national authorities of the participating Member States, among which the Bank of Italy, started to operate. The SSM is in charge of the prudential supervisory of all credit entities of the participating Member States and assures that the EU policy in the matter of prudential supervision of credit institutions is implemented in a consistent and effective manner and credit institutions are subject to the highest quality supervision.

In the context of such supervisory mechanism, the ECB has been entrusted with specific prudential supervisory duties on credit institutions providing, *inter alia*, for the possibility of the latter to carry out, if the case is in coordination with the EBA, stress tests to ascertain whether the measures, strategies, processes and mechanisms put in place by credit institutions and own funds held thereby would allow for a sound management and coverage of risks when dealing with future but plausible negative events. Depending on the outcomes of such stress tests, the ECB is also entrusted with the power to impose on credit institutions specific obligations in the matter of additional own funds, specific disclosure and liquidity requirements, as well as other measures.

In general, the outcomes of such stress tests are by their nature uncertain and only partially predictable by the financial institution involved since the evaluation methodologies used by the ECB aim at adopting an homogeneous risk evaluation within EU Member States and, accordingly, may deviate – even to a significant extent – from the RWAs evaluation methods adopted by the single credit institutions involved.

In this respect, on 29 July 2016, the outcomes of the EBA's stress test have been disclosed, and showed for the Bank a very severe impact in the so-called adverse scenario, which highlights a CET1 in 2018 equal to -2.2 per cent., while in the so-called baseline scenario CET1 was confirmed at 12 per cent.. Specifically, such outcomes are strongly impacted by the high NPL ratio of the Issuer.

Furthermore, the EBA, in cooperation with the competent supervisory authorities, may in the future decide to recommend a new asset quality review on the most important European banks and, among those, also the Issuer, with the purpose of verifying the classifications and evaluations operated by them on their loans for the purpose of dealing with the worries linked to the deterioration of asset quality. Such asset quality review exercise may, furthermore, possibly also be combined with an additional stress test conducted by the ECB in the context of a new comprehensive assessment exercise, similar to the one closed in October 2014.

Should the ECB, in cooperation with the EBA and the other competent supervisory authorities, carry out new comprehensive assessment exercises (or stress test or asset quality review exercises), it cannot be assured that the Issuer will meet the minimum parameters set in the context of such exercises and that, accordingly, in case of failure, it will not be the addressee of ECB measures that, *inter alia*, may impose the implementation of new capitalisation actions or other measures suitable to replenish the capital insufficiencies found in the Bank's own funds, with a potential negative impact on the business and the economic, capital and/or financial conditions of the same and/or the Group.

Risks associated with the entry into force of the new accounting principles and the amendment of applicable accounting principles

The Group is exposed, similarly to the other entities operating in the banking sector, to the effects of the entry into force and subsequent application of new accounting principles or rules and regulations and/or to the amendment thereof (including those deriving from International Accounting Standards as homologated and adopted in the EU jurisdiction). Specifically, in the future the Group may have to review the accounting and regulatory treatment of certain outstanding assets and liabilities and transactions (and related profits and charges), with a potential negative impact, even significant, on the estimates contained in the financial plans for future years and may have to restate previously published financial data.

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

IFRS 9 amended to the classification and measurement rules of financial assets which will be based on the business model and cash flows characteristics of the financial instrument. Furthermore, IFRS 9 provided for a new impairment accounting model based on an "expected losses" approach instead of "incurred losses" as per current IAS 39, also characterised by the introduction of the "lifetime" expected loss notion which may lead to an anticipation and a structural increase of value adjustments, specifically those pertaining to loans.

IFRS 9 also had an impact on "hedge accounting", rewriting the rules for the designation of a hedging relation and for the verification of its effectiveness with the purpose of guaranteeing a better alignment between hedging accounting recognition and underlying management logics. The Group opted for the option to continue to apply the prior versions of International Accounting Standard IAS 39 in the matter of "hedge accounting" ("carved-out" version). The Group exercised the right to apply separately the rules relating to the accounting treatment of profits/losses related to its creditworthiness of liabilities in fair value option (FVO) since the 2017 Consolidated Financial Statements.

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

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

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

IFRS 16 “*Leases*” (“**IFRS 16**”) will, instead, be applicable from 1 January 2019, after the same has been homologated by the European Union. IFRS 16 amends the current set of International Accounting Standards and interpretations on leasing in force, and specifically IAS 17. IFRS 16 introduces a new leasing definition and introduces certain criteria based on the control (right of use) of an asset in order to distinguish leasing agreements from service agreements, such as: the identification of the asset, the right to substitute such asset, the right to obtain all the economic benefits deriving from the use of the asset and the right to control the use of such asset.

In relation to the accounting model to be applied by the lessee, the new standard provides that, for all types of leasing, an asset shall be recognised representing right of use of the goods the subject matter of the leasing and, at the same time, the debt relating to the fees provided for by the leasing contract.

At the time of the initial recognition, such asset is assessed on the basis of the financial flows associated with the leasing contract, inclusive of, besides the current value of leasing fees, initial direct costs associated with the leasing and the possible costs necessary to restoration of the asset upon expiry of the contract. After the initial recognition, such asset will be assessed based on the provisions governing tangible assets and, accordingly, at cost net of amortisations and possible value reductions, at “re-determined value” or at fair value according to the provisions of IAS 16 or IAS 40.

Since the date of entry into force of the aforementioned standard is expected for 1 January 2019, the quantitative effects deriving from its adoption, currently not available, will be subject to future estimate by the Group. The application of IFRS 16 may determine, for the Issuer and/or the other Group companies, a review of the accounting modalities of revenues and costs relating to outstanding transactions as well as the recognition of new assets and liabilities associated with the signed operating leasing contracts.

Such effects will give rise to the consequent need to consistently and retrospectively review the prior periods and then amend, even significantly, the opening asset balances as at the respective dates. On the basis of legislative and/or technological and/or business context evolutions it is also possible that the Group may have to further review in the future the operating methodologies for the application of International Accounting Standards, with possible negative impacts, even significant, on the economic, financial and/or capital position of the Issuer and/or the Group.

Risks associated with ordinary and extraordinary contribution obligations to the Single Resolution Fund and the Interbank Deposit Guarantee Fund (Fondo Interbancario di Tutela dei Depositi)

Subsequent to the crisis which affected various financial institutions starting from 2008, various systems aimed at containing the risk of banking crises have been introduced, both at EU level and at level of single Member States, the implementation of which entails disbursements, even significant, by credit institutions in favour of the banking system in its entirety.

Deposit Guarantee Scheme and Single Resolution Fund

In application of: (i) Directive 2014/49/EU (*Deposit Guarantee Schemes Directive* – “**DGSD**”) of 16 April 2014; (ii) BRRD; and (iii) Regulation (EU) no. 806/2014 of the European Parliament and the Council establishing, *inter alia*, the Single Resolution Fund (“**SRF**”), which as of 1 January 2016 includes sub-funds at national level to which contributions collected at national level by Member States through their National Resolution Fund (“**NRF**”) are allocated, the Issuer is bound to provide the financial resources necessary to finance the Deposit Guarantee Scheme (“**DGS**”) and the SRF. Such contribution obligations may have a significant impact on the financial and capital position of the Issuer. The multi-annual costs of the components of the extraordinary contribution which may be necessary for the management of any future banking crisis cannot currently be predicted.

Specifically, in respect of the DGS, the Issuer is bound by the following ordinary and extraordinary contribution obligations:

– ordinary advanced annual contribution to the DGS, from 2015 to 2024, aimed at the constitution of funds equal to 0.8 per cent. of guaranteed deposits as at the target date. Should, after the accruing period, the available financial resources drop below the target level, the collection of contributions is resumed at least until such level is restored. Furthermore, after the first achievement of the target level and, should the financial resources drop below two thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six year period;

– the payment commitment (ex post), in respect of any extraordinary contribution required in case available financial resources are insufficient to repay depositors: such extraordinary contributions may never exceed 0.5 per cent. of guaranteed deposits for each solar year, except for exceptional cases and subject to the prior consent of the competent Authority, where the DGS may also ask for higher contributions.

As a consequence of such introduction, the "Interbank Deposit Guarantee Fund" ("**FITD**"), updated its By-Laws through shareholders resolution of 26 November 2015 anticipating the introduction of the prepayment mechanism (aimed at reaching the aforementioned multi-annual target with target at 2024). As at 31 December 2016 and 31 December 2017 the Group has contributed with Euro 29 million to the DGS' national schemes in both years. With respect to 2018, Italian banks will be required to pay the contribution with reference to the existing contribution base as at 30 September 2018 and, consequently, the verification of the same contribution for the current year will be made only on such date; as at 30 September 2018, around Euro 29 million has been allocated as contribution.

Contribution commitments to the SRF are as follows:

– annual ordinary pre-payment until 2023, aimed at constituting funds equal to 1 per cent. of guaranteed deposits by the end of 2023. The accrual period may be extended by further four years in case the funding mechanism has executed disbursements for more than 0.5 per cent. of guaranteed deposits. Should, after the accruing period, available financial resources drop below the target level, the collection of contributions is resumed until such level is restored. Furthermore, after the first achievement of the target level and, should financial resources drop below two-thirds of the target level, such contributions are set at a level allowing to achieve the target level within a six-year period. The contribution mechanism entails ordinary annual contributions aimed at allocating costs for contributing banks in a uniform manner over a period of time. A transitional contribution phase to the SRF's national sub-funds as well as their gradual mutualisation is provided for. As at 31 December 2016 the ordinary contribution of the Group has been equal to Euro 71 million, while as at 30 December 2017 the contribution has been equal to Euro 62 million. As at 30 September 2018, the Group's contribution is equal to approximately Euro 69 million. The annual value of the contribution is subject to review on the basis of the execution of risk parameters and guaranteed deposit volumes; and

– payment commitments (ex post), in respect of any additional extraordinary contribution required, equal to a maximum of three times the scheduled annual contributions, in case the available financial resources are insufficient to cover for losses and costs relating to the SRF interventions.

The Bank of Italy, in its capacity as national resolution authority, set up the NRF, which collects from banks with registered office in Italy ordinary and extraordinary contributions, in accordance with the provisions of articles 82 and 83 of Decree 180 (as defined above). At the end of 2015, the NRF called for ordinary and extraordinary contributions; the latter to an extent of three times the annual amount of ordinary contributions, to fund the resolution measures of the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. In the context of the resolution interventions of the aforementioned banks, four bridge banks (good banks) with the purpose of maintaining continuity of the essential functions previously carried out by the banks in resolution and an intermediary (Credit Management REV) in charge of ascertaining the Doubtful

Loans acquired thereby have been set up. The liquidity necessary for the NRF to carry out the aforementioned interventions has been advanced by a pool of banks, of which the Group was not a party, through a bridge loan at market rates and with a maximum of 18-month maturity, subsequently partially redeemed through the amounts coming from the aforementioned ordinary and extraordinary contributions.

As a consequence of the failed disposal of assets provided for by the resolution plan and taking into account that financial resources proved insufficient to support over time the resolution interventions carried out, at the end of December 2016, the NRF recalled additional contributions, equal to two annuities, for an overall amount for the Group equal to Euro 140 million. This was due to Law Decree 183/2015 (the so-called "Banks Aid Decree" converted by Law 208/2015), which provides that, in case the fund's available financial resources are not sufficient to support over time the resolution interventions carried out, only for the year 2016, contributions may be increased by two times the annual amount of contributions determined in accordance with article 70 of Regulation (EU) no. 806/2014 and the implementing regulation (EU) no. 2015/81.

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

During 2017 nothing has been paid, while in 2018, according to the provision of article 25 of Decree no. 237 – converted by Law 17 February 2017, no.15 – the NRF, considering the forthcoming financial needs, required some annual contribution under article 1(848), Law no. 208/2015. Specifically, article 25 introduces new integrative provisions in the annual additional contribution scheme in the NRF regulated by Law no. 208/2015. In particular, it has been pointed out that the additional contributions are to be paid to cover every obligation, loss, cost and any other charge or liability against NRF, originated or linked with the execution of resolution measures with the purpose of ensuring the efficacy, also as a consequence of potential modifications. Furthermore, article 25(2) provides that the Bank of Italy may determine the amount of the additional contributions – after deduction of the contributions required by the Single Resolution Fund under articles 70 and 71 of Regulation (EU) 806/2014 – within two years from the initial contribution reference date and it may provide that the same contributions become due in a period defined by the Bank, not longer than five years.

The reference date for the additional contributions required in the first semester of 2018 is 2016, for an amount of Euro 26 million. It is specified that for the reference year 2016 two contribution quota were due within 31 December 2018. As at the date of this Base Prospectus, such contributions have not been requested yet.

Voluntary scheme

For the purpose of overcoming the negative position taken by the European Commission in respect of the use of mandatory contributions to support interventions in favour of banks in crisis, at the end of 2015, in the context of the FITD, a voluntary scheme was established as an additional tool not subject to the restrictions of the EU regime and of the European Commission (the "**Voluntary Scheme**"). After the remodulation of the intervention in Tercas, the replenishment of the Voluntary Scheme resources was provided for a maximum amount of Euro 700 million to be used in support interventions in favour of small banks in difficulty and subject to extraordinary administration procedure, in case of concrete recovery perspectives and for the purpose of avoiding higher burdens for the banking system consequent to liquidation or resolution interventions.

Such resources are not immediately paid by adhering banks, which simply undertake to disburse them upon request on occasion of specific interventions, up to the maximum amount set. The Group adhered to the Voluntary Scheme and accordingly recorded in the first semester of 2016 a commitment for its pertaining share of the resolved Euro 700 million, equal to Euro 48 million.

Out of this amount, the management board of FITD at the meeting of 15 June 2016 resolved to participate in the recapitalisation transaction of Cassa di Risparmio di Cesena. The ECB, with measure of 15 September 2016, authorised the assumption of the equity interest by the Voluntary Scheme and on 20 September 2016, all adhering banks paid their pro-quota portion of the overall recalled amount equal to Euro 281 million, of which Euro 280 million for the Capital Increase and Euro 1 million for expenses associated with the intervention and the functioning of the Voluntary Scheme.

For the purposes of raising the necessary funds to finally solve the crisis of Caricesena, Carismi and Carim and facilitating the assignment of the three banks to Cariparma, which submitted a conditional purchase offer, the Voluntary Scheme meeting held on 7 September 2017 resolved a capital increase by Euro 95 million (from Euro 700 to Euro 795 million). As a consequence of such increase, the overall commitments of the Group to the Voluntary Scheme, including quotas already recalled, have been estimated at Euro 55 million.

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

The contribution paid by banks adhering to the Voluntary Scheme represents an asset, recorded in the balance sheet of the participating banks (in the previous financial years the item "financial assets available for sale", while as of 1 January 2018 under the item "financial assets compulsorily valued at fair value" as a consequence of the entry into force of IFRS 9). The recognition of the asset is also supported by the explicit provision contained in FITD's By-Laws relating to the Voluntary Scheme which provides for any realisations deriving from the purchase of equity interests to be reassigned to the banks participating in the same Voluntary Scheme.

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

The abovementioned ordinary contribution obligations contribute to reducing profitability and negatively impact on the Bank's capital resource level. It cannot be excluded that the level of ordinary contributions asked of the Issuer is destined to grow in the future in respect of the evolution of the relative amount of protected deposits and/or of the Group banks' relative risk compared to all banks bound to pay the same contributions. Furthermore, it cannot be excluded that, even in the future, as a consequence of non-governable and non-foreseeable events, the FITD, the SRF and/or the NRF may find themselves in the situation of having to ask for new and additional extraordinary contributions. This would entail the need to recognise further extraordinary charges with impacts, even significant, on the Group's asset situation and economic results.

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

As part of the action, which provides for an overall issuance of up to Euro 400 million, Euro 318.2 million was underwritten directly through the Voluntary Scheme while Euro 1.8 million was underwritten by Banco di Desio e della Brianza (which is not included among the participants in the Voluntary Scheme). Starting from 30 November 2018 and until Carige's board of directors will have implemented the capital increase that shall be resolved upon by Carige shareholders' meeting scheduled to take place on 22 December 2018, the subordinate notes might be offered as private placement up to a maximum amount of Euro 400 million to professional investors (both shareholders and other investors). In case of requests of amounts higher than Euro 80 million, the amount of notes to be underwritten by the Voluntary Scheme can be reduced.

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

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

Risks associated with the general economic/financial crisis and the debt crisis of the Euro Area

The results of the Issuer and the companies belonging to the Group are significantly affected by general economic conditions and financial markets dynamics and, in particular, by the performance of the economy in Italy (determined, *inter alia*, by factors such as the soundness perceived by investors, expected growth perspectives of the economy and credit reliability) as the country in which the Bank operates on an almost exclusive basis and to which the Group has a relevant credit exposure.

As a result of the crisis that has affected them since August 2007, global economies and financial markets found themselves operating in challenging and unstable conditions such as to require the intervention of governments, central banks and supernatural bodies in support of financial institutions, among which the injection of liquidity in the systems and the direct intervention in the recapitalisation of a number of such entities. This scenario has, in fact, negatively affected financial markets worldwide.

Such negative context, in addition to having contributed to accelerating the deterioration of the public finance conditions of EU countries, prejudiced in particular the banking systems more exposed to sovereign debts (referred to as the sovereign debt crisis) causing a progressive worsening of the crisis which continued, both at Italian and EU level, for the entire 2012 with consequent increased credit risk of sovereign States and financial institutions. Despite ECB interventions, the worries of a possible default of a number of countries of the Euro Area spread among investors and economic operators, with a consequent general decrease in lending operations, a higher market volatility and strong criticalities, at international level, in the raising of liquidity. In this context, the hypothesis of a dissolution of the European Monetary Union or the exit of single countries has several times been threatened (please see "*Risks connected with political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union*" below).

The worries of a stagnation phase of the European economy, in a context of high volatility, increased to such an extent that, at the beginning of 2015, the ECB announced the launch of the "Public Sector Purchase Programme" (PSPP) within the Quantitative Easing (QE).

The programme has been subsequently strengthened, with the ECB extending its duration until December 2017 its expiry, introduced long-term refinancing transactions (TLTRO), further reduced the deposit rate (to -0.4 per cent.), and broadened the scope of application not only to securities issued by regions and local authorities but also to corporate securities (investment grade). Thanks in part to these measures and to a relatively satisfactory global growth, the Euro Area's economy closed in 2016 with a 1.7 per cent. growth and recorded a 2 per cent. growth rate in the first half of 2017. The lower contribution of net exports, as a result of the slowdown in the growth of foreign trade and of the difficulties found by some emerging countries, has been set off by a solid dynamic of internal demand. The improvement of the economic conditions led to the gradual exit from the purchase programme, which will end in December 2018.

With specific reference to Italy, the economic performance of the country has been significantly impacted by the international crisis and has been characterised by the stagnation of the national economy, several downgrading actions of the Italian rating and an increased spread between BTP and Bund.

In the progressive stabilisation scenario in effect since mid-2013, Italy has benefitted, late compared to the other economies of the Euro Area, from the improved EU economic cycle.

The return to a marginally positive growth in GDP in 2014 (0.1 per cent.) has been followed by a two-year period of moderate growth (0.9 per cent. and 1.1 per cent. in 2015 and 2016, respectively). In 2017 there was a satisfactory growth rate (1.6 per cent.). Despite such recovery, the Italian economy remains at a level of activity lower than the pre-crisis levels.

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

Possibilities of a significant acceleration of growth in Italy continue to depend, besides the uncertain evolution of the international scenario, in the first place with uncertainty about the impact of the exit process of the United Kingdom from the EU, upon domestic weakness factors, such as an internal demand which, although showing signs of relative liveliness, remains fragile, a labour market improving in the last years but still showing (geographic and demographic) areas of extreme weakness, a hard confrontation between the Italian government and the European institutions regarding the approval of the financial manoeuvre, consisting in a deviation from the original agreement on public finance, to preserve the Italian growth. This could lead to the loss of control of the balance accounts and consequent sanctions of the markets. Furthermore, it is not yet clear how the proposed changes in different areas (for example, the revision of tax policy and labour market legislation) will impact the Italian economic growth.

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

The above illustrated scenarios determined, also for the Group, a slowdown of ordinary business, a substantially increased cost of funding, decreased asset values due to decreased bond prices, a deteriorated credit portfolio with increased Impaired Loans and insolvency situations and further costs deriving from write-downs and depreciations of assets, with a consequent decreased ability to generate profits. Notwithstanding tensions having recently lessened, a consistent volatility still remains in the markets and the Italian political condition remains characterised by instability phenomena. Should the contingent situation further deteriorate and should the Italian economy, in particular, stagnate, this may determine losses, even relevant, further slowing down ordinary business and make the raising of liquidity necessary to carry on the business more difficult and expensive, with a potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Risks connected with the political and economic decisions of EU and Eurozone countries and the United Kingdom leaving the European Union ("Brexit")

On 23 June 2016, the United Kingdom voted, in a referendum, to leave the European Union ("**Brexit**"). On 29 March 2017, the British Prime Minister gave formal notice to the European Council under Article 50 of the Treaty on European Union of the intention to withdraw from the European Union, thus triggering the two-year period for withdrawal during which the UK is negotiating with the EU the terms of its withdrawal and of its future relationship with the EU (the "**Article 50 Withdrawal Agreement**").

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

Regardless of the time scale and the term of the United Kingdom's exit from the European Union, the result of the referendum in June 2016 created significant uncertainties with regard to the political and economic outlook of the United Kingdom and the European Union.

The exit of the United Kingdom from the European Union; the possibility that other European Union countries could hold similar referendums to the one held in the United Kingdom and/or call into question their membership of the European Union; and the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency or prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on global economic conditions and the stability of international financial markets. These could include further falls in equity markets, a further fall in the value of the pound and, more in general, an increase in financial markets' volatility, reducing global market liquidity with possible negative consequences on the asset prices, operating results and capital and/or financial position of the Issuer and/or the Group.

In addition to the above and in consideration of the fact that at the date of this Base Prospectus there is no legal procedure or practice aimed at facilitating the exit of a Member State from the Euro, the consequences of these decisions are exacerbated by the uncertainty regarding the methods through which a Member State could manage its current assets and liabilities denominated in Euros and the exchange rate between the newly adopted currency and the Euro. A collapse of the Eurozone could be accompanied by the deterioration of the economic and financial situation of the European Union and could have a significant negative impact on the entire financial sector, creating new difficulties in the granting of sovereign loans and loans to businesses and involving considerable changes to financial activities both at market and retail level. This situation could therefore have a significant negative impact on the operating results and capital and financial position of the Issuer and/or the Group.

Basel III and CRDIV

In the wake of the global financial crisis that began in 2008, the Basel Committee on banking supervision ("**BCBS**") approved, in the fourth quarter of 2010, revised global regulatory standards ("**Basel III**") on bank capital adequacy and liquidity, which impose requirements for, *inter alia*, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. The Basel III framework adopts a gradual approach, with the requirements to be implemented over time, with full implementation by 2019.

In January 2013 the BCBS revised its original proposal in respect of the liquidity requirements in light of concerns raised by the banking industry, providing for a gradual phasing-in of the Liquidity Coverage Ratio with a full implementation in 2019 as well as expanding the definition of high quality liquid assets to include lower quality corporate securities, equities and residential mortgage backed securities. Regarding the other liquidity requirement, the net stable funding ratio, the BCBS published the final rules in October 2014 which were to be effective from 1 January 2018. A binding detailed net stable funding ratio was proposed as part of the CRD reforms released in November 2016.

The Basel III framework has been implemented in the EU through new banking requirements: the CRD IV and the CRR (together, the "**CRD IV Package**"). Full implementation began on 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed.

National options and discretions under the CRD IV Package that were so far exercised by national competent authorities will be exercised by the SSM (as defined below) in a largely harmonised manner throughout the European banking union. In this respect, on 14 March 2016, the ECB adopted Regulation (EU) No. 2016/445 on the exercise of options and discretions. Depending on the manner in which these options/discretions were so far exercised by the national competent authorities and on the manner in which the SSM will exercise them in the future, additional/lower capital requirements may result.

In Italy, the Government approved Legislative Decree No. 72 on 12 May 2015 ("**Decree 72/2015**") implementing the CRD IV. Decree 72/2015 entered into force on 27 June 2015. The new regulation impacts, *inter alia*, on:

- proposed acquirers of holdings in credit institutions, requirements for shareholders and members of the management body (Articles 23 and 91 of the CRD IV);
- competent authorities' powers to intervene in cases of crisis management (Articles 64, 65, 102 and 104 of the CRD IV);
- reporting of potential or actual breaches of national provisions (the so-called whistleblowing, Article 71 of the CRD IV); and
- administrative penalties and measures (Article 65 of the CRD IV).

The Bank of Italy published new supervisory regulations on banks in December 2013 (Circular No. 285) which came into force on 1 January 2014, implementing the CRD IV Package, and setting out additional local prudential rules. According to Article 92 of the CRR, institutions shall at all times satisfy the following own funds requirements: (i) a CET1 Capital ratio of 4.5 per cent.; (ii) a Tier 1 Capital ratio of 6 per cent.; and (iii) a Total Capital ratio of 8 per cent. These minimum ratios are complemented by the following capital buffers to be met with CET1 Capital, reported below as applicable with reference to 30 September 2018:

- *Capital conservation buffer*: The capital conservation buffer has applied to the Issuer since 1 January 2014 pursuant to Article 129 of the CRD IV and Part I, Title II, Chapter I, Section II of Circular No. 285. According to the 18th update[2] to Circular No. 285 published on 4 October 2016, new transitional rules provide for a capital conservation buffer set at 1.875 per cent. of RWAs in 2018 and 2.5 per cent. of RWAs from 2019;
- *Counter-cyclical capital buffer*: The countercyclical capital buffer applies starting from 1 January 2016. Pursuant to Article 160 of the CRD IV and the transitional regime granted by Bank of Italy for 2017, institutions' specific countercyclical capital buffer shall consist of Common Equity Tier 1 capital capped to 1.25 per cent. of the total of the risk-weighted exposure amounts of the institution. As of 30 September 2018 the specific countercyclical rate of the BMPS Group amounted to 0.001 per cent. of RWAs, equal to Euro 632,267;

[2] On 6 October 2016, the Bank of Italy published the 18th update of Circular No. 285 that modifies the capital conservation buffer requirement. In publishing this update, the Bank of Italy reviewed the decision, made at the time the CRD IV was transposed into Italian law in January 2014, where the fully loaded capital conservation buffer at 2.50 per cent. was requested, by aligning national regulation to the transitional regime allowed by CRD IV.

- *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 (eg size, interconnectedness, complexity). It is subject to phase-in starting from 1 January 2016 (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285) becoming fully effective on 1 January 2019. Based on the most recently updated list of G-SIIs published by the FSB in November 2016 (to be updated annually), the Group is not a G-SIB and does not need to comply with a G-SII capital buffer requirement; and
- *Capital buffers for O-SIIs*: Up to 2.0 per cent. as set by the relevant competent authority and must be reviewed at least annually from 1 January 2016, to compensate for the higher risk that such banks represent to the domestic financial system (Article 131 of the CRD IV and Part I, Title II, Chapter I, Section IV of Circular No. 285). The Group will not be considered an O-SII and will have no O-SII Buffer for 2019. In 2018 the Group had to maintain a capital buffer of 0.06 per cent. of its total risk exposure.

For further details on capital requirements and buffers – also in relation to TSCR and OCR – please see "*Risks associated with the investigations of supervisory authorities*", "*Risks associated with capital adequacy*" and "*Risks associated with the evolution of the banking and financial sector regulation and of the additional provisions the Group is subject to*" above.

In addition to the above listed capital buffers, under Article 133 of the CRD IV each Member State may introduce a systemic risk buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks not otherwise covered by the CRD IV Package, in the sense of a risk of disruption in the financial system with the potential of having serious negative consequences on the financial system and the real economy in a specific Member State. Currently, no provision is included on the systemic risk buffer under Article 133 of the CRD IV as the Italian level‑ 1 rules for the CRD IV implementation on this point have not yet been enacted.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions (Articles 140 and 141 of the CRD IV).

Following the SREP Decision, it is required that the Bank complies, starting from 1 January 2018, at consolidated level, with a CET1 ratio on a transitional basis equal to 9.44 per cent. and a total capital ratio, again on a transitional basis, equal to 12.94 per cent.. For more information on the capital adequacy requirements which shall be complied with by the Bank, reference is made to "*Risks associated with capital adequacy*".

In addition, the Issuer is subject to the Pillar II requirements for banks imposed under the CRD IV Package, which will be impacted, on an on-going basis, by the SREP. The SREP is aimed at ensuring that institutions have in place adequate arrangements, strategies, processes and mechanisms to maintain the amounts, types and distribution of internal capital commensurate to their risk profile, as well as robust governance and internal control arrangements. The key purpose of the SREP is to ensure that institutions have adequate arrangements as well as capital and liquidity to ensure sound management and coverage of the risks to which they are or might be exposed, including those revealed by stress testing, as well as risks the institution may pose to the financial system. See "*ECB Single Supervisory Mechanism*" below for further details.

The quantum of any Pillar II requirement imposed on a bank, the type of capital which it must apply to meeting such capital requirements, and whether the Pillar II requirement is "stacked" below the capital buffers (i.e. the bank's capital resources must first be applied to meeting the Pillar II requirements in full before capital can be applied to meeting the capital buffers) or "stacked" above the capital buffers (ie the bank's capital resources can be applied to meeting the capital buffers in priority to the Pillar II requirement) may all impact a bank's ability to comply with the combined buffer requirement.

As set out in the "Opinion of the European Banking Authority on the interaction of Pillar I, Pillar II and combined buffer requirements and restrictions on distributions" published on 16 December 2015, in the EBA's opinion competent authorities should ensure that the Common Equity Tier 1 Capital to be taken into account in determining the Common Equity Tier 1 Capital available to meet the combined buffer requirement is limited to the amount not used to meet the Pillar I and Pillar II own funds requirements of the institution. In effect, this would mean that Pillar II capital requirements would be "stacked" below the capital buffers, and thus a firm's CET1 resources would only be applied to meeting capital buffer requirements after Pillar I and Pillar II capital requirements have been met in full.

However, more recently, the EBA and the ECB appear to have adopted a different approach to Pillar II. In its publication of the 2016 EU-wide stress test results on 29 July 2016, the EBA has recognised a distinction between "Pillar II requirements" (stacked below the capital buffers) and "Pillar II capital guidance" (stacked above the capital buffers). With respect to Pillar II capital guidance, the publication stated that, in response to the stress test results, competent authorities may (among other things) consider "setting capital guidance, above the combined buffer requirement". Competent authorities have remedial tools if an institution refuses to follow such guidance. The ECB published a set of "Frequently asked questions on the 2016 EU-wide stress test", confirming this distinction between Pillar II requirements and Pillar II capital guidance and noting that "Under the stacking order, banks facing losses will first fail to fulfil their Pillar II capital guidance. In case of further losses, they would next breach the combined buffers, then Pillar II requirements, and finally Pillar I requirements".

The CRD Reform Package (as defined below) proposes to legislate this distinction between "Pillar II requirements" and "Pillar II capital guidance". Whereas the former are mandatory requirements imposed by supervisors to address risks not covered or not sufficiently covered by Pillar I and buffer capital requirements, the latter refers to the possibility for competent authorities to communicate to an institution their expectations for such institution to hold capital in excess of its capital requirements (Pillar I and Pillar II) and combined buffer requirements in order to cope with forward-looking and remote situations. Under the CRD Reform Package proposals, and as described above, only Pillar II requirements, and not Pillar II capital guidance, will be relevant in determining whether an institution is meeting its combined buffer requirement.

Non-compliance with Pillar II capital guidance does not amount to failure to comply with capital requirements, but should be considered as a "pre-alarm warning" to be used in the Bank's risk management process. If capital levels go below Pillar II capital guidance, the relevant supervisory authorities, which should be promptly informed in detail by the Bank of the reasons of the failure to comply with the Pillar II capital guidance, will take into consideration appropriate and proportional measures on a case by case basis (including, by way of example, the possibility of implementing a plan aimed at restoring compliance with the capital requirements - including capital strengthening requirements).

As part of the CRD IV Package transitional arrangements, regulatory capital recognition of outstanding instruments which qualified as Tier I and Tier II capital instruments under the framework which the CRD IV Package has replaced that no longer meet the minimum criteria under the CRD IV Package will be gradually phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition is capped at 80 per cent. in 2014, with this cap decreasing by 10 per cent. in each subsequent year.

The CRD IV Package introduces a new leverage ratio with the aim of restricting the level of leverage that an institution can take on to ensure that an institution's assets are in line with its capital. The Leverage Ratio Delegated Regulation (EU) No. 2015/62, adopted on 10 October 2014, and published in the Official Journal of the European Union in January 2015, amends the calculation of the leverage ratio compared to the current text of the CRR. Institutions have been required to disclose their leverage ratio from 1 January 2015. Full implementation of the leverage ratio as a Pillar I measure is currently under consultation as part of the CRD Reform Package, as defined below.

The CRD IV Package contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports related to liquidity coverage ratio and leverage ratio in order to enhance regulatory harmonisation in Europe through the so-called "single rule book".

Should the Issuer not be able to implement the approach to capital requirements it considers optimal in order to meet the capital requirements imposed by the CRD IV Package, it may be required to maintain levels of capital which could potentially impact its credit ratings, funding conditions and which could limit the Issuer's growth opportunities.

Forthcoming regulatory changes

In addition to the substantial changes in capital and liquidity requirements introduced by Basel III and the CRD IV Package, there are several other initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, a revised Markets in Financial Instruments EU Directive and Markets in Financial Instruments EU Regulation which are applicable from 3 January 2018, subject to certain transitional arrangements. The Basel Committee has also published certain proposed changes to the current securitisation framework which may be accepted and implemented in due course.

On 9 November 2015, the FSB published its final TLAC Principles and Term Sheet, proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to liabilities excluded from TLAC, such as guaranteed insured deposits, derivatives, etc. and which forms a new standard for G-SIBs. The TLAC Principles and Term Sheet contains a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The FSB will undertake a review of the technical implementation of the TLAC Principles and Term Sheet by the end of 2019. The TLAC Principles and Term Sheet require a minimum TLAC requirement for each G-SIB at the greater of (a) 16 per cent. of RWA as of 1 January 2019 and 18 per cent. as of 1 January 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio requirement as of 1 January 2019, and 6.75 per cent. as of 1 January 2022. The TLAC standards will be implemented in the EU through amendments to the CRR to be made as part of the CRD Reform Package and the BRRD as part of the BRRD Reforms (as defined below).

Based on the most recently updated FSB list of G-SIBs published in November 2016 (to be updated annually), the BMPS Group is not a G-SIB and it will not be subject to the TLAC requirements when they are implemented into applicable law, provided that at that time the BMPS Group will still not be included in the list of G-SIBs.

On 23 November 2016, the European Commission released a package of proposals amending CRD IV, the CRR (the "**CRD Reform Package**") and also the BRRD and the SRM Regulation (as defined below), which is expected to become effective as from the beginning of 2019. Among other things, these proposals aim to implement a number of new Basel standards (such as the leverage ratio, the net stable funding ratio, market risk rules and requirements for own funds and eligible liabilities) and to transpose the FSB's TLAC termsheet into European law. These proposals are now largely agreed upon, with technical details and final legislation yet to be published. Once these proposals are finalised, changes to the CRR will become directly applicable to the BMPS Group. The CRD IV amendments and the amendments to the BRRD will need to be transposed into Italian law before taking effect. See "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Notes and/or* *the rights of Noteholders"* below for further details on the implementation of TLAC in the EEA through changes to the BRRD.

The Basel Committee has embarked on a very significant RWA variability agenda. This includes the Fundamental Review of the Trading Book, revised standardised approaches (credit, counterparty credit, market, operational risk), constraints to the use of internal models as well as the introduction of a capital floor. The regulator's primary aim is to eliminate unwarranted levels of RWA variance, to improve consistency and comparability between banks. The finalisation of the new framework was completed at the end of 2017. Due to the wide undergoing revision by global and European regulators and supervisors, the internal models are expected to be subject to either changes or withdrawal in favour of a new standardised approach, which is also under revision. The regulatory changes will impact the entire banking system and consequently could lead to changes in the measurement of capital (although they will become effective after the time frame covered by the strategic plan). In 2016, the ECB began the TRIM, with the objective of ensuring the adequacy and comparability of the models given the highly fragmented nature of Internal Ratings-Based systems used by banks, and the resulting diversity in measurement of capital requirements. The review covers credit, counterparty and market risks. The TRIM will be ongoing through 2018 and is structured in two stages, with an institution-specific review commenced in 2016 and a model specific review in 2017 and 2018.

In March 2015, the EBA undertook the revision of some specific aspects of the RWA internal models, encouraging a major convergence between European banking supervision practices. So far the EBA has finalised the regulatory standards for the Internal Rating Based methodology and the Guidelines on the new definition of default. The final Guidelines on Probability of Default and the LGD estimation and treatment of defaulted assets were published on 20 November 2017. Based on such Guidelines, the rules for internally estimating the LGD would become significantly tighter. The implementation of all the proposed changes is expected by the end of 2020.

There can be no assurance that the implementation of the new capital requirements, standards and recommendations described above will not require BMPS to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect BMPS's return on equity and other financial performance indicators.

Prospective investors in the Notes should consult their own advisers as to the consequences for them of the application of the above regulations as implemented by each Member State.

ECB Single Supervisory Mechanism

In October 2013, the Council of the European Union adopted regulations establishing the SSM for all banks in the euro area, which have, beginning in November 2014, given the ECB, in conjunction with the national competent authorities of the eurozone states, direct supervisory responsibility over "banks of systemic importance" in the European banking union as well as their subsidiaries in a participating non-euro area Member State. The SSM Regulation setting out the practical arrangements for the SSM was published in April 2014 and entered into force in May 2014. Banks directly supervised by the ECB include, *inter alia*, any eurozone bank that has: (i) assets greater than Euro 30 billion; (ii) assets constituting at least 20 per cent. of its home country's gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism.

The ECB is also exclusively responsible for key tasks concerning the prudential supervision of credit institutions, which includes, *inter alia*, the power to: (i) authorise and withdraw the authorisation of all credit institutions in the eurozone; (ii) assess acquisition and disposal of holdings in other banks; (iii) ensure compliance with all prudential requirements laid down in general EU banking rules; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) ensure compliance with robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities. The ECB also has the right to impose pecuniary sanctions.

National competent authorities will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks, besides supporting ECB in day-to-day supervision. In order to foster consistency and efficiency of supervisory practices across the EU, the EBA is developing a single rule book. The single rule book aims to provide a single set of harmonised prudential rules which institutions throughout the EU must respect.

The ECB has fully assumed its new supervisory responsibilities of the BMPS Group. The ECB is required under the SSM Regulation to carry out a SREP at least on an annual basis. In addition to the above, the EBA published on 19 December 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the "**EBA SREP Guidelines**"). Included in these guidelines were the EBA's proposed guidelines for a common approach to determining the amount and composition of additional Pillar II own funds requirements to be implemented from 1 January 2016. Under these guidelines, national supervisors should set a composition requirement for the Pillar II requirements to cover certain specified risks of at least 56 per cent. CET1 Capital and at least 75 per cent. Tier 1 capital. See "*Risks associated with capital adequacy*" for further information regarding the actual composition of the Bank's TSCR. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the combined buffer requirements (as described above) and/or additional macro-prudential requirements. Accordingly, additional capital requirements have been imposed on the BMPS Group by the ECB pursuant to the SREP Decision. For more details on risks associated with the SREP requirements, please see "*Risks associated with capital adequacy*" and "*Risks associated with the investigations of supervisory authorities*" above.

The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that the taking of any such action may occur) could materially adversely affect the value of any Notes and/or the rights of Noteholders

On 2 July 2014 the BRRD entered into force and Member States were expected to implement the majority of its provisions. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the BRRD (the "**BRRD Reforms**"). The proposal included an amendment to Article 108 of the BRRD aimed at further harmonising the creditor hierarchy as regards the priority ranking of holders of bank senior unsecured debt in resolution and insolvency. A new class of the so-called "senior non-preferred debt" was proposed to be added that would be eligible to meet the TLAC and MREL requirements.

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

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

The BRRD provides resolution authorities with comprehensive arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures.

The BRRD sets out the rules for the resolution of banks and large investment firms in all EU Member States. Banks are required to prepare recovery plans to overcome financial distress. Competent authorities are also granted a set of powers to intervene in the operations of banks to avoid them failing. If banks do face failure, resolution authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a specified hierarchy. Resolution authorities have the powers to implement plans to resolve failing banks in a way that preserves their most critical functions and avoids taxpayer bail outs.

The BRRD contains four resolution tools and powers which may be used alone (except for the asset separation tool) or in combination with other resolution tools where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business - which enables resolution authorities to direct the sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims (including Senior Notes, Non-Preferred Senior Notes and Subordinated Notes) into shares or other instruments of ownership (ie other instruments that confer ownership, instruments that are convertible into or give the right to acquire shares or other instruments of ownership, and instruments representing interests in shares or other instruments of ownership) (the "**general bail-in tool**"). Such shares or other instruments of ownership could also be subject to any future application of the BRRD. For more details on the implementation in Italy please refer to the paragraphs below.

An SRF (as defined above) was set up under the control of the SRB. It will ensure the availability of funding support while the bank is resolved. It is funded by contributions from the banking sector. The SRF can only contribute to resolution if at least 8 per cent. of the total liabilities including own funds of the bank have been bailed-in.

The BRRD requires all Member States to create a national, prefunded resolution fund, reaching a level of at least 1 per cent. of covered deposits by 31 December 2024. The national resolution fund for Italy was created in November 2015 and required both ordinary and extraordinary contributions to be made by Italian banks and investment firms, including the Issuer. In the European banking union, the national resolution funds set up under the BRRD were superseded by the SRF as of 1 January 2016 and those funds will be pooled together gradually. Therefore, as of 2016, the Single Resolution Board calculates, in line with a Council implementing act, the annual contributions of all institutions authorised in the Member States participating in the SSM and the SRM (as defined below). The SRF is financed by the European banking sector. The SRF is to be built up over eight years, beginning in 2016, to the target level of Euro 55 billion (the basis being 1 per cent. of the covered deposits in the financial institutions of the European banking union). Once this target level is reached, in principle, the banks will have to contribute only if the resources of the SRF are exhausted in order to deal with resolutions of other institutions.

Under the BRRD, the target level of the national resolution funds is set at national level and calculated on the basis of deposits covered by deposit guarantee schemes. Under the SRM, the target level of the SRF is European and is the sum of the covered deposits of all institutions established in the participating Member States. This results in significant variations in the contributions by the banks under the SRM as compared to the BRRD. As a consequence of this difference, where contributions will be paid based on a joint target level as of 2016, contributions of banks established in Member States with high level of covered deposits may abruptly decrease, while contributions of those banks established in Member States with fewer covered deposits may abruptly increase. In order to prevent such abrupt changes, the Council implementing act provides for an adjustment mechanism to remedy these distortions during the transitional period by way of a gradual phasing in of the SRM methodology.

The BRRD also provides for a Member State as a last resort, after having assessed and applied the above resolution tools (including the general bail-in tool) to the maximum extent practicable whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the burden sharing requirements of the EU state aid framework and the BRRD.

As an exemption from these principles, the BRRD allows for three kinds of extraordinary public support to be provided to a solvent institution without triggering resolution: 1) a State guarantee to back liquidity facilities provided by central banks according to the central banks' conditions; 2) a State guarantee of newly issued liabilities; or 3) an injection of own funds in the form of precautionary recapitalisation. In the case of precautionary recapitalisation EU state aid rules require that shareholders and junior bond holders contribute to the costs of restructuring (referred to as "burden sharing").

In addition to the general bail-in tool and other resolution tools, the BRRD provides for resolution authorities to have the further power to write-down permanently/convert into equity capital instruments such as Subordinated Notes at the point of non-viability and before any other resolution action is taken ("**Non-Viability Loss Absorption**"). Any shares issued to holders of Subordinated Notes upon any such conversion into equity capital instruments may also be subject to any future application of the BRRD.

For the purposes of the application of any Non-Viability Loss Absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution (but no resolution action has yet been taken) or that the institution or, in certain circumstances, its group, will no longer be viable unless the relevant capital instruments (such as Subordinated Notes) are written-down/converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution and/or, as appropriate, its group, would no longer be viable.

In the context of these resolution tools, the resolution authorities have the power to amend or alter the maturity of certain debt instruments (such as the Senior Notes, Non-Preferred Senior Notes and Subordinated Notes) issued by an institution under resolution or amend the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The BRRD has been implemented in Italy through the adoption of the Decree 180 and the Legislative Decree No. 181/2015 (the "**BRRD Decrees**"), which were published in the Italian Official Gazette (*Gazzetta Ufficiale*) on 16 November 2015. Decree 180 is a stand-alone law which implements the provisions of BRRD relating to resolution actions, while Legislative Decree No. 181/2015 amends the existing Italian Banking Act and deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on the date of publication on the Italian Official Gazette (ie 16 November 2015), save that: (i) the general bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's will apply from 1 January 2019. For further information on the application of Decree 180, please refer to "*Risks associated with the investment in the Issuer shares and the recovery and resolution mechanisms of failing enterprises*" above.

It is important to note that, pursuant to article 49 of Decree 180, resolution authorities may not exercise the write down/conversion powers in relation to secured liabilities, including covered bonds or their related hedging instruments, save to the extent that these powers may be exercised in relation to any part of a secured liability (including covered bonds and their related hedging instruments) that exceeds the value of the assets, pledge, lien or collateral against which it is secured.

In addition, because (i) Article 44(2) of the BRRD excludes certain liabilities from the application of the general bail-in tool and (ii) the BRRD provides, at Article 44(3), that the resolution authority may in specified exceptional circumstances partially or fully exclude certain further liabilities from the application of the general bail-in tool, the BRRD specifically contemplates that *pari passu* ranking liabilities may be treated unequally. Accordingly, holders of Senior Notes, Non-Preferred Senior Notes and Subordinated Notes of a Series may be subject to write-down/conversion upon an application of the general bail-in tool while other Series of Senior Notes, Non-Preferred Senior Notes or, as appropriate, Subordinated Notes (or, in each case, other pari passu ranking liabilities) are partially or fully excluded from such application of the general bail-in tool. Further, although the BRRD provides a safeguard in respect of shareholders and creditors upon application of resolution tools, Article 75 of the BRRD sets out that such protection is limited to the incurrence by shareholders or, as appropriate, creditors, of greater losses as a result of the application of the relevant tool than they would have incurred in a winding up under normal insolvency proceedings. It is therefore possible not only that the claims of other holders of junior or pari passu liabilities may have been excluded from the application of the general bail-in tool and therefore the holders of such claims receive a treatment which is more favourable than that received by holders of Senior Notes, Non-Preferred Senior Notes or Subordinated Notes, but also that the safeguard referred to above does not apply to ensure equal (or better) treatment compared to the holders of such fully or partially excluded claims because the safeguard is not intended to address such possible unequal treatment but rather to ensure that shareholders or creditors do not incur greater losses in a bail-in (or other application of a resolution tool) than they would have received in a winding up under normal insolvency proceedings.

Also, in respect of Senior Notes, Article 108 of the BRRD requires that Member States modify their national insolvency regimes such that deposits of natural persons and micro, small and medium sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors, such as holders of Senior Notes. In addition, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors, with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors. Legislative Decree No. 181/2015 has amended the creditor hierarchy in the case of admission of Italian banks and investment firms to liquidation proceedings (and therefore the hierarchy which will apply in order to assess claims pursuant the safeguard provided for in Article 75 of the BRRD as described above), by providing that, as from 1 January 2019, all deposits other than those protected by the deposit guarantee scheme and excess deposits of individuals and SME's (which benefit from the super-priority required under Article 108 of the BRRD) will benefit from priority over senior unsecured liabilities, though with a ranking which is lower than that provided for individual/SME deposits exceeding the coverage limit of the deposit guarantee scheme. This means that, as from 1 January 2019, significant amounts of liabilities in the form of large corporate and interbank deposits which under the national insolvency regime currently in force in Italy rank *pari passu* with Senior Notes, will rank higher than Senior Notes in normal insolvency proceedings and therefore that, on application of the general bail-in tool, such creditors will be written-down/converted into equity capital instruments only after Senior Notes. Therefore, the safeguard set out in Article 75 of the BRRD (referred to above) would not provide any protection against this result since, as noted above, Article 75 of the BRRD only seeks to achieve compensation for losses incurred by creditors which are in excess of those which would have been incurred in a winding-up under normal insolvency proceedings.

Legislative Decree No. 181/2015 has also introduced strict limitations on the exercise of the statutory rights of set-off normally available under Italian insolvency laws, in effect prohibiting set-off by any creditor in the absence of an express agreement to the contrary. Since each holder of Senior Notes, Non-Preferred Senior Notes and Subordinated Notes will have expressly waived any rights of set-off, netting, counterclaim, abatement or other similar remedy which they might otherwise have, under the laws of any jurisdiction, in respect of such Senior Notes, Non-Preferred Senior Notes or Subordinated Notes, it is clear that the statutory right of set-off available under Italian insolvency laws will likewise not apply.

As the BRRD has only recently been implemented in Italy and other Member States, there is uncertainty as to the effects of its application in practice.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Holders of Senior Notes, Non-Preferred Senior Notes and Subordinated Notes may be subject to write-down or conversion into equity capital instruments on any application of the general bail-in tool and, in the case of Subordinated Notes, Non-Viability Loss Absorption, which may result in such holders losing some or all of their investment. The exercise of these, or any other power, under the BRRD, or any suggestion, or perceived suggestion, of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

In addition to the capital requirements under CRD IV, the BRRD introduces requirements for banks to maintain at all times a sufficient aggregate amount of the MREL. The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding and to ensure adequate capitalisation to continue exercising critical functions post resolution. The final draft regulatory technical standards published by the EBA in July 2015 set out the assessment criteria that resolution authorities should use to determine the MREL for individual firms. On 23 May 2016, the European Commission adopted Commission Delegated Regulation (EU) 2016/1450 supplementing the BRRD that specifies the criteria which further define the way in which resolution authorities/the SRB shall calculate MREL, as described in article 45(6) of the BRRD. Article 8 of the aforementioned regulation provides that resolution authorities may determine an appropriate transitional period for the purposes of meeting the full MREL requirement.

The BRRD does not currently foresee an absolute minimum, but attributes the competence to set a minimum amount for each bank to national resolution authorities (for banks not subject to supervision by the ECB) or to the Single Resolution Board (the "**SRB**") for banks subject to direct supervision by the ECB. The EBA has issued its final draft regulatory technical standards which further define the way in which national resolution authorities/the SRB shall calculate MREL. As from 1 January 2016, the resolution authority for the Bank is the SRB and it is subject to the authority of the SRB for the purposes of determination of its MREL requirement. The SRB has indicated that it took core features of the TLAC standard into account in its 2016 MREL decisions and also that it may make decisions on the quality (in particular a subordination requirement) for all or part of the MREL. The SRB targeted the end of 2017 for calculating binding MREL targets (applicable from 2019) at the consolidated level of all banking groups under its remit. MREL decisions for subsidiaries will be made in a second stage, based on, among other things, their individual characteristics and the consolidated level which has been set for the group. The draft regulatory technical standards published by the EBA contemplate that a maximum transitional period of 48 months may be applied for the purposes of meeting the full MREL requirement.

The BRRD Reforms, among other things, aim to implement TLAC and to ensure consistency, where appropriate, of MREL with TLAC. These proposals introduce a minimum harmonised MREL requirement (also referred to as a "**Pillar I MREL requirement**") applicable to G-SIIs only. In addition, resolution authorities will be able, on the basis of bank-specific assessments, to require that G-SIIs comply with a supplementary MREL requirement (a "**Pillar II MREL requirement**"). Banks will be allowed to use certain additional types of loss absorbent liabilities to comply with their Pillar II MREL requirement.

In order to ensure compliance with MREL requirements, and in line with the FSB standard on TLAC, the BRRD Reforms propose that in case a bank does not have sufficient eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 Capital that would otherwise be counted towards meeting the combined capital buffer requirement. However, the BRRD Reforms envisage that a six-month grace period may apply before restrictions to discretionary payments to the holders of regulatory capital instruments and employees take effect due to a breach of the combined capital buffer requirement.

As of 2016, the Group is subject to the provisions of the Regulation establishing the Single Resolution Mechanism

After having reached an agreement with the Council, in April 2014, the European Parliament adopted the Regulation establishing a Single Resolution Mechanism (respectively, the "**SRM Regulation**" and the "**SRM**"). The SRM became fully operational on 1 January 2016. Certain provisions, including those concerning the preparation of resolution plans and provisions relating to the cooperation of the SRB with national resolution authorities, entered into force on 1 January 2015. On 23 November 2016, the European Commission published a proposal to amend certain provisions of the SRM. In particular the main objective of such proposal is to implement the TLAC standard and to integrate the TLAC requirement into the general MREL rules by avoiding duplication by applying two parallel requirements.

The SRM, which complements the ECB Single Supervisory Mechanism, applies to all banks supervised by the ECB Single Supervisory Mechanism. It mainly consists of the SRB and a SRF. 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 the Notes and/or the rights of Noteholders*" for details.

Decision-making is centralised with the SRB, and involves the European Commission and the Council (which will have the possibility to object to the SRB's decisions) as well as the ECB and national resolution authorities.

The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the ECB Single Supervisory Mechanism.

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 per cent. of the Bank's total revenues. Neither the Bank nor the Group maintains any physical presence in Iran, Cuba and/or Syria, and the Bank's existing activities as described above are undertaken solely through the use of correspondent banking relationships. The Bank and/or the Group do not otherwise conduct any other material business in or with any Sanctioned Country. As at the date of this 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 or the Blocking Statute (as defined below). Nor are they expected to result in the Bank and/or any member of the Group themselves becoming the subject of sanctions. However, following the unilateral decision of the United States to exit from the Joint Comprehensive Plan of Action ("**JCPOA**") – the agreement originally entered into between, amongst the others, Iran, the US and EU – and the following imposition of renewed extraterritorial US sanctions, which were suspended pursuant to the JCPOA there may be prejudicial effects on these operations as well as on the reputation of the Issuer and/or the Group. In particular, to mitigate against the impact of the renewed US sanctions on Iran, the European Commission updated Council Regulation (EC) No 2271/96 of 22 November 1996 (the "**Blocking Statute**"). The Blocking Statute prohibits EU entities from complying with the extraterritorial US sanctions on Iran and Cuba. Actual or alleged violations of existing or future European, US or other international sanctions (including the Blocking Statute) could result in negative impacts on the capital, financial and economic situation of the Issuer and/or the Group.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature is likely to limit the market value of the Notes. During any period when BMPS may elect to redeem Notes or there is a perception that this is the case, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

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

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which bear interest at a rate that changes from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convertfrom a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing market rates on those Notes and could affect the market value of an investment in the relevant Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Early Redemption of the Notes for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Italy or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with, and subject to the provisions of, the Terms and Conditions of the Notes. See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

Waiver of set-off

As specified in Condition 2, subsection (a) (*Status of the Senior Notes*), each holder of a Senior Note will unconditionally and irrevocably waive any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Senior Note.

As specified in Condition 2, subsection (b) (*Status of the Non-Preferred Senior Notes*), each holder of a Non-Preferred Senior Note will unconditionally and irrevocably waive any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Non-Preferred Senior Note.

As specified in Condition 2, subsection (c) (*Status of the Subordinated Notes*), each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note.

Potential conflicts of interest with the Calculation Agent

Potential conflicts of interest may exist between the Calculation Agent (if any) and Noteholders (including where a Dealer acts as a calculation agent), including with respect to certain determinations and judgments that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

The Notes have limited Events of Default and remedies

The Events of Default in respect of the Notes, being events upon which the Noteholders may declare the Notes to be immediately due and payable, are limited to circumstances in which the Issuer (i) is liquidated (including when the Issuer becomes subject to *Liquidazione Coatta Amministrativa* as defined in the Italian Consolidated Banking Act (as amended from time to time)) or (ii) is insolvent as set out in Condition 8. Accordingly, other than following the occurrence of an Event of Default, even if the Issuer fails to meet any of its obligations under the Notes, including the payment of any interest, the Noteholders will not have the right of acceleration of principal and the sole remedy available to Noteholders for recovery of amounts owing in respect of any of the Notes will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

The Notes may be subject to loss absorption or any application of the general bail-in tool.

The BRRD contemplates that the Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See "*The Bank Recovery and Resolution Directive is intended to* *enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that implementation of the directive or the taking of any such action may occur) under it could materially adversely affect the value of any Notes and/or the rights of Noteholders*".

Risks applicable to the Senior Notes and the Non-Preferred Senior Notes

The Issuer's obligations under Non-Preferred Senior Notes rank junior to unsecured and unsubordinated preferred obligations of the Issuer

The Issuer's obligations under Non-Preferred Senior Notes will be unsecured, unsubordinated and non-preferred obligations and will rank junior to Senior Notes and any other unsecured and unsubordinated preferred obligations of the Issuer which rank, or are expressed to rank by their terms, senior to Non-Preferred Senior Notes. Although Non-Preferred Senior Notes may pay a higher rate of interest than comparable Notes which rank senior to the Non-Preferred Senior Notes, there is a real risk that an investor in Non-Preferred Senior Notes will lose all or some of his investment should the Issuer become insolvent.

Senior Notes and Non-Preferred Senior Notes could be subject to Issuer Call due to MREL Disqualification Event

If at any time an MREL Disqualification Event occurs and is continuing in relation to any Series of Senior Notes or Non-Preferred Senior Notes, and the Form of Final Terms for the Senior Notes or the Non-Preferred Senior Notes of such Series specify that Issuer Call due to MREL Disqualification Event is applicable, the Issuer may (subject to the provisions of Condition 5(i) (*Conditions to Redemption and Purchase of Senior Notes and Non-Preferred Senior Notes*), elect to redeem all, but not some only, of the Senior Notes or the Non-Preferred Senior Notes of such Series. An MREL Disqualification Event means that, at any time, all or part of the aggregate outstanding nominal amount of such Series of Senior Notes or Non-Preferred Senior Notes it or will be excluded fully or partially from the eligible liabilities available to meet the MREL Requirements, subject to as set out in Condition 5(e) (*Issuer Call due MREL Dsqualification Event*). The applicability of the minimum requirements for eligible liabilities under the BRRD is subject to the implementation of the EC Proposals in the EU and in Italy.

If the Senior Notes or the Non-Preferred Senior Notes are to be so redeemed, there can be no assurance that Noteholders will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Senior Notes or Non-Preferred Senior Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time. In addition, an MREL Disqualification Event could result in a decrease in the market price of the Notes.

See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

Early redemption and purchase of the Senior Notes and Non-Preferred Senior Notes may be restricted

Any early redemption or purchase of Senior Notes and Non-Preferred Senior Notes is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by the MREL Requirements at the relevant time, including any requirements applicable to such redemption or repurchase due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet the MREL Requirements.

In addition, under the EC Proposals, the early redemption or purchase of Senior Notes and Non-Preferred Senior Notes which qualify as eligible liabilities available to meet MREL Requirements is subject to the prior approval of the Competent Authority where applicable from time to time under the applicable laws and regulations. The EC Proposals state that the Competent Authority would approve an early redemption of the Senior Notes and Non-Preferred Senior Notes where any of the following conditions is met:

- on or before such early redemption or purchase of the Senior Notes or Non-Preferred Senior Notes, the Issuer replaces the Senior Notes or Non-Preferred Senior Notes with own funds instruments or eligible liabilities of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer;

- the Issuer has demonstrated to the satisfaction of the Competent Authority that its Own Funds and eligible liabilities would, following such redemption or purchase, exceed the requirements for own funds and eligible liabilities set out in the CRD IV or the BRRD (or, in either case, any relevant provisions of Italian law implementing the CRD IV or, as appropriate, the BRRD) or the CRR by a margin that the Competent Authority considers necessary; or
- the Issuer has demonstrated to the satisfaction of the Competent Authority that the partial or full replacement of the eligible liabilities with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in the CRR and in the CRD IV for continuing authorisation.

The Competent Authority shall consult with the Relevant Resolution Authority before granting that permission.

The EC Proposals are in draft form and may be subject to change prior to any implementation.

Senior Notes and Non-Preferred Senior Notes may be subject to substitution and modification without Noteholder consent

If Substitution or Variation is specified as being applicable in the circumstances described in (i) and/or (ii) below in the relevant Final Terms for any Series of Senior Notes or Non-Preferred Senior Notes then (i) at any time an MREL Disqualification Event occurs and/or as applicable (ii) in order to ensure the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*), then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the Senior Notes or Non-Preferred Senior Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Agent and the holders of the Notes of that Series (or such other notice periods as may be specified in the relevant Final Terms), at any time either substitute all (but not some only) of such Senior Notes or Non-Preferred Senior Notes, or vary the terms of such Senior Notes or Non-Preferred Senior Notes so that they remain or, as appropriate, become, Qualifying Senior Notes or Qualifying Non-Preferred Senior Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

Qualifying Senior Notes or Qualifying Non-Preferred Senior Notes, as applicable, are securities issued by the Issuer that, other than in respect of the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*), have terms not materially less favourable to the Noteholders (as reasonably determined by the Issuer) than the terms of the relevant Senior Notes or Non-Preferred Senior Notes, as applicable. However, no assurance can be given as to whether any of these changes (including, without limitation, any changes to governing law and/or jurisdiction) will negatively affect any particular Noteholder. In addition, the tax and stamp duty consequences of holding such substituted or varied notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the notes prior to such substitution or variation.

Risks applicable to the Subordinated Notes

An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency

BMPS's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to Senior Liabilities. "**Senior Liabilities**" means any unconditional, unsubordinated and unsecured obligations of BMPS (including Non-Preferred Senior Notes). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated (including Non-Preferred Senior Notes), there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should BMPS become insolvent.

In no event will holders of Subordinated Notes be able to accelerate the maturity of their Subordinated Notes; such holders will have claims only for amounts then due and payable on their Subordinated Notes.

Subordinated Notes could be subject to redemption for regulatory reasons

The intention of BMPS is for Subordinated Notes to qualify on issue as "Tier 2 capital" for regulatory purposes. However, current regulatory practice by the Bank of Italy does not require (or customarily provide) a confirmation prior to the issuance of Subordinated Notes that the Notes will be treated as such.

If Regulatory Call is specified as applicable in the Final Terms, upon the occurrence of a Capital Event (as defined in Condition 5(d) (*Redemption for Regulatory Reasons*), the Issuer may (subject to the provisions of Condition 5(h) (*Conditions to Early Redemption and Purchase of Subordinated Notes*)), elect to redeem the Subordinated Notes. In the event of a redemption for regulatory reasons, there can be no assurance that an investor will be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Subordinated Notes being redeemed. Potential investors should consider reinvestment risk in light of other investments available at that time.

See also "*If the Issuer has the right to redeem any Notes at its option or there is a perception that this is the case, this may limit the market value of the Notes concerned and should the Notes be redeemed an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above and "*Subordinated Notes may be subject to substitution and modification without Noteholder consent"* below.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer or, in certain circumstances, the Group.

The BRRD contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See "*The Bank Recovery and Resolution Directive is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The taking of any such actions (or the perception that implementation of the directive or the taking of any such action may occur) under it could materially adversely affect the value of any Notes and/or the rights of Noteholders*".

Subordinated Notes may be subject to substitution and modification without Noteholder consent

If Substitution or Variation is specified as being applicabile in the relevant Final Terms, in order to ensure the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*), then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the Subordinated Notes of that Series), and having given not less than 30 nor more than 60 days' notice to the Agent and the holders of the Notes of that Series (or such other notice periods as may be specified in the relevant Final Terms), at any time either substitute all (but not some only) of a Series of Subordinated Notes, or vary the terms of such Subordinated Notes so that they remain or, as appropriate, become, Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

Qualifying Subordinated Notes are securities issued by the Issuer that, other than in respect of the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*), have terms not materially less favourable to the Noteholders (as reasonably determined by the Issuer) than the terms of the relevant Subordinated Notes. However, no assurance can be given as to whether any of these changes (including, without limitation, any changes to governing law and/or jurisdiction) will negatively affect any particular Noteholder. In addition, the tax and stamp duty consequences of holding such substituted or varied notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the notes prior to such substitution or variation.

The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of the Reset Notes

Reset Notes will initially bear interest at the Initial Rate of Interest from and including the Interest Commencement Date up to but excluding the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate of Interest**"). The Subsequent Reset Rate of Interest for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate of Interest for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

Risks applicable to certain types of Exempt Notes

Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of its investment.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

The Notes are not covered by the Italian Inter-Bank Fund for the Protection of Deposits.

The obligations in respect of the Notes (Senior Notes, Non-Preferred Senior Notes and Subordinated Notes) are not covered by the *Fondo Interbancario di Tutela dei Depositi* (i.e. depositor insurance fund).

Risks related to Notes generally

Set out below is a description of material risks relating to the Notes generally:

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Call options are subject to the prior consent of the Competent Authority.

In addition to the call rights described under "*Subordinated Notes could be subject to redemption for regulatory reasons*" above, Subordinated Notes may also contain provisions allowing BMPS to call them after a minimum period of, for example, five years. To exercise such a call option, BMPS must obtain the prior written consent of the Competent Authority.

Holders of such Notes have no rights to call for the redemption of such Notes and should not invest in such Notes in the expectation that such a call will be exercised by BMPS. The Competent Authority must agree to permit such a call, based upon its evaluation of the regulatory capital position of BMPS and certain other factors at the relevant time. There can be no assurance that the Competent Authority will permit such a call. Holders of such Notes should be aware that they may be required to bear the financial risks of an investment in such Notes for a period of time in excess of the minimum period.

The value of the Notes could be adversely affected by a change in English law or administrative practice.

Except for Condition 2(b) (*Status of the Non-Preferred Senior Notes*), Condition 2(c) (*Status of the Subordinated Notes*) and Condition 17 (*Statutory Loss Absorption Powers*), the Terms and Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Holders of Notes held through Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of the Notes and vote at meetings of Noteholders.

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a

Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, BMPS will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing systems and their participants to receive payments under the Notes. BMPS has no responsibility or liability for the records relating to, or payment made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant ICSD would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant ICSD at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The regulation and reform of "benchmarks" may adversely affect the value of Floating Rate Notes or Reset Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks", (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark", such as Floating Rate Notes and Reset Notes. The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a "benchmark", including any Floating Rate Notes linked to or referencing LIBOR and/or EURIBOR or any Reset Notes referencing the relevant swap rate for swap transactions in the Specified Currency (as specified in the relevant Final Terms with respect to the relevant Reset Notes), in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a "benchmark".

As an example of such benchmark reforms, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted. Other interbank offered rates such as EURIBOR (together with LIBOR, the **IBORs**) suffer from similar weakenesses to LIBOR and as a result (although no deadline has been set for their discontinuation), they may be discontinued or be subject to changes in their administration.

Investors should be aware that, if an IBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes or Reset Notes which reference such IBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the relevant IBOR rate is to be determined under the "*Terms and Conditions of the Notes*", this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the relevant IBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when the relevant IBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes or Reset Notes which reference the relevant IBOR.

The "*Terms and Conditions of the Notes*" provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate determined by an Independent Adviser in consultation with the Issuer or failing that, by the Issuer, and that such Successor Rate or Alternative Rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. In certain circumstances the ultimate fallback of interest for a particular Interest Period or Reset Period (as applicable) may result in the rate of interest for the last preceding Interest Period or Reset Period (as applicable) being used. This may result in the effective application of a fixed rate for Floating Rate Notes or Reset Notes (as applicable) based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of Successor Rates and Alternative Rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time. If the Independent Adviser or, as applicable, the Issuer determines that amendments to the "*Terms and Conditions of the Notes*" and the Agency Agreement are necessary to ensure the proper operation of any Successor Rate or Alternative Rate and/or Adjustment Spread or to comply with any applicable regulation or guidelines on the use of benchmarks or other related document issued by the competent regulatory authority, then such amendments shall be made without any requirement for the consent or approval of Noteholders, as provided by Condition 3(d)(iv) (*Benchmark Amendments*).

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes or Reset Notes. Investors should consider these matters with their own independent advisers when making their investment decision with respect to any Floating Rate Notes or Reset Notes linked to or referencing a benchmark.

Risks related to the market generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount or for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

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

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

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to BMPS or any Notes may not reflect all the risks associated with an investment in those Notes.

One or more independent credit rating agencies may assign credit ratings to BMPS or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been previously published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Base Prospectus:

(a) the consolidated audited annual financial statements of BMPS for each of the financial years ended 31 December 2017 and 31 December 2016, contained in the 2017 audited consolidated annual report and the 2016 audited consolidated annual report respectively (see cross-reference table below);

(b) the consolidated unaudited first half financial report of BMPS as at 30 June 2018;

(c) the consolidated unaudited interim financial report of BMPS as at 30 September 2018, which has not been reviewed by the auditors;

(d) the press release published on the Issuer's website on 28 December 2018 and headed "Information disclosed upon Consob's request dated 21 December 2018";

(e) the press release published on the Issuer's website on 11 January 2019 and headed "Draft SREP decision confirms Pillar 2 requirement level to 3% and reduces guidance to 1.3%";

(f) the press release published on the Issuer's website on 11 January 2019 and headed "Merger by way of incorporation of Perimetro Gestione Proprietà Immobiliari into Banca Monte dei Paschi di Siena";

(g) the press release published on the Issuer's website on 7 February 2019 and headed "Board of Directors approves preliminary results as at 31 December 2018"; and

(h) the press release published on the Issuer's website on 28 February 2019 and headed "MPS, Board approves 2018 draft financial statements".

Cross-reference table

Please find below the relevant page references in respect of each of the following documents incorporated by reference:

Document	**Information incorporated by reference**	**Location**
BMPS' Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December 2016 (the "**2016 Consolidated Financial Statements**")	Governing and Control Bodies	pp 5
	Consolidated Report on Operations	pp 7-96
	Consolidated balance sheet	pp 99-100
	Consolidated income statement	pp 101-102
	Consolidated statement of comprehensive income	pp 103
	Consolidated Statement of Changes in Equity – 2016	pp 104-105
	Consolidated Statement of Changes in Equity – 2015	pp 106-108
	Consolidated cash flow statement: indirect method	pp 108-110
	Notes to the Consolidated Financial Statements	pp 111-466
	Certification of the consolidated financial statements pursuant to art. 81-ter of Consob regulation no. 11971 of 14 may 1999, as subsequently amended and supplemented	p 467
	Independent Auditor's Report	pp 469-472

BMPS' Audited Consolidated Annual Financial Statements for the Financial Year Ended 31 December 2017 (the "**2017 Consolidated Financial Statements**")	Governing and Control Bodies	pp 5
	Consolidated Report on Operations	pp 7-130
	Consolidated balance sheet	pp 133-134
	Consolidated income statement	pp 135
	Consolidated statement of comprehensive income	pp. 136
	Consolidated Statement of Changes in Equity – 2017	pp. 137-139
	Consolidated Statement of Changes in Equity – 2016	pp 140-141
	Consolidated cash flow statement: indirect method	pp 142-143
	Notes to the Consolidated Financial Statements	pp 145-501
	Certification of the consolidated financial statements pursuant to art. 81-ter of Consob regulation no. 11971 of 14 may 1999, as subsequently amended and supplemented	p 503
	Independent Auditor's Report	pp 505-517
BMPS' Unaudited Consolidated First Half Financial Report as at 30 June 2018 (the "**2018 First Half Financial Report**")	Half-year report on operations	pp 3-17
	Condensed Consolidated half-year financial statements	p. 18-28
	Explanatory Notes	p. 29-143
	Certification of the condensed consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation No. 11971 of 14 May 1999, as subsequently amended and supplemented	pp. 144
	Independent Auditors' Report	pp. 145-146
BMPS Unaudited Consolidated Interim Financial Report as at 30 September 2018 (the "**2018 Interim Financial Report**")	Introduction	p. 3
	Results in brief	pp. 4-6
	Executive summary	pp. 7-8
	Shareholders	p. 9
	Information on the BMPS share	p. 10
	Reference context	p. 11
	Significant events in the first nine months of 2018	pp. 12-14
	Significant events after 30 September 2018	p. 14
	Strategy	pp. 15-17
	Explanatory notes	pp. 18-19
	Income Statement and balance sheet reclassification principles	pp. 20-22
	Reclassified income statement	pp. 23-30
	Reclassified balance sheet	pp. 31-43
	Disclosure on risks	pp. 44-47
	Results by operating segment	pp 48-61
	Prospects and outlook on operations	pp 62-63
	Annex	pp 64-66

	Declaration of the financial reporting officer	p. 67
BMPS Press Release dated 28 December 2018 headed "Information disclosed upon Consob's request dated 21 December 2018"	Entire Document	All
BMPS Press Release dated 11 January 2019 headed "Draft SREP decision confirms Pillar 2 requirement level to 3% and reduces guidance to 1.3%"	Entire Document	All
BMPS Press Release dated 11 January 2019 headed "Merger by way of incorporation of Perimetro Gestione Proprietà Immobiliari into Banca Monte dei Paschi di Siena"	Entire Document	All
BMPS Press Release dated 7 February 2019 headed "Board of Directors approves preliminary results as at 31 December 2018"	Entire Document	All
BMPS Press Release dated 28 February 2019 headed "MPS, Board approves 2018 draft financial statements"	Entire Document	All

Following the publication of this Base Prospectus a supplement may be prepared by BMPS and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents under (a), (b) and (c) above incorporated by reference in this Base Prospectus can be obtained from the office of BMPS as set out at the end of this Base Prospectus and will also be published on the BMPS website (*https://www.gruppomps.it/en/investor-relations/financial-results/financial-results.html*). Copies of documents under (d), (e), (f), (g) and (h) above incorporated by reference in this Base Prospectus can be obtained from the office of BMPS as set out at the end of this Base Prospectus and will also be published on the BMPS website (https://www.gruppomps.it/en/media-and-news/press-releases/index.html). In addition, such documents will be available free of charge from the principal office in Luxembourg of Banque Internationale à Luxembourg, société anonyme (the "**Luxembourg Listing Agent**") for Notes admitted to the Official List and to trading on the Luxembourg Stock Exchange's regulated market. This Base Prospectus and the documents incorporated by reference herein have been filed with the Luxembourg Stock Exchange and will also be published on the Luxembourg Stock Exchange's website (www.bourse.lu). The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of the Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (the "**Prospectus Regulation**").

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

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the Form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes other than Exempt Notes and, if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.

This section constitutes a general description of the Programme for the purposes of Article 22.5(3) of the Prospectus Regulation.

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Issuer:	Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**" or "**BMPS**")
Issuer Legal Entity Identifier (LEI):	J4CP7MHCXR8DAQMKIL78
Description:	Debt Issuance Programme
Arranger:	NatWest Markets Plc
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Citigroup Global Markets Europe AG Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Deutsche Bank AG, London Branch Goldman Sachs International HSBC Bank plc J.P. Morgan Securities plc Mediobanca – Banca di Credito Finanziario S.p.A. Merrill Lynch International Morgan Stanley & Co. International plc MPS Capital Services Banca per le Imprese S.p.A. NatWest Markets N.V. NatWest Markets Plc Société Générale UBS Europe SE and any other Dealers appointed in accordance with the Programme Agreement (as defined under "*Subscription and Sale*").
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"), including the following restrictions applicable at the date of this Prospectus.

Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Programme Size:	Up to €50,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable from time to time to the issue of Non-Preferred Senior Notes, Non-Preferred Senior Notes must have a minimum maturity of not less than twelve months. Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable from time to time to the issue of Subordinated Notes, Subordinated Notes must have a minimum maturity of 5 years.
Issue Price:	Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in "Form of the Notes".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Reset Notes:	Reset Notes will, in respect of an initial period, bear interest at the initial fixed rate of interest specified in the relevant Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the relevant Final Terms by reference to a mid-market swap rate, as adjusted for any applicable margin, in each case, as may be specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or (ii) on the basis of the reference rate set out in the Form of Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

	The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Exempt Notes:	The Issuer may issue Exempt Notes which are Partly Paid Notes or Notes redeemable in one or more instalments. ***Partly Paid Notes***: The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. ***Notes redeemable in instalments***: The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree. The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption:	The Form of Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in the case of Exempt Notes in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or (in the case of Senior Notes or Non-Preferred Senior Notes only) at the option of the Issuer due to a MREL Disqualification Event, as described in Condition 5(e) and/or (in case of Subordinated Notes only) at the option of the Issuer for regulatory reasons, as described in Condition 5(d). The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the Form of Final Terms. Other than following an Event of Default, any redemption of Senior Notes and Non-Preferred Senior Notes or Subordinated Notes prior to their stated maturity in accordance with the Conditions (including early redemption for taxation reasons or early redemption for regulatory reasons) will be subject to the provisions of, respectively, Condition 5(i) and 5(h). Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".
Denomination of Notes:	Notes will be issued in such denominations as may be specified in the Form of Final Terms ("**Specified Denomination**") save that (i) the minimum Specified Denomination of each Note which is specified in the Form of Final Terms as being a Senior Note or a

Subordinated Note shall be Euro 100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes) and (ii) the minimum Specified Denomination of each Note which is specified in the Form of Final Terms as being a Non-Preferred Senior Note shall be Euro 250,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Taxation: All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 6 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6 (*Taxation*), be required to pay additional amounts, in respect of principal and interest in the case of Senior Notes or Non-Preferred Senior Notes (if permitted by MREL Requirements), or interest only in the case of Subordinated Notes, to cover the amounts so deducted.

As more fully set out in Condition 6 (*Taxation*), BMPS in its capacity as Issuer shall not be liable in certain circumstances to pay any additional amounts to holders of the Notes with respect to any Notes, Receipts or Coupons for or on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1 April 1996 (as amended or supplemented) and related regulations of implementation which have been or may subsequently be enacted ("**Legislative Decree 239**").

Negative Pledge: None.

Status of the Notes: The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank (subject to any obligations preferred by any applicable law) *pari passu* with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including Non-Preferred Senior Notes and any further obligations permitted by law to rank, and expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, present and future and *pari passu* and rateably without any preference among themselves, as described in Condition 2(a).

The Non-Preferred Senior Notes (notes intended to qualify as *strumenti di debito chirografario di secondo livello* of the Issuer, as defined under Article 12-*bis* of the Italian Consolidated Banking Act) will constitute direct, unconditional, unsubordinated, and unsecured and non-preferred obligations of the Issuer, ranking junior to Senior Notes and any other unsecured and unsubordinated obligations of the Issuer which rank, or are expressed to rank in their terms, senior to the Non-Preferred Senior Notes, *pari passu* without any preferences among themselves, and with all other present or future obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the relevant Non-Preferred Senior Notes and in priority to any subordinated instruments and to the claims of shareholders of the Issuer, pursuant to Article 91, section 1-*bis*, letter c-*bis* of the Italian Consolidated Banking Act, as described in Condition 2(b).

The Subordinated Notes will constitute unconditional, subordinated unsecured obligations of the Issuer and, (subject to Condition 2(c)), will rank *pari passu* and without any preference among themselves and after all unsubordinated, unsecured obligations of the Issuer, as described in Condition 2(c).

Subordination: Payments in respect of the Subordinated Notes will be subordinated as described in Condition 2 (*Status of the Notes and Subordination*).

Substitution With respect to (i) any Series of Senior Notes or Non-Preferred Senior Notes, if at

and Variation:	any time a MREL Disqualification Event occurs, and if Substitution or Variation is specified as being applicable in the Form of Final Terms, or (ii) all Notes, if Substitution or Variation is specified as being applicable in the Form of Final Terms, in order to ensure the effectiveness and enforceability of Condition 17, then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the relevant Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Agent and the holders of the Notes of that Series (or such other notice periods as may be specified in the Form of Final Terms, at any time either substitute all (but not some only) of such Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Qualifying Senior Notes, Qualifying Non-Preferred Senior Notes or Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.
Approval, listing and admission to trading:	Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes (other than Exempt Notes) issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of Luxembourg Stock Exchange. The Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The Form of Final Terms (or applicable Pricing Supplement, the case of Exempt Notes) will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Rating:	The Programme has been rated Caa1 by Moody's France S.A.S. ("**Moody's**"), B by Fitch Italia S.p.A. ("**Fitch**") and B (high) by DBRS Ratings GmbH ("**DBRS**"). Each of Moody's, Fitch and DBRS is established in the EU and registered under the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. The rating of certain Series of Notes to be issued under the Programme may be specified in the Form of Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the Final Terms. Such credit rating agency is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. Please also refer to "*Ratings of the Notes*" in the "*Risk Factors*" section of this Base Prospectus.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law, except that each of Condition 2(b), Condition 2(c) and Condition 17 which shall be governed by, and construed in accordance with, Italian law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Italy) and Japan and such other restrictions as may be required in connection with the offering and sale of a

particular Tranche of Notes, see "*Subscription and Sale*".

Non-Preferred Senior Notes shall be distributed to qualified investors only in accordance with Law No. 205 of 27 December 2017 on the budget of the Italian government for 2018.

FORM OF THE NOTES

Any reference in this section to "Form of Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a temporary global note (a "**Temporary Global Note**") or, if so specified in the Form of Final Terms, a permanent global note (a "**Permanent Global Note**") which, in either case, will:

(i) if the Global Notes are intended to be issued in new global note ("**NGN**") form, as stated in the Form of Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"); and

(ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the Form of Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the Form of Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the "**Exchange Date**") which is 40 days after the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the Form of Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the Form of Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The Form of Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 8 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 12 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the Form of Final Terms or Pricing Supplement, as the case may be:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the Form of Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 8 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note, then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 8 March 2019 executed by the Issuer.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes are Exempt Notes, a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**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 or superseded, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][3]

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 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.

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of at least €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[Date]

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

Legal entity identifier (LEI): J4CP7MHCXR8DAQMKIL78

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €50,000,000,000

Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8 March 2019 [and the supplement[s] to it dated [*date*] [and [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Base Prospectus**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered

[3] Legend to be included on front of the Final Terms if the Notes potentially constitute "packaged" products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

office of the Issuer and has been published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and copies may be obtained from the Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]

(1)	(i)	Series Number:	[ ]
	(ii)	Tranche	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*Provide issue amount/ISIN/maturity date/issue date of earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph (23) below, which is expected to occur on or about [*date*]][Not Applicable]
(2)		Specified Currency or Currencies:	[ ]
(3)		Aggregate Nominal Amount:	
	(i)	Series:	[ ]
	(ii)	Tranche:	[ ]
(4)		Issue Price of Tranche:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
(5)	(i)	Specified Denominations:	[ ] (*N.B. Senior Notes and Subordinated Notes must have a minimum denomination of EUR 100,000 (or equivalent)). In the case of Non-Preferred Senior Notes, Notes must have a minimum denomination of €250,000 (or equivalent)*) (*Note – where multiple denominations above [€100,000/€250,000] or equivalent are being used the following sample wording should be followed*: *"[€100,000/€250,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000/€499,000]. No Notes in definitive form will be issued with a denomination above [€199,000€499,000]."*)
	(ii)	Calculation Amount:	[ ]

			(*If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
(6)	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[ ]
(7)	Maturity Date:		[*Specify date or for Floating rate notes* - Interest Payment Date falling in or nearest to [*specify month and year*]] (*Unless otherwise permitted by current laws, regulations, directives and/or requirements applicable to the issue of Notes by BMPS, Non-Preferred Senior Notes must have a maturity of not less than twelve months and Subordinated Notes must have a minimum maturity of five years*).
(8)	Interest Basis:		[ ]] per cent. Fixed Rate] [[ ] per cent. to be reset on [ ] [and [ ]] and every [ ] anniversary thereafter] [[[ ] month [LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] (see paragraph [(13)]/[(14)]/[(15)]/[(16)] below)
(9)	Redemption/Payment Basis:		[100 per cent.] [[●] in case of Zero Coupon Notes]
(10)	Change of Interest Basis:		[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs (13) and (16) and identify there*][Not Applicable]
(11)	Put/Call Options:		[Regulatory Call] (*N.B. Only relevant in the case of Subordinated Notes*) [Issuer Call] [Issuer Call due to MREL Disqualification Event] (*N.B. Only relevant in the case of Senior Notes or Non-Preferred Senior Notes*) [(see paragraph [(18)]/[(19)]/[(20)] below)]
(12)	(i)	Status of the Notes:	[Senior Notes / Non-Preferred Senior / Subordinated Notes]
	(ii)	Date of [Board] approval for issuance of Notes obtained:	[ ] (*N.B. Only required where Board (or similar) authorisation is required for the particular*

			tranche of Notes)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

(13)	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate(s) of Interest for Fixed Rate Notes:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of a irregular coupons*)
	(iii)	Fixed Coupon Amount(s): (Applicable to Notes in definitive form)	[ ] per Calculation Amount
	(iv)	Broken Amount(s): (Applicable to Notes in definitive form)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(v)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(vi)	Determination Date(s):	[[ ] in each year] [Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)
(14)	Reset Note Provisions:		[Applicable/Not Applicable]
	(i)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear [on each Interest Payment Date]
	(ii)	First Margin:	[+/-][ ] per cent. per annum
	(iii)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(iv)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date [until and excluding [ ]]
	(v)	Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount][Not Applicable]
	(vi)	Broken Amount(s):	[[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(vii)	First Reset Date:	[ ]
	(viii)	Second Reset Date:	[ ]/[Not Applicable]
	(ix)	Subsequent Reset Date(s):	[ ] [and [ ]]

(x)	Relevant Screen Page:	[●]/[Not Applicable]
(xi)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
(xii)	Mid-Swap Maturity	[ ]
(xiii)	Day Count Fraction:	[Actual/Actual / Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]
(xiv)	Determination Dates:	[ ] in each year
(xv)	Business Centre(s):	[ ]
(xvi)	Calculation Agent:	[the Agent] / [ ]

(15) Floating Rate Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in ((ii) below /, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
(iii)	Additional Business Centre(s):	[*insert name and address*]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(vi)	Screen Rate Determination:	[Applicable/Not Applicable]
	• Reference Rate:	[ ] month [LIBOR/EURIBOR].
	• Interest Determination Date(s):	[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than sterling or euro LIBOR), first day of each*

		Interest Period if sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	• Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(vii)	ISDA Determination	[Applicable/Not Applicable]
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*) *(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)*
(viii)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(ix)	Margin(s):	[+/-] [ ] per cent. per annum
(x)	Minimum Rate of Interest:	[ ] per cent. per annum
(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
(xii)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA)]
(16)	Zero Coupon Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i)	Accrual Yield:	[ ] per cent. per annum
(ii)	Reference: Price:	[ ]
(iii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

(17)	Notice periods for Condition 5:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
(18)	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[ ] *(If the Notes are Subordinated Notes, unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements, applicable to the issue of Subordinated Notes, the Optional Redemption Date shall not be earlier than five years after the Issue Date.)*
	(ii) Optional Redemption Amount: amount(s):	[[ ] per Calculation Amount]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ]
	(b) Maximum Redemption Amount:	[ ]
(19)	Regulatory Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*) (*N.B. Only relevant in the case of Subordinated Notes*)
	(i) Early Redemption Amount of each Note payable on redemption for regulatory reasons as contemplated by Condition 5(d) and/or the method of calculating the same (if required or	[ ] per Calculation Amount

	if different from that set out in Condition 5(f)):	
(20)	Issuer Call due to MREL Disqualification Event	[Applicable]/[Not Applicable] *(Only relevant in the case of Senior Notes or Non-Preferred Senior Notes)*
	(i) Early Redemption Amount	[[ ] per Calculation Amount/as set out in Condition 5(f)]
(21)	Final Redemption Amount:	[ ] per Calculation Amount
(22)	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	[ ] per Calculation Amount (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*) See also paragraph (19) (Regulatory Call:)] (*Delete this cross-reference unless the Notes are Subordinated Notes and the Regulatory Call is applicable*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

(23)	Form of Notes:	
	(i) Form:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event] *(N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph (5) includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].")*

	(ii) New Global Note:	[Yes]/[No]
(24)	Additional Financial Centre(s):	[Not Applicable] [●] (*Specify Additional Financial Centres, if any*)] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest to which sub-paragraph 15 (iii) relates*)
(25)	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]/[No]
(26)	Substitution or Variation of Notes:	[Not Applicable] / [Applicable [only][in relation to MREL Disqualification Event][and]/[in order to ensure the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*)]
	(i) Notice period:	[●]

THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[Signed on behalf of Banca Monte dei Paschi di Siena S.p.A.:

By: ....
Duly authorised]

PART B – OTHER INFORMATION

(1) **LISTING AND ADMISSION TO TRADING**

(i) Listing and admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on Luxembourg Stock Exchange's regulated market and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].] [Not Applicable.]
(ii) Estimate of total expenses related to admission to trading:	[ ]

(2) **RATINGS**

Ratings:	[Not Applicable.] [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [*insert details*]] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*)

(3) **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.] [The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. – *Amend as appropriate if there are other interests*]

[*(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*]

(4) **YIELD (Fixed Rate Notes only)**

Indication of yield:		[ ]

(5) **OPERATIONAL INFORMATION**

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CFI:	[[ ]/Not Applicable]
(iv)	FISN:	[[ ]/Not Applicable] *(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
(v)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/[*give name(s), address(es) and number(s)*]]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

(6) **DISTRIBUTION**

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/give names]
(iii)	Date of [Subscription] Agreement:	[ ]
(iv)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(v)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(vi)	U.S. Selling Restrictions:	[Reg. S Compliance Category 2;[TEFRA D/TEFRA C/TEFRA not applicable]]
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.*)
(viii)	EU Benchmarks Regulation:	[Applicable: Amounts payable under the Notes are calculated by reference to [*insert name*[*s*] *of benchmark*(*s*)], which [is/are] provided by [*insert name*[*s*] *of the administrator*[*s*] *– if more than one specify in relation to each relevant benchmark*].
(ix)	EU Benchmarks Regulation: Article 29(2) statement on benchmarks:	[As at the date of these Final Terms, [*insert name*[*s*] *of the administrator*[*s*]] [is/are] [not] included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority [(**ESMA**)] pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) [(the **BMR**)]. [As far as the Issuer is aware, [[*insert name of the benchmark*] does not fall within the scope of the BMR by virtue of Article 2 of the BMR.]/[the transitional provisions in Article 51 of the BMR apply, such that the administrator is not currently required to obtain authorisation/registration]]. (*repeat as necessary*)] (*if Not Applicable, delete this sub-paragraph*)

APPLICABLE PRICING SUPPLEMENT

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**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 or superseded, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][4]

MIFID II product governance / target market – [*appropriate target market legend to be included*]

EXEMPT NOTES OF ANY DENOMINATION

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[*Date*]

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

Legal entity idientifier (LEI): J4CP7MHCXR8DAQMKIL78

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €50,000,000,000

Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 8 March 2019 [as supplemented by the supplement[s] dated [*date[s]*]] (the "**Base Prospectus**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from be obtained from the Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

[4] Legend to be included on front of the Pricing Supplement if the Notes potentially constitute "packaged" products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement*.]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency*.]

1.	(a)	Issuer:	Banca Monte dei Paschi di Siena S.p.A.
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on or about [*date*]][Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	Specified Denominations:		[ ] (*N.B. Senior Notes and Subordinated Notes must have a minimum denomination of EUR 100,000 (or equivalent). In the case of Non-Preferred Senior Notes, Notes must have a minimum denomination of €250,000 (or equivalent)*)
	(a)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:		[*Specify date or for* *Floating rate notes - Interest Payment Date falling in or nearest to [specify month and year]*] (*Unless otherwise permitted by current laws, regulations, directives and/or requirements*

		applicable to the issue of Notes by BMPS, Non-Preferred Senior Notes must have a maturity of not less than twelve months and Subordinated Notes must have a minimum maturity of five years).
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[ ] per cent. to be reset on [ ] [and [ ] and every [ ] anniversary thereafter] [[*specify Reference Rate*] +/- [ ] per cent. Floating Rate] [Zero Coupon]] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*][Not Applicable]
12.	Put/Call Options:	[Regulatory Call] (*N.B. Only relevant in the case of Subordinated Notes*) [Issuer Call due to MREL Disqualification Event] (*N.B. Only relevant in the case of Senior Notes or Non-Preferred Senior Notes*) [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	[Senior Notes / Non-Preferred Senior / Subordinated Notes]
	(b) [Date [Board] approval for issuance of Notes obtained:	[ ] (*N.B. Only required where Board (or similar) authorisation is required for the particular tranche of Notes*)]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b) Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
	(c) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount

	(d)	Broken Amount(s): (*Applicable to Notes in definitive form.*)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(e)	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/*specify other*]
	(f)	[Determination Date(s):	[[ ] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*]
	(g)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)]
	(h)	Other terms relating to the method of calculating interest for Fixed Rate Notes which are Exempt Notes:	[None/*Give details*]
15.	Reset Note Provisions:		[Applicable/Not Applicable]
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear [on each Interest Payment Date]
	(b)	First Margin:	[+/-][ ] per cent. per annum
	(c)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(d)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date [until and excluding [ ]]
	(e)	Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount][Not Applicable]
	(f)	Broken Amount(s):	[[ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(g)	First Reset Date:	[ ]
	(h)	Second Reset Date:	[ ]/[Not Applicable]
	(i)	Subsequent Reset Date(s):	[ ] [and [ ]]
	(j)	Relevant Screen Page:	[●]/[Not Applicable]
	(k)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(l)	Mid-Swap Maturity	[ ]
	(m)	Day Count Fraction:	[Actual/Actual / Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]

	(n)	Determination Dates:	[ ] in each year
	(o)	Business Centre(s):	[ ]
	(p)	Calculation Agent:	[the Agent] / [ ]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below /, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]][Not Applicable]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
	(f)	Screen Rate Determination:	
		• Reference Rate:	[ ] month [LIBOR/EURIBOR/*specify other Reference Rate*]. *(Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement.)*
		• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
		• Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
	(g)	ISDA Determination:	
		• Floating Rate Option:	[ ]
		• Designated Maturity:	[ ]
		• Reset Date:	[ ]

			(*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*) *(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)*
	(h)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]]
	(i)	Margin(s):	[+/-] [ ] per cent. per annum
	(j)	Minimum Rate of Interest:	[ ] per cent. per annum
	(k)	Maximum Rate of Interest:	[ ] per cent. per annum
	(l)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] 30E/360 (ISDA) *Other*]
	(m)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Terms and Conditions:	[ ]
17.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

18.	Notice periods for Condition 5:	Minimum period: [ ] days Maximum period: [ ] days

			(*N.B. When setting notice, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems* (*which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
19.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ] *(If the Notes are Subordinated Notes, unless otherwise permitted by current laws, regulations, directives and/or the Bank of Italy's requirements, applicable to the issue of Subordinated Notes, the Optional Redemption Date shall not be earlier than five years after the Issue Date.)*
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
20.	Regulatory Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) (*Only relevant in the case of Subordinated Notes*)
	(a)	Early Redemption Amount payable on redemption for regulatory reasons as contemplated by Condition 5(d) and/or the method of calculating the same (if required or if different from that set out in Condition 5(f) (Redemption and Purchase – Early Redemption Amounts):	[ ] per Calculation Amount
21.	Issuer Call due to MREL Disqualification Event:		[Applicable]/[Not Applicable] *(Only relevant in the case of Senior Notes or Non-Preferred Senior Notes)*
	(i)	Early Redemption Amount	[[ ] per Calculation Amount/as set out in Condition 5(f)]
22.	Final Redemption Amount:		[[ ] per Calculation Amount/*specify other*/see

		Appendix]
23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same:	[[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	
	(a) [Form:]	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event] [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.] (*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves.*)
	(b) [New Global Note:	[Yes][No]]
25.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraph 16(c) relates*)
26.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment.	[Not Applicable/*give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28.	Details relating to Instalment Notes:	[Applicable/Not Applicable]

			(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Instalment Amount(s):	[*give details*]
	(b)	Instalment Date(s):	[*give details*]
29.	Other terms or special conditions:		[Not Applicable/*give details*]
30.	Substitution or Variation of Notes:		[Not Applicable] / [Applicable [only] [in relation to MREL Disqualification Event][and]/[in order to ensure the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorportion Powers*)]
	(i)	Notice period:	[●]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

[Signed on behalf of Banca Monte dei Paschi di Siena S.p.A.:

By: ....
Duly authorised]

PART B – OTHER INFORMATION

1.	**LISTING**	[Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be listed on [*specify market - note this must not be a regulated market*] with effect from [ ].][Not Applicable]
2.	**RATINGS**	
	Ratings:	[Not Applicable.] [The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)] (*The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus*)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests*]

4. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	CFI:	[[ ]/Not Applicable]
(iv)	FISN:	[[ ]/Not Applicable] *(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
(v)	Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	[Intended to be held in a manner which would allow	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited

Eurosystem eligibility:	with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosytem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

5. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(v)	U.S. Selling Restrictions:	Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]
(vi)	Additional selling restrictions:	[Not Applicable/*give details*] (*Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes*)
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The Form of Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Banca Monte dei Paschi di Siena S.p.A. (the "**Issuer**" or "**BMPS**") pursuant to the Agency Agreement (as defined below).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note; and

(iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement dated 8 March 2019 (such Agency Agreement as further amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**"), and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which complete these Terms and Conditions (the "**Conditions**") or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "**Exempt Note**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the "Form of Final Terms" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in the Conditions to Form of Final Terms shall be deemed to include a reference to "applicable Pricing Supplement" where relevant. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded) and includes any relevant implementing measure in the relevant Member State of the European Economic Area.

Interest bearing definitive Notes have interest coupons ("**Coupons**") and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 8 March 2019 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg (each as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the Form of Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the Form of Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the Form of Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Form of Final Terms, the Form of Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the Form of Final Terms, provided that (i) the minimum Specified Denomination of each Note which is specified in the Form of Final Terms as being a Senior Note or a Subordinated Note shall be Euro 100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes) and (ii) the minimum Specified Denomination of each Note which is specified in the Form of Final Terms as being a Non-Preferred Senior Note shall be Euro 250,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the Form of Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Instalment Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the Form of Final Terms.

This Note is a Senior Note, a Non-Preferred Senior Note or a Subordinated Note, depending on the Status of the Notes specified in the Form of Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the Form of Final Terms.

2. Status of the Notes and Subordination

(a) Status of the Senior Notes

This Condition 2(a) applies only to Senior Notes (and, for the avoidance of doubt, does not apply to Non-Preferred Senior Notes).

(i) The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank (subject to any obligations preferred by any applicable law) *pari passu* with all other unsecured obligations (other than obligations ranking junior to the Senior Notes from time to time (including Non-Preferred Senior Notes and any further obligations permitted by law to rank, and expressed to rank, junior to the Senior Notes, on or following the Issue Date), if any) of the Issuer, present and future and *pari passu* and rateably without any preference among themselves.

(ii) Each holder of a Senior Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Senior Note.

(b) Status of the Non-Preferred Senior Notes

This Condition 2(b) applies only to Non-Preferred Senior Notes (and, for the avoidance of doubt, does not apply to Senior Notes).

(i) The Non-Preferred Senior Notes (notes intended to qualify as *strumenti di debito chirografario di secondo **livello*** of the Issuer, as defined under Article 12-*bis* of the Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended (the "**Italian Consolidated Banking Act**"), any related Receipts and Coupons constitute direct, unconditional, unsubordinated, and unsecured and non-preferred obligations of the Issuer, ranking

(a) junior to Senior Notes and any other unsecured and unsubordinated obligations of the Issuer which rank, or are expressed to rank by their terms, senior to the Non-Preferred Senior Notes;

(b) *pari passu* without any preferences among themselves, and with all other present or future obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the relevant Non-Preferred Senior Notes; and

(c) in priority to any subordinated instruments and to the claims of shareholders of the Issuer, pursuant to Article 91, section 1-*bis*, letter c-*bis* of the Italian Consolidated Banking Act, as amended from time to time.

(ii) Each holder of a Non-Preferred Senior Note unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have under the laws of any jurisdiction in respect of such Non-Preferred Senior Note.

(c) Status of the Subordinated Notes

This Condition 2(c) applies only to Subordinated Notes.

(i) The Subordinated Notes (notes intended to qualify as Tier 2 capital for regulatory capital purposes, in accordance with Part II, Chapter 1 of the Bank of Italy's *Disposizioni di Vigilanza per le Banche*, as set out in Bank of Italy Circular No. 285 of 17 December 2013, as amended or supplemented from time to time (the "**Bank of Italy Regulations**"), including any successor regulations, and Article 63 of the CRR) (the "**Subordinated Notes**") and the Receipts and Coupons relating to them constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank:

(a) after all unsubordinated, unsecured creditors (including depositors and holders of Senior Notes and Non-Preferred Senior Notes) of the Issuer and after all creditors of the Issuer holding instruments that are less subordinated than the relevant Subordinated Notes

(b) at least *pari passu* without any preference among themselves and with all other present and future subordinated obligations of the Issuer that are not expressed by their terms to rank or which do not rank junior or senior to the relevant Subordinated Notes; and

(c) in priority to the claims of shareholders of the Issuer and to all other present and future subordinated obligations of the Issuer which do not rank or and are not expressed by their terms to rank senior or pari passu to the relevant Subordinated Notes.

(ii) In relation to each Series of Subordinated Notes all Subordinated Notes of such Series will be treated equally and all amounts paid by BMPS in respect of principal and interest thereon will be paid *pro rata* on all Subordinated Notes of such Series.

(iii) Each holder of a Subordinated Note or Coupon unconditionally and irrevocably waives any right of set-off, netting, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note or Coupon.

3. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the Form of Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the Form of Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the Form of Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 3(a):

(i) if "**Actual/Actual (ICMA)**" is specified in the Form of Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Interest Commencement Date), the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

(ii) if "30/360" is specified in the Form of Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

"**Determination Period**" means the period from and including a Determination Date to but excluding the next Determination Date; and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Reset Notes

(i) *Rates of Interest and Interest Payment Dates*

Each Reset Note bears interest:

(A) from (and including) the Interest Commencement Date until (but excluding) the First Reset Date at the Initial Rate of Interest;

(B) from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the Form of Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and

(C) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on the each Interest Payment Date and on the Maturity Date if that does not fall on an Interest Payment Date. The Rate of Interest and the Interest Amount payable shall be determined by the Calculation Agent, (i) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, subject to Condition 3(d) (*Benchmark Discontinuation*) below, and (ii) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 3(a).

For the purposes of the Conditions:

"**First Margin**" means the margin specified as such in the Form of Final Terms;

"**First Reset Date**" means the date specified in the Form of Final Terms;

"**First Reset Period**" means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the Form of Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means, in respect of the First Reset Period and subject to Condition 3(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Margin;

"**Initial Rate of Interest**" has the meaning specified in the Form of Final Terms;

"**Interest Commencement Date**" means the date specified as such in the Form of Final Terms;

"**Mid-Market Swap Rate**" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the Form of Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 3(b)(ii), either:

(A) if Single Mid-Swap Rate is specified in the Form of Final Terms, the rate for swaps in the Specified Currency:

(i) with a term equal to the relevant Reset Period; and

(ii) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(B) if Mean Mid-Swap Rate is specified in the Form of Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(i) with a term equal to the relevant Reset Period; and

(ii) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

"**Rate of Interest**" means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Second Reset Date**" means the date specified in the Form of Final Terms;

"**Subsequent Margin**" means the margin specified as such in the Form of Final Terms;

"**Subsequent Reset Date**" means the date or dates specified in the Form of Final Terms;

"**Subsequent Reset Period**" means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date; and

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 3(b)(ii), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Margin.

(ii) *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall, subject as provided in Condition 3(d) (*Benchmark Discontinuation*), request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 3(b)(ii) "**Reference Banks**" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(c) Interest on Floating Rate Notes

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) (each an "Interest Payment Date") in each year specified in the Form of Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the Form of Final Terms, each date (each an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the Form of Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the Form of Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 3(c)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the Form of Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer ("**TARGET2**") System (the "**TARGET2 System**") is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the Form of Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Form of Final Terms) the Margin (if any). For the purposes of this sub paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions") and under which:

(1) the Floating Rate Option is as specified in the Form of Final Terms;

(2) the Designated Maturity is a period specified in the Form of Final Terms; and

(3) the relevant Reset Date is the day specified in the Form of Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the Form of Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Form of Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject to Condition 3(d) (*Benchmark Discontinuation*) below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either the London inter-bank offered rate ("**LIBOR**") or the Eurozone inter-bank offered rate ("**EURIBOR**"), as specified in the Form of Final Terms, which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the Form of Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page (or such replacement page on that service which displays the information), the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of the Notes will be determined as provided in the applicable Final Terms.

For the purposes of this Condition 3(c)(ii), "**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by Issuer.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the Form of Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the Form of Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (sterling)**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the Form of Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified in the Form of Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(v) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the Form of Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the Form of Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the Form of Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(vi) *Notification of Rate of Interest and Interest Amounts*

Subject to Condition 3(d) (*Benchmark Discontinuation*), the Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange (or listing agent as the case may be) on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vii) *Certificates to be final*

All certificates, communications, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(c), whether by the Agent or shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) Benchmark Discontinuation

This Condition 3(d) is applicable to Notes only if the Floating Rate Note Provisions or the Reset Note Provisions are specified in the relevant Final Terms as being applicable.

(i) *Independent Adviser*

Notwithstanding the provisions above in Condition 3(c) (*Interest on Floating Rate Notes*) or Condition 3(b) (*Interest on Reset Notes*), if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3(d)(ii) (*Successor Rate or Alternative Rate*)) and, in either case, an Adjustment Spread if any (in accordance with Condition 3(d)(iii) (*Adjustment Spread*)) and whether any Benchmark Amendments (in accordance with Condition 3(d)(iv) (*Benchmark Amendments*)) are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

An Independent Adviser appointed pursuant to this Condition 3(d)(i) shall act in good faith and in a commercially reasonable manner as an expert and in consultation with the Issuer. In the absence of bad faith, fraud and gross negligence, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agent, any Paying Agent, the Calculation Agent, the Noteholders, the Receiptholders or the Couponholders for any determination made by it pursuant to this Condition 3(d).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 3(d)(i) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, failing which, an Alternative Rate, provided however that if the Issuer is unable or unwilling to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 3(d)(i) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be, (i) in the case of the Rate of Interest on Floating Rate Notes, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period or (ii) in the case of the First Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Initial Rate of Interest or (iii) in the case of the Subsequent Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Subsequent Reset Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Reset Period or if the immediately preceding Reset Period is the First Reset Period, the First Reset Rate of Interest. If there has not been a first Interest Payment Date or First Reset Date, the Rate of Interest for Floating Rate Notes shall be the initial Rate of Interest and the Rate of Interest for Reset Notes shall be the Initial Rate of Interest (as applicable). Where a different Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) is to be applied to the relevant Interest Period or Reset Period (as applicable) from that which applied to the last preceding Interest Period or Reset Period (as applicable), the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) relating to the relevant Interest Period or Reset Period (as applicable) shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin relating to that last preceding Interest Period or Reset Period (as applicable). For the avoidance of doubt, this Condition 3(d)(i) shall apply to the relevant next succeeding Interest Period or Reset Period (as applicable) only and any subsequent Interest Periods or Reset Periods (as applicable) are subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(d)(i).

(ii) *Successor Rate or Alternative Rate*

If the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3(d)(i) (*Independent Adviser*) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines that:

(a) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 3(d)(iii) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 3(d)); or

(b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 3(d)(iii) (*Adjustment Spread*)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 3(d)).

(iii) *Adjustment Spread*

If the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3(d)(i) (*Independent Adviser*) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 3(d) and the Independent Adviser or the Issuer (if it is unable to appoint an Independent Adviser or if the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 3(d)(i) prior to the relevant Interest Determination Date or Reset Determination Date, as the case may be) acting in good faith and in a commercially reasonable manner determines (i) that amendments to these Conditions and the Agency Agreement, including but not limited to Relevant Screen Page, are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread and/or necessary or appropriate to comply with any applicable regulation or guidelines on the use of benchmarks or other related document issued by the competent regulatory authority (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3(d)(v) (*Notices*) and subject (to the extent required) to giving any notice required to be given to, and receiving any consent required from, or non-objection from, the Competent Authority, without any requirement for the consent or approval of Noteholders, Receiptholders or Couponholders vary these Conditions and the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 3(d)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 3(d) (*Benchmark Discontinuation*), no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Subordinated Notes as Tier 2 Capital of the Issuer and/or the Group and/or (i) result in the exclusion of the relevant Series of Senior Notes or Non-Preferred Senior Notes from the eligible liabilities available to meet the MREL Requirements or (ii) (in the case of Senior Notes or Non-Preferred Senior Notes only) result in the Competent Authority and/or the Relevant Resolution Authority treating the Interest Payment Date or Reset Date, as the case may be, as the effective maturity date of the Notes, rather than the relevant maturity date. In such cases (i) the Rate of Interest on Floating Rate Notes applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period or (ii) in the case of the First Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Initial Rate of Interest or (iii) in the case of the Subsequent Reset Rate of Interest on Reset Notes, the Rate of Interest shall be equal to the Subsequent Reset Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Reset Period or if the immediately preceding Reset Period is the First Reset Period, the First Reset Rate of Interest. If there has not been a first Interest Payment Date or First Reset Date, the Rate of Interest for Floating Rate Notes shall be the initial Rate of Interest and the Rate of Interest for Reset Notes shall be the Initial Rate of Interest (as applicable).

Where a different Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) is to be applied to the relevant Interest Period or Reset Period (as applicable) from that which applied to the last preceding Interest Period or Reset Period (as applicable), the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin (as applicable) relating to the relevant Interest Period or Reset Period (as applicable) shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest or First Margin or Subsequent Margin relating to that last preceding Interest Period or Reset Period.

(v) *Notices*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3(d), or as applicable, any determination by the Issuer that no Successor Rate, Alternative Rate or Adjustment Spread will be adopted and that no amendments to the Terms and Conditions of any series of Notes to effect any Benchmark Amendments shall be made and that the fallbacks provided under Condition 3(d)(iv) above shall apply, will be notified promptly by the Issuer to the Calculation Agent, the Agent and each Paying Agent and, in accordance with Condition 12 (*Notices*), the Noteholders, Receiptholders or Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Conditions 3(d)(i) (*Independent Adviser*) to 3(d)(iv) (*Benchmark Amendments*), the Original Reference Rate and the fallback provisions provided for in Condition 3(b)(ii) (*Interest on Reset Notes – fallbacks*) and Condition 3(c)(ii)(B) (*Screen Rate Determination for Floating Rate Notes*) will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions*

For the purposes of this Condition 3(d):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders, Receiptholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(b) the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner), is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged); or

(c) the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) in accordance with Condition 3(d)(ii) (*Successor Rate or Alternative Rate*) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

"**Benchmark Amendments**" has the meaning given to it in Condition 3(d)(iv) (*Benchmark Amendments*);

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing be published for a period of at least 5 Business Days or ceasing to exist; or

(b) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes, in each case within the following six months; or

(e) it has become unlawful for the Agent, any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder, Receiptholder or Couponholder using the Original Reference Rate;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 3(d)(i) (*Independent Adviser*);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

"**Successor Rate**" means the rate that the Independent Adviser or the Issuer (as applicable) determines (acting in good faith and in a commercially reasonable manner) is a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(e) Exempt Notes

In the case of Exempt Notes which are also Floating Rate Notes where the applicable Pricing Supplement identifies that Screen Rate Determination applies to the calculation of interest, if the Reference Rate from time to time is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Exempt Notes will be determined as provided in the applicable Pricing Supplement.

In the case of Exempt Notes which are not also Fixed Rate Notes or Floating Rate, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(f) Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

4. Payments

(a) Method of payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

(b) Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 6, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

(c) Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below) and save as provided in Condition 4(e)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(d) Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg as applicable.

(e) Specific provisions in relation to payments in respect of certain types of Exempt Notes

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 4(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

(f) General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(g) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 7) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits):

(A) in the relevant place of presentation, in the case of Notes in definitive form only; and

(B) in each Additional Financial Centre specified in the Form of Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(h) Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 6;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5(f); and

(vii) any premium and any other amounts other than interest which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

5. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer (i) at least *at par* in case of Fixed Rate Notes, Reset Notes, Floating Rate

Notes and Zero Coupon Notes, as specified in the Form of Final Terms in the relevant Specified Currency and on the Maturity Date specified in the Form of Final Terms (ii) in the case of Exempt Notes, at its Final Redemption Amount specified in the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date specified in the Applicable Pricing Supplement.

(b) Redemption for tax reasons

Subject to Condition 5(f), Notes may be redeemed at the option of the Issuer (subject to, in the case of Subordinated Notes, the provisions of Condition 5(h) and, in the case of Senior Notes and Non-Preferred Senior Notes, to the provisions of Condition 5(i)) in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the Form of Final Terms to the Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes (in the case of Subordinated Notes, in respect of payments of interest only), the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 and, in making payment itself, would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, provided that in the case of Subordinated Notes the Issuer demonstrates to the satisfaction of the relevant Competent Authority that such change or amendment is material and was not reasonably foreseeable by BMPS as at the date of the issue of the relevant Subordinated Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Agent is not responsible, nor shall it incur any liability, for monitoring or ascertaining as to whether any certifications required by Condition 5 is provided, nor shall it be required to review, check or analyse any certifications produced nor shall it be responsible for the contents of any such certifications and or incur any liability in the event the content of such certification is inaccurate or incorrect.

Each Note redeemed pursuant to this Condition 5(b) will be redeemed at its Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in in the Form of Final Terms, the Issuer may (subject to, in the case Subordinated Notes, the provisions of Condition 5(h) and, in the cases of Senior Notes and Non-Preferred Senior Notes, the provisions of Condition 5(i)), having given not less than the minimum period nor more than the maximum period of notice specified in the Form of Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the Form of Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the Form of Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will, subject to compliance with applicable law, (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption.

(d) Redemption for Regulatory Reasons

In respect of any Series of Subordinated Notes, if Regulatory Call is specified in the Form of Final Terms, upon occurrence of a Capital Event, the Issuer may (subject to the provisions of Condition 5(h)), on any Interest Payment Date (if this Note is a Floating Rate Note), or at any time (if this Note is not a Floating Rate Note), on giving not less than 15 nor more than 30 days' notice to the Agent and in accordance with Condition 12 irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all (but not some only) of the Notes then outstanding at any time at their Early Redemption Amount referred to in Condition 5(f) below together (if appropriate) with interest accrued to (but excluding) the date fixed for redemption.

For the purpose of these Conditions:

a "**Capital Event**" is deemed to have occurred if, as a result of any change in the regulatory classification of the Notes under the Regulatory Capital Requirements, the Notes are (or would be) excluded (in whole or in part) from the Tier 2 Capital of the Issuer and/or the Group and, in respect of any redemption of Subordinated Notes proposed to be made prior to the fifth anniversary of the Issue Date, both of the following conditions are met: (i) the Issuer demonstrates to the satisfaction of the relevant Competent Authority that the change in the regulatory classifiction of the Subordinated Notes was not reasonably foreseeable by the Issuer as at the Issue Date of the Notes and (ii) the Competent Authority considers such a change to be reasonably certain;

"**Competent Authority**" means the Bank of Italy and/or, to the extent applicable in any relevant situation, the European Central Bank or any successor or replacement entity to either, or other authority or authorities having primary responsibility for the prudential oversight and supervision of the Issuer at the relevant time; and

"**Tier 2 Capital**" has the meaning given to it by the Regulatory Capital Requirements from time to time.

(e) Issuer Call due to MREL Disqualification Event

In respect of any Series of Senior Notes or Non-Preferred Senior Notes where Issuer Call due to MREL Disqualification Event is specified as being applicable in the Form of Final Terms, then the Issuer may (subject to the provisions of Condition 5(i)) on any Interest Payment Date (if this Note is a Floating Rate Note), or at any time (if this Note is not a Floating Rate Note), on giving not less than the minimum period nor more than the maximum period of notice specified in the Form of Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all (but not some only) of the Notes then outstanding at any time at their Early Redemption Amount as described in Condition 5(f) below (if appropriate) with interest accrued to (but excluding) the date fixed for redemption, if the Issuer determines that a MREL Disqualification Event has occurred and is continuing.

As used in these Conditions:

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

"**CRD IV Package**" means, taken together (i) the CRD IV Directive, (ii) the CRR and (iii) the Future Capital Instruments Regulations;

"**CRD IV Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended or replaced from time to time;

"**CRR**" means Regulation (EU) No. 2013/575 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time;

"**EC Proposals**" means the amendments proposed to the CRD IV Directive, the CRR and BRRD published by the European Commission on 23 November 2016, as amended or updated in compromise drafts published by the European Commission as at the Issue Date and excluding any part of the amendments reflected in enacted legislation as at the Issue Date;

"**Future Capital Instruments Regulations**" means any regulatory capital rules or regulations introduced after the Issue Date by the Competent Authority or which are otherwise applicable to the Issuer (on a solo or, if relevant, consolidated basis), which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the Own Funds of the Issuer (on a consolidated basis) to the extent required by (i) the CRR or (ii) the CRD IV Directive;

"**Group Entity**" means the Issuer or any legal person that is part of the Group;

"**Loss Absorption Power**" means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements, whether relating to the resolution or independent of any resolution action, of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State in effect and applicable in the relevant Member State to the Issuer or other Group Entities, including (but not limited to) any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of any European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a relevant Member State resolution regime or otherwise, pursuant to which liabilities of a credit institution, investment firm and/or any Group Entities can be reduced, cancelled and/or converted into shares or obligations of the obligor or any other person;

"**MREL Disqualification Event**" means that, at any time, all or part of the aggregate outstanding nominal amount of such Series of Senior Notes or Non-Prefered Senior Notes is or will be excluded fully or partially from eligible liabilities available to meet the MREL Requirements, provided that: (a) the exclusion of a Series of Senior Notes or of Non-Preferred Senior Notes from the MREL Requirements due to the remaining maturity of such Senior Notes or Non-Preferred Senior Notes being less than any period prescribed thereunder, does not constitute an MREL Disqualification Event (b) the exclusion of all or some of a Series of Senior Notes from the MREL Requirements due to there being insufficient headroom for such Senior Notes within a prescribed exception to the otherwise applicable general requirements for eligible liabilities does not constitute an MREL Disqualification Event; and (c) the exclusion of all or some of a Series of Senior Notes or Non-Preferred Senior Notes from MREL Requirements as a result of such Notes being purchased by or on behalf of the Issuer or as a result of a purchase which is funded directly or indirectly by the Issuer, does not constitute an MREL Disqualification Event;

"**MREL Requirements**" means the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss-absorbing capacity instruments applicable to the Issuer and/or the Group, from time to time, including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Republic of Italy, a relevant Competent Authority, a Relevant Resolution Authority or the European Banking Authority from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Issuer and/or the Group), as any of the preceding laws, regulations, requirements, guidelines, rules, standards, policies or interpretations may be amended, supplemented, superseded or replaced from time to time;

"**Regulatory Capital Requirements**" means any requirements contained in the regulations, rules, guidelines and policies of the Competent Authority, or of the European Parliament and Council then in effect in the Republic of Italy, relating to capital adequacy and applicable to the Issuer and/or the Group from time to time (including, but not limited to, as at the Issue Date of the relevant Series of Notes, the rules contained in, or implementing, the CRD IV Package and the BRRD, delegated or implementing acts adopted by the European Commission and guidelines issued by the European Banking Authority);

"**Relevant Resolution Authority**" means the Italian resolution authority, the Single Resolution Board ("**SRB**") established pursuant to the SRM Regulation and/or any other authority entitled to exercise or participate in the exercise of any Resolution Power or Loss Absorption Power from time to time;

"**Resolution Power**" means any statutory write-down, transfer and/or conversion power existing from time to time under any laws regulations, rules or requirements relating to the resolution of the Issuer or any other entities of the Group, including but not limited to any laws, regulations, rules or requirements implementing the BRRD and/or the SRM Regulation; and

"**SRM Regulation**" means Regulation (EU) No 806/2014 of the European Parliament and Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time.

(f) Early Redemption Amounts

For the purpose of paragraphs (b), (d) and (e) above and Condition 8:

(i) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and

(ii) each Zero Coupon Note will be redeemed at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP x } (1 + \text{AY})^{y}$$

where:

"**RP**" equals the Reference Price;

"**AY**" equals the Accrual Yield; and

"**y**" is the Day Count Fraction specified in the Form of Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption of (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(g) Purchases

Subject to Condition 5(i) in respect of Senior Notes and Non-Preferred Senior Notes and Condition 5(h) in respect of Subordinated Notes, the Issuer or any Subsidiary (as defined below) of the Issuer may purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent for cancellation. References in the Conditions to the purchase of Notes shall not include the purchase of Notes by the Issuer or any of their Subsidiaries in the ordinary course of business of dealing in securities, as nominee or as a bona fide investment.

"**Subsidiary**" means any entity which is a subsidiary within the meaning of Section 1159 of the Companies Act 2006.

(h) Conditions to Early Redemption and Purchase of Subordinated Notes

Any redemption or purchase of Subordinated Notes in accordance with Conditions 5(b), (c), (d) or (g) is subject to:

(i) the Issuer giving notice to the Competent Authority and the Competent Authority granting permission to redeem or purchase the relevant Subordinated Notes (in each case to the extent, and in the manner, required by the Regulatory Capital Requirements (as defined in Condition 5(e), including Articles 77(b) and 78 of CRR); and

(ii) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the Regulatory Capital Requirements for the time being.

(i) Conditions to Redemption and Purchase of Senior Notes and Non-Preferred Senior Notes

Any redemption or purchase of Senior Notes and Non-Preferred Senior Notes in accordance with Conditions 5(b), (c), (e) or (g) is subject to compliance by the Issuer with any conditions to such redemption or repurchase prescribed by the MREL Requirements at the relevant time (including any requirements applicable to such redemption or repurchase due to the qualification of such Senior Notes or Non-Preferred Senior Notes at such time as eligible liabilities available to meet the MREL Requirements).

(j) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (g) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(k) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero

Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

6. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts in respect of principal and interest in the case of Senior Notes or Non-Preferred Senior Notes (if permitted by the MREL Requirements), or interest only in the case of Subordinated Notes, as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable:

(a) with respect to any Notes, Receipts or Coupons for or on account of *imposta sostitutiva* (at the then applicable rate of tax) pursuant to Italian Legislative Decree No. 239 of 1 April 1996 and in all circumstances in which the procedures set forth in Legislative Decree No. 239 have not been met or complied with except where such procedures have not been met or complied with due to the actions of omissions of the Issuer or its agents;

(b) with respect to any Note, Receipt or Coupon presented for payment:

   (i) in the jurisdiction of incorporation of the Issuer; or

   (ii) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

   (iii) by or on behalf of a holder who is entitled to avoid such withholding or deduction in respect of such Note, Receipt or Coupon by making a declaration of non-residence or other similar claim for exemption to the relevant taxing authority; or

   (iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(g)); or

(c) in respect of any Note where such withholding or deduction is required pursuant to Law Decree No. 512 of 30 September 1983.

As used herein:

(i) "**Tax Jurisdiction**" means the Republic of Italy ("**Italy**") or any political subdivision of any authority thereof or therein having power to tax; and

(ii) "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

7. Prescription

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

8. Events of Default

(a) Events of Default relating to Senior Notes and Non-Preferred Senior Notes

This Condition 8(a) applies only to Senior Notes and Non-Preferred Senior Notes.

If any one or more of the following events (each an "**Event of Default**") shall occur with respect to any Senior Note or Non-Preferred Senior Note:

(i) the Issuer shall be liquidated (including becoming subject to "*Liquidazione coatta amministrativa*" as defined in the Italian Consolidated Banking Act (as amended from time to time)); or

(ii) the Issuer shall be insolvent,

then any holder of a Senior Note or Non-Preferred Senior Notes may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Senior Notes or Non-Preferred Senior Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as described in Condition 5(f)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

(b) Event of Default relating to Subordinated Notes

This Condition 8(b) applies only to Subordinated Notes.

If any one or more of the following Events of Default shall occur with respect to any Subordinated Note:

(i) the Issuer shall be liquidated (including becoming subject to "*Liquidazione coatta amministrativa*" as defined in the Italian Consolidated Banking Act (as amended from time to time)); or

(ii) the Issuer shall be insolvent,

then any holder of a Subordinated Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any such Subordinated Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as described in Condition 5(f)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

9. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

10. Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the Form of Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(a) there will at all times be an Agent; and

(b) so long as the Notes are listed on any stock exchange (or any other relevant authority), there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority).

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(f). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

11. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

12. Notices

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) if and for so long as the Notes are admitted to trading on, and listed on, the Official List of the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg and/or on the Luxembourg Stock Exchange's website (www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such websites the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange or authority. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

13. Meetings of Noteholders, Modification, Waiver and Substitution

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one half in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not, in the sole opinion of the Issuer, prejudicial to the interests of the Noteholders; or

(b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

For the avoidance of doubt, any variation of the Conditions and the Agency Agreement to give effect to the Benchmark Amendments in accordance with Condition 3(d) (*Benchmark Discontinuation*) shall not require the consent or approval of Noteholders, Receiptholders or Couponholders, subject (to the extent required) to the Issuer giving any notice required to be given to, and receiving any consent required from, or non-objection from, the Competent Authority.

In addition, with respect to (i) any Series of Senior Notes or Non-Preferred Senior Notes, if at any time a MREL Disqualification Event occurs, and if Substitution or Variation is specified as being applicable in the Form of Final Terms, or (ii) all Notes, if Substitution or Variation is specified as being applicable in the Form of Final Terms, in order to ensure the effectiveness and enforceability of Condition 17 (*Statutory Loss Absorption Powers*), then the Issuer may, subject to giving any notice required to be given to, and receiving any consent required from, the Competent Authority and/or as appropriate the Relevant Resolution Authority (without any requirement for the consent or approval of the holders of the relevant Notes of that Series) and having given not less than 30 nor more than 60 days' notice to the Agent and the holders of the Notes of that Series (or such other notice periods as may be specified in the Form of Final Terms, at any time either substitute all (but not some only) of such Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Qualifying Senior Notes, Qualifying Non-Preferred Senior Notes or Qualifying Subordinated Notes, as applicable, provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities.

In these Conditions:

"**Qualifying Non-Preferred Senior Notes**" means securities issued by the Issuer that:

(a) other than in respect of the effectiveness and enforceability of Condition 17, have terms not materially less favourable to a holder of the Non-Preferred Senior Notes (as reasonably determined by the Issuer) than the terms of the Non-Preferred Senior Notes, and they shall also (A) contain terms which at such time result in such securities being eligible to count towards fulfilment of the Issuer's and/or the Group's (as applicable) minimum requirements for own funds and eligible liabilities under the then applicable MREL Requirements; (B) have a ranking at least equal to that of the Non-Preferred Senior Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Non-Preferred Senior Notes; (D) have the same redemption rights as the Non-Preferred Senior Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Non-Preferred Senior Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 17 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment);

(b) are listed on a recognised stock exchange if the Non-Preferred Senior Notes were listed immediately prior to such variation or substitution; and

(c) comply with the requirements provided by Article 12-*bis*, paragraph 1 of the Italian Consolidated Banking Act, as amended from time to time.

"**Qualifying Senior Notes**" means securities issued by the Issuer that:

(a) other than in respect of the effectiveness and enforceability of Condition 17, have terms not materially less favourable to a holder of the Senior Notes (as reasonably determined by the Issuer) than the terms of the Senior Notes, and they shall also (A) contain terms which at such time result in such securities being eligible to count towards fulfilment of the Issuer's and/or the Group's (as applicable) minimum requirements for own funds and eligible liabilities under the then applicable MREL Requirements; (B) have a ranking at least equal to that of the Senior Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Senior Notes; (D) have the same redemption rights as the Senior Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Senior Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 17 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment); and

(b) are listed on a recognised stock exchange if the Senior Notes were listed immediately prior to such variation or substitution.

"**Qualifying Subordinated Notes**" means securities issued by the Issuer that:

(a) other than in respect of the effectiveness and enforceability of Condition 17, have terms not materially less favourable to a holder of the Subordinated Notes (as reasonably determined by the Issuer) than the terms of the Subordinated Notes, and they shall also (A) comply with the then-current requirements of the Regulatory Capital Requirements in relation to Tier 2 capital, (B) have a ranking at least equal to that of the Subordinated Notes; (C) have at least the same interest rate and the same Interest Payment Dates as those from time to time applying to the Subordinated Notes; (D) have the same redemption rights as the Subordinated Notes; and (E) in the event the Notes carry a rating immediately prior to such variation or substitution, are assigned (or maintain) the same credit ratings as were assigned to the Subordinated Notes immediately prior to such variation or substitution (save that, for the avoidance of doubt, where any credit rating was, as a result of Condition 17 becoming ineffective and/or unenforceable, amended prior to such substitution or variation, reference in this sub-clause (E) shall be to such credit rating prior to such amendment); and

(b) are listed on a recognised stock exchange if the Subordinated Notes were listed immediately prior to such variation or substitution.

14. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

15. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

16. Governing Law and Submission to Jurisdiction

(a) Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with any of the above shall be governed by, and construed in accordance with, English law, except that each of Condition 2(b), Condition 2(c) and Condition 17 is governed by, and will be construed in accordance with, Italian law.

(b) Submission to jurisdiction

(i) Subject to Condition 16(b)(iii) below, the English courts have jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a "Dispute") and accordingly the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(ii) For the purposes of this Condition 16(b), the Issuer hereby irrevocably waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(iii) To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

(c) Appointment of Process Agent

The Issuer irrevocably appoints Pirola Pennuto Zei & Associati UK LTD, 5th Floor Aldermary House, 10-15 Queen Street, London, EC4N 1TX as its agent for service of process, in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of such agent being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Waiver of trial by jury

Without prejudice to condition 16(b), the Issuer waives any right it may have to a jury trial of any claim or cause of action in connection with the Notes, the Receipts and the Coupons. These conditions may be filed as a written consent to a bench trial.

(e) Other documents

The Issuer have in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

17. Statutory Loss Absorption Powers

By the acquisition of the Notes, each Noteholder acknowledges and agrees to be bound by the exercise of any Loss Absorption Power by the Relevant Resolution Authority that may result in the write-down or cancellation of all or a portion of the principal amount of, or distributions on, the Notes and/or the conversion of all or a portion of the principal amount of, or distributions on, the Notes into ordinary shares or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Relevant Resolution Authority of such Loss Absorption Power. Each Noteholder further acknowledges and agrees that the exercise of such Loss Absorption Power by the Relevant Resolution Authority may result in any interest accrued on the Notes remaining unpaid and/or being cancelled. Each Noteholder further agrees that the rights of the Noteholders are subject to, and will be varied if necessary so as to give effect to, the exercise of any Loss Absorption Power by the Relevant Resolution Authority.

Upon the Issuer being informed and notified by the Relevant Resolution Authority of the actual exercise of the date from which the Loss Absorption Power is effective with respect to the Notes, the Issuer shall notify the Noteholders without delay. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Loss Absorption Power nor the effects on the Notes described in this Condition.

The exercise of the Loss Absorption Power by the Relevant Resolution Authority with respect to the Notes shall not constitute an Event of Default and the terms and conditions of the Notes shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes subject to any modification of the amount of distributions payable to reflect the reduction of the principal amount, and any further modification of the terms that the Relevant Resolution Authority may decide in accordance with applicable laws and regulations relating to the resolution of credit institutions, investment firms and/or Group Entities incorporated in the relevant Member State.

Each Noteholder also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Loss Absorption Power to the Notes.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit, and for general capital requirements. If there is a particular identified use of proceeds, this will be stated in the Form of Final Terms.

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

1. General

Banca Monte dei Paschi di Siena S.p.A. ("**BMPS**" or the "**Bank**") was incorporated on 14 August 1995 as a joint stock company (*Società per Azioni*) under Italian legislation. On 23 August 1995 BMPS was registered with the Bank of Italy's Register (No. 5274) and with the Companies Register (No. 00884060526). BMPS has its registered office in Piazza Salimbeni 3, 53100, Siena, Italy (telephone number: +39 0577 294 111). BMPS' duration is currently limited to 31 December 2100 though this may be extended by shareholders' resolution.

BMPS's corporate purpose, as set out under article 3 of its by-laws, is as follows: "*The purpose of BMPS is to collect and maintain savings and issue loans and credit, in various forms in Italy and abroad, including any related activity permitted to lending institutions by current regulations. BMPS can carry out, in accordance with the laws and regulations in force, all permitted banking and financial activities and any other transaction which is instrumental, or in any case linked, to the achievement of the company's purpose.*"

BMPS is the parent company of an Italian banking group operating throughout Italy and in major international financial centres. The Monte dei Paschi Group (the "**BMPS Group**" or the "**Group**") offers a wide range of financial services and products to private individuals and corporations. The products and services include ordinary and specialised deposit-taking and lending, including leasing and factoring; payment services (home banking, cash management, credit or debit cards and treasury services for public entities); asset management (through joint venture), brokerage services and corporate finance (project finance, merchant banking, financial consulting).

Pursuant to article 2497 and subsequent articles of the Italian Civil Code, the role of the parent company is carried out by BMPS which directs and coordinates the activities of its direct and indirect subsidiaries, including companies that, under current regulations, do not belong to the BMPS Group. Founded in 1472 as a public pawn broking establishment (Monte di Pietà), BMPS has been a member of FTSE MIB40 since September 1999 with a share capital of Euro 10,328,618,260.14 as at the date of this Base Prospectus.

2. History

BMPS, which is believed to be the oldest bank in the world, has been in continuous operation since 1472, when the General Council of the Republic of Siena approved its original charter. The Bank, then known as "Monte di Pietà", was originally established by the Republic of Siena for the purpose of providing a controlled source of lending for the local community and to fight usury. In 1624, the Bank changed its name to "Monte dei Paschi di Siena" after the paschi, the grazing fields owned by the Grand Duchy of Tuscany, which generated income that was pledged to support the Bank's capital. Following the unification of Italy, the Bank extended its activities beyond the immediate outskirts of Siena. However, significant expansion of the Bank's activities occurred only after World War I, both geographically (with the opening of approximately 100 additional branches) and in terms of activities undertaken (with the commencement of various tax collection activities on behalf of national and regional governments). In 1936, the Bank was declared a public credit institution (*Istituto di Credito di Diritto Pubblico*) organised under a new charter, which, although modified during this period, remained in force until 1995.

In 1995, the Bank was reorganised in accordance with Law No. 218 of 30 July 1990 (the "**Amato Law**") and was incorporated as a *Società per Azioni* or joint stock company owned by Monte dei Paschi di Siena — Istituto di Diritto Pubblico (the "**Foundation**").

3. Major Events

Recent developments

2000-2012

Following the listing of the shares of the Bank, there has been an intense phase of territorial and organisational expansion and the main events are the following:

- acquisition of equity interests in some regional banks having strong roots in the territory, among which Banca 121 S.p.A. (formerly Banca del Salento S.p.A.) and Banca Agricola Mantovana S.p.A., subsequently merged by incorporation into BMPS, effective as of 21 September 2008;

- enhancement of the operational structures in strategic market sectors, through the development of product companies (Consum.it S.p.A., MPS Leasing & Factoring S.p.A., MPS Capital Services Banca per le Imprese S.p.A. ("**MPSCS**"), MPS Asset Management S.p.A. and MPS Banca Personale S.p.A.);

- development of business productivity, with the goal of improving the level of assistance and consultancy to savers and enterprises, through service models specialised by customer segment;

- consolidation of the business in some strategic markets, such as private banking and pension saving;

- implementation of a wide plan for the opening of new branches of the Group;

- strengthening the bancassurance and supplementary pension sectors through a strategic alliance entered into with the group led by AXA S.A.; and

- acquisition of a 59 per cent. stake in Biverbanca S.p.A. from Intesa Sanpaolo S.p.A.

On 14 June 2003 the Bank resolved the reduction, as at such date, in Foundation's stake from 58.575 per cent. to 49 per cent. of BMPS ordinary capital, in accordance with the provisions of Legislative Decree No. 153 of 17 May 1999.

In the following years, the Bank has carried out a number of transactions aiming at (i) evolving the Group's organisational and distributional structure, (ii) enhancing the new production structure, (iii) specialising the product/service offer to customers, (iv) improving the operational efficiency, and (v) optimising the capital.

On 30 May 2008, the Issuer completed the acquisition of Banca Antonveneta from Banco Santander S.A.. The acquisition of Banca Antonveneta was funded by way of:

- equity instruments (two capital increases, one of which offered in subscription to J.P. Morgan Securities Ltd (subsequently renamed J.P. Morgan Securities plc) ("**J.P. Morgan**");

- debt instruments (a public offer of the subordinated notes named "*Banca Monte dei Paschi di Siena S.p.A. Tasso Variabile Subordinato Upper Tier II 2008-2018*"); and

- a bridge loan entered into with a pool of banks which was redeemed in 2009 through the assignment of non-strategic assets.

At the same time, a business unit inclusive of, *inter alia*, more than 400 branches, was assigned to a newly established company named "Banca Antonveneta S.p.A." ("**New Banca Antonveneta**"), fully controlled by BMPS.

FRESH 2008

In April 2008, the Bank increased its share capital by issuing 295,236,070 ordinary shares (the "**FRESH 2008 Shares**") subscribed by J.P. Morgan and establishing a 30-year usufruct right over the securities in favour of the Bank on the basis of which J.P. Morgan retained the bare ownership of the shares, while the Bank held the usufruct thereon; and the Bank and J.P. Morgan also entered into a swap agreement with a term equal to the term of BMPS.

The main features of the FRESH 2008 securities are as follows:

– the term is set until the term of the Issuer (currently 31 December 2100);

– the securities are convertible into BMPS shares on the basis of a conversion ratio set at the time of the issuance;

– the conversion may take place, at any time, upon investor request, starting from 27 May 2008;

– the conversion is automatic in certain circumstances, among which:

  - if the Bank's overall capital requirement (either individual or consolidated) falls below 5 per cent. (or any other threshold provided for by the banking supervisory rules for the purpose of absorbing losses in innovative capital instruments);

  - if the share market price exceeds (for 20 days out of 30 consecutive open exchange days) the threshold price of Euro 1,016,136, equal to 150 per cent. of the conversion price (Euro 677,424);

  - in the event that the Bank defaults the payment obligations undertaken pursuant to the abovementioned usufruct agreement and swap agreement;

  - in the event of the Bank's liquidation;

  - in certain cases of a public tender offer on any and all BMPS shares; and

  - upon the maturity of the securities; and

– the remuneration of the securities is substantially equal to the payments that J.P. Morgan receives as consideration for the usufruct.

The payment in favour of J.P. Morgan of the fee relating to the usufruct agreement – as amended – shall be made on the relevant payment dates (16 January, 16 April, 16 July and 16 October in each year) if, and to the extent that:

- on the basis of the individual financial statements approved prior to such date, the Bank has realised distributable profits; and

- on the basis of such financial statements, cash dividends have been paid to the shareholders.

Upon satisfaction of both the above conditions in relation to a financial year, the fee payable for all the four payment dates following the shareholders' meeting which approved the relevant financial statements may be paid only in an amount equal to the difference between distributable profits resulting from such financial statements and the overall amount of cash dividends paid to the shareholders.

For information on the indemnity released by the Bank to The Bank of New York (Luxembourg) S.A. within the context of the issue of the FRESH 2008 and the relevant proceedings of the Bank of Italy and CONSOB having effects on the regulatory capital and on the net assets, please see *"Legal Proceedings"* of this Base Prospectus.

Furthermore, on 14 April 2008, the Foundation entered into total return swaps (the so-called "**TROR**"), having as underlying the FRESH 2008 securities. In addition, on 23 June 2012, as a result of the termination of the "TROR" agreements, the Foundation received the FRESH 2008 securities which have then been assigned during the course of November 2013.

"Santorini" transaction

In December 2008, BMPS and Deutsche Bank AG ("**Deutsche Bank**") entered into three separate total return swap transactions on BTP for an overall nominal value of Euro 2,000 million, bearing a coupon value of 4.5 per cent. and with a maturity of 2018/2020; these transactions have been then replaced with a BTP bearing a 6 per cent. coupon and having maturity in May 2031. Such transactions were restructured and amended several times between 2009 and 2011. On 19 December 2013, a settlement agreement was entered in respect of such transaction, providing for its early closure, and, as at that time, the agreements provided for the following obligations:

- BMPS to deliver as at the effective date to Deutsche Bank the BTPs and to receive, as consideration, the relevant market value as at the same date (Euro 2,195 million);
- as at each BTP ex-dividend date, BMPS to pay to Deutsche Bank a variable yield equal to the six-month EONIA Index Swap rate plus a spread of 2.8 per cent. and to receive as consideration from Deutsche Bank an amount equal to the BTP coupons, to the extent these have been actually collected from the Italian government (as issuer of the BTP) on the relevant maturities;
- as at the maturity date, Deutsche Bank to pay to BMPS an amount equal to the redemption amount of the BTPs (as effectively collected) and BMPS to pay to Deutsche Bank an amount equal to the nominal value of such BTPs; and
- upon the occurrence of a credit event relating to the Republic of Italy (i.e. events which would have entailed the default of the Republic of Italy), the agreement to be early terminated. In such event, Deutsche Bank shall be entitled to return to BMPS any security issued by the Republic of Italy (and not specifically the BTPs of the total return swaps), or the equivalent value in cash, and BMPS shall pay the nominal value of the security.

For the purpose of reducing the investment rate risk, in July 2009 the Bank negotiated a "forward start" interest rate swap (with deferred value date) to 2011 for a notional amount of Euro 2 billion and maturity on 1 May 2031. Pursuant to such agreement, with effect from the deferred value date:

- BMPS shall pay to Deutsche Bank a 6 per cent. fixed rate interest; and
- Deutsche Bank shall pay to BMPS an amount calculated on the basis of the six-month Euribor rate plus a 1.485 per cent. spread.

Such transaction was subject to daily collateralisation or marginalisation obligation.

For the purpose of managing the overall rate risk of the banking book, the interest rate swap agreement was early terminated in part and, as at the date of the settlement agreement with Deutsche Bank (i.e. 19 December 2013), the outstanding nominal amount was equal to Euro 1.7 billion.

The economic impact of the settlement agreement for BMPS was negative for an amount of Euro 287 million (around Euro 194 million before taxes).

For more details and also with reference to the legal and administrative proceedings arising out of such transaction section, please see *"Legal Proceedings"* of this Base Prospectus.

<u>*"Alexandria" transaction*</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 with a negative one-off economic impact for the Bank of around Euro 88 million before taxes.

For more details, also with reference to the legal and administrative proceedings arising out of such transaction, please see *"Legal Proceedings"* of this Base Prospectus.

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Starting from 2009, the Group has completed:

- a process for the dismissal of branches mainly located in Tuscany, Umbria and Lazio by way of agreements entered into with Banca Popolare di Puglia e Basilicata S.c. a r.l., Banca Carige S.p.A. and Banca CR Firenze S.p.A. (Intesa Sanpaolo group);
- the incorporation of Banca Toscana S.p.A.;
- the rearrangement of the Group's asset management and real estate divisions by way of the creation of the "Prima Group" (through a partnership with the group headed by Clessidra SGR S.p.A. which has then been integrated in Anima Holding S.p.A. further to the integration between Prima SGR and Anima SGR;
- the establishment of the company Perimetro Gestione Proprietà Immobiliari S.c.p.a. ("**Perimetro**"), with an initial 7.9 per cent. interest with voting rights, to which MPS Immobiliare transferred a going concern.

In December 2009, the MEF authorised the subscription of debt financial instruments convertible into the Issuer ordinary shares to be issued by BMPS for an amount equal to Euro 1.9 billion (the so-called "Tremonti Bond"), which have been fully reimbursed by the Bank through: (i) the issuance of new financial instruments convertible in ordinary shares of the Bank (the "**New Financial Instruments**") to be subscribed for by the MEF and eligible as supervisory capital (Core Tier 1) and (ii) a share capital increase by payment transaction with exclusion of option rights, pursuant to articles 2443 and 2441, subsection 5, of the Italian Civil Code, to be carried out by issuing ordinary shares for a maximum value of Euro 2,000 million, to the exclusive service of the payment in shares of interests to be paid pursuant to the regime applicable to the New Financial Instruments.

During the years 2010-2011, as part of a wide project for the reorganisation of the Group, some relevant extraordinary transactions were 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 comprising 13 branches (in the provinces of Novara, Verbania, Turin and Alessandria) in favour of Biverbanca S.p.A.;

- the merger by incorporation of Paschi Gestioni Immobiliari S.p.A. and MPS Investments S.p.A. into BMPS;

- the partial demerger of MPS Immobiliare in favour of BMPS and New Banca Antonveneta; and

- the progressive company integration between Prima Group and Anima SGR S.p.A., by way of an agreement entered into with Banca Popolare di Milano S.p.A., which led to the establishment of Anima Holding S.p.A., whose shareholding was sold to Poste Italiane S.p.A. in April 2015;

- the merger by incorporation of MPS Commerciale Leasing S.p.A. was merged by incorporation into MPS Leasing & Factoring S.p.A.;

- the total disposal of the indirect subsidiary Monte Paschi Monaco SAM was finalised with a Euro 9.7 million contribution to the Group's net profits; and

- the assignment of the 22 per cent. stake in the indirect subsidiary MPVenture SGR S.p.A. (at the time MPS Venture SGR S.p.A.) which was subsequently fully assigned in the course of the financial year ended on 31 December 2014.

Exercises conducted by EBA on banks' capital and capital enhancement measures adopted by BMPS

During the 2011 financial year, EBA and the Member States' national supervisory authorities conducted, in cooperation with the European Systemic Risk Board ("**ESRB**"), the ECB and the European Commission, a stress exercise on the European Union banking system (the "**Stress Test 2011**").

The Stress Test 2011, which was conducted at a consolidated level, concerned in aggregate 90 banking groups of 21 Member States – among which was the BMPS Group – with the aim of assessing the endurance of European banks in hypothetical circumstances of serious worsening of the economic conditions (the so-called "shock") and the relevant solvency in the event of any stress situation relating to certain restrictive conditions. The findings of the Stress Test 2011 highlighted that BMPS satisfied the capital benchmark which had been set for the purpose of the stress test and will continue to guarantee the maintenance of the appropriate capitalisation level.

Following the approval of "banking package" by the European Union, the EBA issued a formal recommendation relating to banks' recapitalisation needs. In relation to the Issuer, such recommendation highlighted the need for a capital enhancement of Euro 3,267 million (such capital deficit already takes into account the capital increase realised by the Issuer in 2011 and better described below). In this respect, the Group submitted to the Bank of Italy an intervention plan – to be shared in the context of the colleges of supervisors and with the EBA – for the achievement of the 9 per cent. Core Tier 1 Ratio target within the deadlines set thereon.

For the purpose of implementing such intervention plan, the Issuer took the following actions during the course of 2011:

- share paid capital increase transaction finalised on 20 July 2011 through the total subscription of the newly issued, ordinary shares;

- conversion into BMPS shares of the convertible bond FRESH 2003; and

- reduction of RWAs.

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In the course of 2012, a new board of directors was appointed; a chief executive officer was also appointed for the first time and the top management was renewed. Therefore, in the course of the financial year, the Bank's organisational structure was redrawn, with the purpose of simplifying its structure and assuring its adequacy compared to the reference market's developments.

Furthermore, the capital enhancement initiatives started in 2011 and, aiming at achieving a 9 per cent. Core Tier 1 Ratio by the end of June 2012, continued. In particular, during the first six months of the year, the Issuer proceeded with: (i) the share capital increase without consideration, pursuant to article 2442 of the Italian Civil Code, for an amount of Euro 752 million by conversion to equity of the share premium reserve relating to the 295,236,070 FRESH 2008 Shares; and (ii) the conversion at par of all 18,864,340 saving shares into ordinary shares.

On 26 June 2012, the board of directors approved the Group's business plan for the period 2012-2015 which was then superseded by the business plan for the period 2013-2017, which was approved by the board of directors on 28 November 2013 and set out in detail the strategic and operational lines of the Restructuring Plan 2013-2017 followed by the new economic and capital targets relating to the period 2015-2018 (for more information on these new targets please see "*1Q2015 GMPS Results – Business Plan update*" published on the Issuer's website www.gruppomps.it).

In relation to the Group structure, during 2012 (i) two plans of merger by incorporation of Agrisviluppo S.p.A. and Ulisse 2 S.p.A. into BMPS were approved by the extraordinary shareholders' meeting; and (ii) the assignment of the 60.42 per cent. stake in the share capital of Biverbanca S.p.A. to Cassa di Risparmio di Asti S.p.A. was finalised. Furthermore, the Bank announced the termination of the shareholders' agreement relating to Banca Popolare di Spoleto.

In June 2012, BPMS launched an exchange offer relating to nine series of subordinated notes (Tier 1, Upper Tier 2 and Lower Tier 2). Those adhering to the offer were offered fixed rate senior notes, to be issued under the Debt Issuance Programme. At the end of the offer period the finalisation of the transaction allowed the Group to post a Euro 227 million gross capital gain.

On 28 November 2012, the board of directors of BMPS resolved upon the issuance of the New Financial Instruments for an amount equal to Euro 3.9 billion subscribed for by the MEF in the context of the extraordinary measures taken to support the banks, which have been fully reimbursed in accordance with the terms and conditions of the issuance.

2013-2019

During 2013, further amendments to the Bank's organisational structure were realised as part of the initiatives for the renewal of the management and aimed at rationalising the units of the Issuer.

Following the above renewal, the board of directors of BMPS resolved to bring the claims for liability and compensation against the former management of the Bank (a resolution that was then ratified by the shareholders'meeting) in relation to some structured transactions carried out during the previous accounting period which were sanctioned by the supervisory authorities.

During the period April 2013 – November 2013, the Issuer completed some corporate transactions in line with the business plan referred to above. In particular, the Issuer carried out the following transactions:

- the merger by incorporation deed of New Banca Antonveneta into BMPS;

- the merger by incorporation deed of MPS Gestione Crediti Banca S.p.A. into BMPS;
- the establishment of Banca Widiba S.p.A. – the online bank of the Group – fully owned by BMPS and authorised by the Bank of Italy to exercise the banking activity and the investment services set out by article 1, paragraph 5, letter a) – f) of the Consolidated Finance Act.
- the termination of the shareholders' agreement entered into with Spoleto Credito e Servizi Soc.Coop.; and
- the approval of some statutory amendments mainly concerning the removal of the 4 per cent. limit to shareholding, the inclusion of the maximum limit of two consecutive mandates after the first one for the members of the board of directors (except for the outgoing chief executive officer), the implementation of the new regime relating to "gender quotas" and the introduction of the age limit for the members of the board of directors, the chairman and the chief executive officer.

Restructuring Plan 2013-2017

On 7 October 2013, BMPS' board of directors approved the restructuring plan 2013-2017 (the "**Restructuring Plan 2013-2017**"), designed according to the guidelines shared with the MEF and the competent offices of the European Commission.

The Restructuring Plan 2013-2017 was transmitted to the MEF and subsequently approved by the European Commission.

In this context, the Restructuring Plan 2013-2017 provided for, *inter alios*, the increase of the net turnover and the reduction of the costs. In such context, the Bank agreed to some undertakings in line with the one that the Italian Republic undertook with the European Commission for its application of an exemption from the state aid provisions.

In particular, under the monitoring activity of the European Commission carried out by an independent monitoring trustee, the Bank undertook to do the following:

– reduce assets;

– reduce Italian government securities in the AFS portfolio;

– assign equity interests;

– close foreign branches;

– close domestic branches;

– respect the prohibition to carry out, for the entire term of the Plan, trading activities which may significantly increase the Bank's risk profile;

– respect the prohibition of acquisitions: except for equity interests (i) acquired in the context of normal banking transactions aimed at managing outstanding receivables owed by enterprises in difficulty; (ii) acquired in the context of the normal banking business, provided that the transaction is consistent with the Restructuring Plan 2013-2017; (iii) originated from the subscription of new shares of the company Autostrade Tirrenica S.p.A. within the limits and according to the conditions strictly necessary to comply with the contractual obligations arisen prior to 17 December 2012; (iv) in securitisation vehicles as part of structured funding transactions; (v) in vehicles or companies aimed at the implementation of the Restructuring Plan 2013-2017 or contemplated by the same

Plan; (vi) the acquisition price of which is lower than the specified amounts specifically set out in the context of the individual and aggregated commitments. The acquisition of Perimetro and the incorporation/acquisition of Banca Widiba S.p.A. are expressly permitted. In spite of the prohibition under this commitment, the Bank may acquire, subject to prior authorisation of the Commission, equity interests in businesses in case this should be necessary in exceptional circumstances to restore the financial stability or to ensure an effective competitiveness;

- comply with the prohibition to pay dividends on hybrid capitalisation instruments: it exists until the completion of the 2014 capital increase in the absence of any legal or contractual obligation to proceed with the payment;

- comply with the prohibition to carry out liability management transactions, except for those which are carried out in compliance with precise limits in terms of minimum discount over nominal value and premium compared to market price, to be promptly submitted for the approval of the competent offices of the European Commission;

- not distribute dividends until the completion of the capital increase carried out in 2014 and, in any event, within the limits imposed by the ECB further to the conclusion of the SREP for the year 2015;

- not use the granting of State aid or the competitive advantages which may derive therefrom for advertising purposes;

- orient the Bank's business policy towards prudence and sustainability;

- not adopt any aggressive business policy;

- reduce operational costs;

- carry out a capital increase by 2014: the Bank fulfilled the commitment with the execution of the capital increase with option rights by Euro 5 billion in July 2014;

- limit the remuneration of senior management; and

- honour commitments relating to corporate governance by virtue of which the appointment of one third of the members of the board of directors would meet the independence requirements.

The Bank has complied with almost all the above-mentioned commitments. The completion of such commitments has then been deferred to the Restructuring Plan for the period 2017-2021.

Outsourcing of back office services

On 30 December 2013 - effective as of 1 January 2014 - the Issuer assigned the back office services business unit to Fruendo S.r.l. (whose company's shares are held for 60 per cent. by Bassilichi S.p.A. and 40 per cent. by Accenture S.p.A.) and contextually entered into, together with other Group companies, outsourcing agreements for 18 year with Fruendo S.r.l. and with Accenture S.p.A. for the outsourcing of such services, for the purpose of reducing the costs and slightly upgrading the financial services. For more information on Fruendo S.r.l. section *"Legal Proceedings"* of this Base Prospectus.

During the first six months of 2014, an important Issuer's organisational rearrangement was conducted, with the purpose of strengthening the commercial functions and controlling, in an integrated and coordinated manner, the governance and business support functions.

In July 2014 the capital increase provided for under the Restructuring Plan 2013-2017 was fully carried out.

Between August 2014 and November 2014, BMPS and the trade unions entered into an agreement relating to the adherence to the solidarity fund for a total of more than 1,400 units, thus reaching the target of the additional cost reduction.

The activity relating to the rationalisation and the cost reduction relating to the employees has been continued with the ratification, on 26 January 2016, by employees' meetings of the new level II bargaining entered into with all trade unions present within the company, assuring the rationalisation of the costs envisaged by the New Targets and implementing the commitments given to the European Commission in the context of the Restructuring Plan and introducing provisions relating to variable remuneration, support measures for personal (company welfare) and professional development which, in an overall sustainability framework, interact with cost containment, social equity and internal mutuality actions.

On 18 September 2014, the on-line bank, Banca Widiba S.p.A. began its operations.

On 5 December 2014, the merger by incorporation of MPS Immobiliare, a company 100 per cent. controlled by the Issuer, into BMPS became effective, with accounting and tax effects effective as of 1 January 2014.

During the course of the financial year ended 31 December 2014, the Group finalised, respectively on 27 June 2014 and 24 December 2014, two non-recourse assignments to a securitisation vehicle funded by companies affiliated to Fortress Investment Group LLC.

Comprehensive assessment and capital enhancement

On 4 November 2014, the ECB took on the supervisory duties provided for in the context of the SSM, among which was the supervision over banking groups of considerable sizes.

In this respect, during the period from November 2013 to October 2014 the ECB carried out, with the cooperation of the national supervisory authorities in charge of conducting banking supervision, a thorough assessment which involved 130 EU credit institutions, among which was the Bank (the so-called comprehensive assessment).

The assessment carried out on the Bank was structured in two streams: (i) an asset quality review which provided an accurate valuation over time of the accuracy bank assets' book value as at 31 December 2013; and (ii) a stress test exercise, which provided a prospective analysis of the soundness of the banks' solvency (assessed over the 2014-2016 three-year time period) in two scenarios: "baseline scenario" and "adverse scenario".

The findings of the comprehensive assessment involved the submission by the Bank to the ECB of the Capital Plan (as defined below), which was approved by the ECB on 10 February 2015, aiming at replenishing, within a nine-month period (ie by the end of July 2015), such capital shortfall. The capital plan, approved by the Issuer's board of directors on 5 November 2014 (the "**Capital Plan**"), provided for the following main interventions:

- a capital increase with option rights up to a maximum of Euro 2.5 billion; and
- non-diluting shares for shareholders, represented by further capital management measures estimated in approximately Euro 220 million, such as the assignment of non-core equity interests and high capital absorption treasury assets.

As part of the duties entrusted to the ECB within the framework of the SSM, the ECB, together with the comprehensive assessment, had also carried out the SREP for the year 2014 for the purpose of ascertaining that banks subject to the ECB supervision adopted safeguards, strategies and processes of financial and organisational nature appropriate compared to the risks taken, including those resulting from stress test exercises. After having completed the SREP activity, on 10 February 2015, the ECB had requested the Bank to have a minimum threshold for Common Equity Tier 1 Ratio, on a transitional basis, equal to 10.2 per cent. and a minimum threshold for Total Capital Ratio, on a transitional basis, equal to 10.9 per cent..

In light of the SREP outcomes, the Issuer resolved upon a capital increase with option rights up to a maximum of Euro 3 billion, compared to the Euro 2.5 billion provided for in the Capital Plan, for the purpose of having a buffer compared to minimum thresholds, on a transitional basis, of Common Equity Tier 1 Ratio equal to 10.2 per cent. and Total Capital Ratio equal to 10.9 per cent. as required by the ECB in the context of the SREP. The capital increase was concluded on 19 June 2015 by means of a full subscription of the newly issued ordinary shares, with no intervention of the guarantee syndicate.

The Issuer furthermore resolved, *inter alia*, to (i) reduce the share capital to cover for the losses accrued and cumulative as at 31 December 2014, (ii) not recreate valuation reserves, (iii) group together ordinary shares, and (iv) amend, consequently, the corporate by-laws. The Issuer also appointed the members of the board of directors and board of statutory auditors who shall remain in office until the date of the shareholders' meeting called to approve the financial statements relating to financial year closed on 31 December 2017.

Within the context of the programme for the dismissal of the assets and the assignment of receivables, which had been adopted in compliance with the principles set out in the Restructuring Plan 2013-2017, as supplemented in 2015, the Issuer has carried out the following activities:

- on 11 May 2015, the merger by incorporation of Consum.it S.p.A. into BMPS was entered into;
- on 23 June 2015, the Issuer entered into an for the non-recourse assignment of a portfolio of non-performing loans comprising consumer credits, personal loans and credit cards originated by Consum.it S.p.A. to Banca IFIS S.p.A. and a securitisation vehicle funded by a company affiliated with Cerberus Capital Management, L.P..
- on 25 June 2015 a 10.3 per cent. equity interest held by BMPS in Anima Holding S.p.A. was sold to Poste Italiane S.p.A.;
- on 28 December 2015, a portfolio of non performing unsecured receivables was assigned without recourse to Epicuro SPV s.r.l., a securitisation vehicle funded by companies affiliated with Deutsche Bank AG; and
- on 23 June 2016, a portfolio of non performing unsecured receivables (consumer credit, personal loans and credit cards receivables originated by Consum.it) has been assigned without recourse to Kruk Group.

<u>*SREP 2015*</u>

On 25 November 2015, the ECB informed BMPS of the outcome of the SREP for financial year 2015 ("**SREP Decision 2015**"), specifying that the Issuer shall comply with a minimum capital requirement in terms of Common Equity Tier 1 Ratio on a consolidated basis of 10.75 per cent. starting from 31 December 2016 (and from 1 January 2016 until 31 December 2016, not lower than 10.2 per cent., as per the SREP Decision 2014) and shall submit a new capital plan in line with this. The ECB has reiterated some prudential requests, *inter alia*, on Own Funds requirements, on the assignment of assets deemed excessively risky for the Issuer soundness, on restrictions to the payment of dividends to shareholders and distributions by the Issuer relating to certain instruments issued thereby as well as on supplementary disclosure obligations and also asked the Issuer: (i) for restrictions on the payment of dividends and

distributions on shares and other financial instruments issued thereby, (ii) to continue with the initiatives aimed at dealing with non-performing exposures ("**NPE**"), together with restructuring initiatives, including aggregation transactions, (iii) for the enhancement of strategies and processes to assess, maintain and distribute internal capital, with specific reference to some specific SREP findings, (iv) to take initiatives aiming at effectively monitoring and guaranteeing on an on-going basis, the capital adequacy of subsidiaries 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 by 28 February 2016.

On 23 December 2015, BMPS submitted to the ECB the Capital Plan 2015, as resolved by the board of directors of BMPS on 17 December 2015, which did not provide for extraordinary measures to achieve a 10.75 per cent. CET1 Ratio by 31 December 2016 as required in the SREP Decision 2015, since updated forecasts for the period 2016-2018 confirmed, in the opinion of BMPS, the Bank's capital adequacy, allowing for a buffer over the projections horizon.

After the completion of the risk assessment conducted in the context of the SREP 2015, the ECB asked the Bank to adopt a risk mitigation programme, in consideration of the eight observations expressed in the same letter and the corresponding recommendations. The Bank replied to the supervisory authority's requests with a 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 an organisational, process, internal regulation, control and monitoring nature. As at 31 December 2016, remedial actions were all fully completed in compliance with the requested deadlines.

Outcomes of EBA's stress test and definition of the 2016 Transaction's features

On 29 July 2016, the EBA disclosed the outcome of the stress test for 2016 (the "**Stress Test 2016**") which, for BMPS, highlighted, in the "adverse" scenario, a 2018 transitional CET1 equal to -2.2 per cent., while in the "baseline" scenario the 2018 CET1 was confirmed at 12 per cent..

The adverse stress scenario had been designed by the ECB/ESRB covering a three-year horizon (2016-2018), assuming a static financial statement starting from December 2015, and hence disregarding changes in the business strategy, or other actions the Bank may have put in place.

On 29 July 2016, the board of directors, with the prior authorisation of the ECB for the purpose of excluding in full any impact on the LGD models arising out of the derecognition of part of the non-performing loan portfolio, approved the guidelines of a transaction structured in a series of activities functionally connected among each other (the "**2016 Transaction**") and, in particular:

- derecognition of part of the non-performing loan portfolio of the BMPS Group through a securitisation structure;

- capital increase with share premium to be offered to shareholders on a pre-emptive basis of the amount of maximum Euro 5 billion (the "**Capital Increase**"), in which respect a pre-guarantee agreement was executed with certain international banks (the "**Pre-guarantee Agreement**"); and

- a further capital increase with exclusion of option rights to service the warrants issued in favour of the Italian Recovery Fund.

Furthermore, in line with what had been preliminarily disclosed to the ECB, the 2016 Transaction took into account the impact deriving from the 40 per cent. average coverage of loans classified under "Unlikely to Pay" and "Past Due Impaired Loans".

On 24 October 2016, the board of directors approved the new industrial plan which, *inter alia*, amended the Restructuring Plan 2013-2017 and called an extraordinary shareholders' meeting of the Bank for the purpose of approving the 2016 Transaction.

On 23 November 2016, the ECB released the necessary authorisations for the purpose of the 2016 Transaction, although subject to the condition subsequent of compliance with certain legislative requirements and the completion, by certain dates, of some parts of the 2016 Transaction. On the same date, the Bank of Italy, with measure no. 1399807/16 issued the preliminary assessment measure concerning the statutory amendments associated with the 2016 Transaction.

As part of the Capital Increase – provided for in the context of the 2016 Transaction disclosed to the market on 29 July 2016 and the features of which have been subsequently approved by the Issuers' board of directors with resolution of 24 October 2016 – the Issuer launched a liability management exercise ("**LME**"), which consisted of a tender offer on LME securities launched by the Bank with the adhering party's obligation to destine the consideration for the subscription of the new LME shares.

The 2016 Transaction, with respect to the Capital Increase, was not completed within the expected timing (31 December 2016) further to the ECB having rejected, on 13 December 2016, the request of the Bank to extend the timing for its completion in light of changes in the market condition and a crisis in the Italian government.

Precautionary Recapitalisation, Capital Enhancement and relevant implementing measures, Public Offering for Exchange and Settlement

Having acknowledged the impossibility to complete the 2016 Transaction on 23 December 2016 the Bank sent to the ECB an extraordinary and temporary financial support request for the access to the so-called "Precautionary Recapitalisation" scheme and, contextually, submitted to the Bank of Italy and the MEF an application for the admission to the State guarantee provided for under article 7 of the Law Decree No. 237 of 23 December 2017 (the "**Decree 237**"), for the purpose of being granted the possibility to issue further State guaranteed liabilities. In January 2017 the Bank was admitted to such measure and BMPS issued, during the course of 2017, three instruments, which were fully subscribed by the Bank and then on-sold in part on the market and also used as collateral for financing transactions.

The Bank then received from the MEF two letters drafted by the ECB – addressed to the same Ministry – which, besides confirming the meeting of the necessary requirements to access the Precautionary Recapitalisation, highlighted the following:

(i) in relation to consolidated data, the Bank was solvent as it complied with the minimum capital requirements set by article 92 of the CRR. Furthermore, the Pillar II requirements on capital are also complied with;

(ii) the outcomes of EBA's Stress Test 2016 (please see "*Outcomes of EBA's stress test and definition* of *the 2016 Transaction*'*s features*" of this Base Prospectus) highlighted a shortfall, only in the case of the adverse scenario, in the fully loaded CET1 parameter at the end of 2018 equal to 2.44 per cent., against an 8 per cent. threshold. According to the ECB such shortfall is represented by a capital demand equal to Euro 8.8 billion, inclusive of all Own Funds components provided for by the applicable legislation in force; and

(iii) the Bank's liquidity position witnessed a swift deterioration between 30 November and 21 December 2016, as highlighted by the significant decrease of counterbalancing capacity (from Euro 14.6 to Euro 8.1 billion) as well as of one-month net liquidity (from Euro 12.1 – 7.6 per cent. of total assets – to Euro 7.7 billion – 4.78 per cent. of total assets).

The Bank then began conversations with the competent authorities for the purpose of understanding the methodologies used by the ECB for its calculations and implementing the Precautionary Recapitalisation.

Further to such conversations, on 28 July 2017, pursuant to a ministerial decree (the "**Burden Sharing Decree**"), the MEF ordered the application of the Burden Sharing in accordance with the provisions of article 22, subsections 2 and 4 of Decree 237, as well as the Bank's capital increase for an amount equal to Euro 4,472,909,844.60 with consequent issuance of 517,099,404 shares awarded, on 1 August 2017, to the holders of Burden Sharing Notes. In accordance with the provisions of article 23, subsection 3 of Decree 237, as well as article 2 of the Burden Sharing Decree, the Burden Sharing Notes have been converted into the Bank's ordinary shares at the unitary price of Euro 8.65.

On 28 July 2017, another ministerial decree (the "**Recapitalisation Decree**") was published by the MEF on the Official Gazette, providing for the Bank's Capital Increase for an amount equal to Euro 3,854,215,456.30, to service the subscription of 593,869,870 shares by the MEF executed on 3 August 2017. Pursuant to the Recapitalisation Decree, the shares reserved for the MEF were issued at the unitary price of Euro 6.49.

Further to the completion of the Burden Sharing and of the Capital Increase reserved for the MEF, BMPS share capital, as per the statement pursuant to article 2444 of the Italian Civil Code filed on 10 August 2017 and registered on 11 August 2017, is equal to Euro 15,692,799,350.97 and is represented by 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares are held by BMPS Group companies after the perfection of the aforementioned interventions of Precautionary Recapitalisation.

By way of interpretation of the provision of the Burden Sharing Decree, providing for the contractual clauses limiting the computability in the Tier 1 capital being ineffective, the Bank's board of directors has extended to the implementation of the Burden Sharing Decree also to the FRESH 2008 securities, giving notice of such determination to Mitsubishi and J.P. Morgan, as holders of usufruct rights on such securities.

In addition to the above, the Bank also carried out the Public Offering for Exchange and Settlement (the "**Offer**") pursuant to Decree 237 and providing for the purchase by the Bank, in the name and of behalf of the MEF, of the new shares being settled between the Bank and those who has become shareholders pursuant to the Burden Sharing Decree. In particular, within the context of the Public Offering for Exchange and Settlement the purchase of the new shares had to be carried out pursuant to the terms and conditions set out in the informative document prepared by the Bank and approved by CONSOB.

In particular, the Offer was brought in connection with all the 237,691,869 ordinary shares of the Bank arising out of the conversion, following the application of the Burden Sharing, of the subordinated bond issue *€2,160,558,000 Floating Rate Subordinated Upper Tier II 2008-2018* (ISIN code IT0004352586) (respectively, the "**UT2 Shares**" and the "**UT2 Notes**") outstanding as at 3 October 2017, equivalent to 20.84 per cent. of the share capital of BMPS.

Upon completion of the Offer, on 23 November 2017, 198,521,533 UT2 Shares, equal to 83.520540 per cent. of the UT2 Shares to which the Offer relates, had been validly tendered into the Offer. Accordingly, the final pro rata allocation ratio was equal to 92.275041 and therefore the Bank, in the name and on behalf of the MEF, acquired 92.275041 per cent. of the UT2 Shares tendered into the Offer from each tenderer and returned, in accordance with the Offer document, the remaining UT2 Shares. Upon completion of the Offer, MEF had purchased a number of UT2 Shares so as to hold a share capital in the Bank equal to 68.247 per cent.

Restructuring Plan 2017-2021

On 26 June 2017, pending the execution of the actions for the Precautionary Recapitalisation and the Capital Enhancement, BMPS' board of directors approved the new economic, capital and financial targets for the Group, referring to the period 2017-2021 (the "**Restructuring Plan 2017-2021**") and designed in the context of the procedure relating to the Precautionary Recapitalisation

The assumptions for the Precautionary Recapitalisation and the Capital Enhancement, together with the relevant implementing measures, were set out in the Restructuring Plan 2017-2021. The Restructuring Plan 2017-2021 was notified to the European Commission, which in July 2017 issued a positive decision on the compatibility of the intervention with the EU legislative framework on State aid, applicable to the recapitalisation measures of banks in the context of the financial crisis.

The Restructuring Plan 2017-2021 contains a set of forecasts and estimates based on the realisation of future events and actions to be undertaken, by directors and the management, inclusive of hypothetical assumptions subject to the risks and uncertainties which characterise, *inter alia*, the current macroeconomic scenario and the evolution of the legislative framework, relating to future events and actions which will not necessarily occur, on which directors and the management have no or only partial control, relating to the performance of the main capital and economic figures or of other factors affecting the evolution thereof (the so-called hypothetic assumptions).

Due to the uncertainty associated with the realisation of any future event, both in relation to the occurrence of such event and to the size and timing of its occurrence, deviation from final and preliminary values may be significant, even if the events envisaged in the hypothetical scenario would occur.

The Restructuring Plan 2017-2021 is consistent with the commitments given to the European Commission's Directorate General Competition (the "**DG Comp**"), provided for by the EU regime, and concerning various plan aspects, among which, in addition to the actions already completed (eg the Burden Sharing): (i) cost reduction measures and restrictions in the matter of advertising and business policy; (ii) assignment of certain assets (in particular, Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A.); (iii) adoption of risk containment measures; (iv) prohibition to carry out acquisitions; (v) restrictions on payments of coupons under outstanding instruments and to execute liability management transactions; and (vi) prohibition to pay dividends and restrictions on the remuneration of employees.

2017 SREP annual process and participation in ECB's 2018 stress test

Further to the conclusion of SREP process for the year 2017, on the basis of the data as at 31 December 2016, and taking into account the information received after such date among which, specifically, was the draft Restructuring Plan 2017-2021 submitted by the Bank to the European Commission, the ECB requested the Bank to maintain on a consolidated basis as of 1 January 2018: i) a level of TSCR equal to 11 per cent. (of which 8 per cent. as minimum Own Funds requirement pursuant to article 92 of the CRR and 3 per cent. as Pillar II capital requirement fully comprising 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; and

– 12.94 per cent. Total Capital Ratio on a transitional basis,

including, in addition to Pillar II requirements, 1.875 per cent. in terms of capital conservation buffer and 0.06 per cent. in terms of O-SII Buffer. As from 1 January 2019 the capital conservation buffer is equal to 2.5 per cent.. It should be noted that, starting from 1 January 2019, the Group is not required to comply with O-SII buffer since it has not been qualified by the Bank of Italy as a national systemically important institution authorised to operate in Italy.

The SREP Decision 2017 introduced the Pillar II capital guidance equal to 1.5 per cent., as request to be fully satisfied with Common Equity Tier 1, in addition to the minimum CET1 regulatory requirement, to the additional Pillar II requirements and the Combined Capital Requirement. It should be noted that failed compliance with such capital guidance does not imply failed compliance with capital requirements.

In addition to the abovementioned quantitative requirements, the SREP Decision 2017 identified qualitative measures in the matter of management of Impaired Loans and distribution of dividends. In relation to Impaired Loans, it should be noted that the Restructuring Plan 2017-2021 incorporated the requests included in the SREP Decision 2017 and the findings of the ECB inspection closed in May 2017. In fact, with the almost total disposal of the NPL Portfolio (as defined below) (for a GBV of around Euro 26 billion as at 31 December 2016) and with a specific assignment/reduction programme of the unlikely to pay and non-performing loan portfolio, the economic effects of which are included in the Restructuring Plan, the Issuer expects to achieve a significant reduction on the impact of gross Impaired Loans over total loans (NPE ratio). The ECB requested the Issuer to provide, on a consolidated and quarterly basis, additional periodic information on Impaired Loans, according to the standard provided by the supervisory authority.

Further to the conclusion of the SREP, the ECB highlighted some weakness profiles/focus areas mainly relating to: (i) the business model, with specific reference to the persistence of the Bank's low profitability and the insufficient capacity to create internal capital. In particular, it was pointed out that a lack of ability to implement and carry out the strategy devised by the board of directors, for instance through practical commercial measures, was also associated with a less favourable change of macroeconomic conditions than had been expected. In the absence of any new strategies aimed at reducing the NPL and refocusing on profitable business areas, the high cost of risk and the persistent reduction in margins (influenced by the contraction of the volumes of funding and lending) will continue to materially affect the profitability and the generation of internal capital; (ii) the risk management system and organisational aspects judged still not fully adequate because they had yet to assess the mitigation activities already implemented by the Group; (iii) the credit quality in respect of the high and exceeding by average NPLs level. In this respect, the supervisory authority highlighted that the Issuer did not manage to implement the NPL management strategy, submitted in 2015; (iv) the market risk in respect of some details linked to the measurement of the banking book's interest rate risk and the high sensitivity to the credit spread of the government securities portfolio; (v) the operational risk in respect of the number of pending legal actions and the consolidation, deemed still weak although gradually improving, of the Group's reputation; (vi) the risk associated with capital adequacy; (vii) the liquidity risk related to the volatility of commercial deposits and the Issuer's exposure to stress events, as observed in the last quarter of 2016 following the failure of the 2016 Transaction. The supervisory authority, pending the completion of the process for the Capital Enhancement and the Assignment of the NPL Portfolio, highlighted additional risk profiles associated with the BMPS' structural financial position and relating to the completion of such transactions (which have since then been completed).

By means of the SREP Decision 2017, the ECB informed the Issuer that, with respect to the subsidiaries, no additional capital requirements were requested compared to the minimum ones set by the current legislation in force for the subsidiaries MPSCS, MPS Leasing & Factoring S.p.A. and Wise Dialog Bank S.p.A. whilst has introduced additional capital requirements were required, in line with article 16(2) of Reg. 1024/2013 for foreign subsidiaries, MP Belgio and MP Banque, as described below.

In relation to the subsidiary MP Belgio, the ECB required:

- as regards the capital requirements and the Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar II capital requirement fully comprising CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV;

- as regards the liquidity requirements to maintain, on an individual basis, the liquidity coverage ratio (LCR) of at least 100 per cent.; and

- with respect to the qualitative requirements, to carry out all necessary actions aimed at diversifying the funding sources and reducing the dependency on the Bank as well as to update its governance memorandum to have processes allowing compliance with governance rules.

In relation to the subsidiary MP Banque the ECB requested:

- on capital requirements, in relation to Total Capital, to maintain, on an individual basis: i) a level of TSCR equal to 10.25 per cent., of which 8 per cent. as minimum Own Funds requirement and 2.5 per cent. as Pillar II capital requirement fully comprising CET1 and ii) an OCR including, in addition to the TSCR, the Combined Capital Requirement pursuant to article 128 of CRD IV.

For both MP Belgio and MP Banque, the SREP Decision 2017 introduced the capital guidance (the so-called "Pillar II capital guidance") equal to 1 per cent., as requested to be fully satisfied with Common Equity Tier 1, in addition to the sole minimum OCR regulatory requirement in terms of CET1 and not in addition to the Tier 1 and Total Capital OCR regulatory requirements (for which accordingly the requirements remain unchanged compared to OCR ones). It should be noted that failure to comply with such capital guidance would not equal to a failure to comply with capital requirements.

During the course of 2018 the Bank has not been subject to any stress test (neither in EBA EU-wide mode nor for the purposes of the SREP).

Termination of the qualification as O-SII

On 30 November 2018, the Bank of Italy informed the Issuer that it no longer qualified as a national systemically important institution authorised to operate in Italy; and therefore, as from 1 January 2019, it will not be required to hold the O-SII buffer.

ECB/Bank of Italy inspections concluded during the period 2015-2019

Ordinary inspection activity on credit risk and the portfolio of receivables (OSI 3435)

During the period January-May 2015, an ordinary investigation was conducted by the ECB and the Bank of Italy in relation to the credit risk and the loan portfolio and the relevant final "follow-up" letter was sent to the Bank on 30 November 2015 with 31 recommendations provided by the investigation bodies and to which the Bank formally responded on 20 January 2016 indicating the relevant remedial actions identified. Such actions are of organisational, internal regulation, process and control nature, as well as of structural enhancement for supporting IT tools.

For the purpose of implementing the necessary actions in response to the observations raised further to the aforementioned investigations, the Issuer internally activated a programme called ARGO 2 ("**ARGO 2**"), established on 14 January 2016, for the purpose of responding to the 31 recommendations notified to the Bank by the ECB letter dated 30 November 2015. The remedy action plan agreed with the ECB provided for the completion of all activities by 31 December 2016, with the exception of remedy action no. 31 (relating to the structural architectural review of the credit support IT systems).

As of the date of this Base Prospectus, all activities provided for the 31 recommendations have been completed, with the exception of some technical solutions related to the remedy action no. 31 being postponed to 2019.

The final accounting relating to ARGO 2 was sent by the Issuer and, as of the date of this Base Prospectus, the final assessment of the ECB has not yet been sent to the Bank. However, some of the requests in relation to the findings related to the proceeding in respect of which the Bank has started the intervention and remedy programme named ARGO 3, issued in the context of the inspection activity OSI 1238, which replicate the findings set out in ARGO 2.

Thematic Review on Risk Governance and Appetite carried out by the ECB

On 3 March 2016, the ECB informed the Issuer on the results of the investigation relating to the functioning of the offices responsible for the strategic, control and management supervision and to the Risk Appettite Framework ("**RAF**"), carried out in 2015 in respect of the significant entities of the Euro zone. In particular, the ECB recommended: (i) to raise the competence and expertise of the board of directors in respect of risk management, control and back office activities, enhancing the appointment procedure of its members, and to review the functioning mechanisms of internal board committees, in particular the risk committee, in respect of the role and guidance by the chief risk officer; and (ii), in respect of the risk appetite framework, that the RAF should have been fully implemented by the first quarter 2016, effectively integrating it in the governance and risk management processes for the purpose of allowing an adequate determination and monitoring of business results.

As at the date of this Base Prospectus, remedial actions are almost entirely completed in compliance with the deadlines requested and evidence of the implemented remedial actions has been provided to the supervisory authority.

Ordinary inspection activity on the governance of the Banks and the risk management system (OSI 3233)

During the period September 2015-January 2016 an ordinary investigation was carried out by the ECB and the Bank of Italy concerning the Bank's governance and the risk management system, OSI 3233. On 28 February 2017, the Bank received the relevant follow up letter. The ECB, in this respect, highlighted some improvement areas associated with the risk management system and the organisational aspects thereof, for which the Issuer has already undertaken the requested mitigation actions.

Inspection activity on the risks relating to credit, counterparty and control system (OSI 1238)

In May 2016, the ECB and the Bank of Italy started an inspection (OSI 1238) within the Bank concerning the control system of credit and counterparty risk with respect to the retail portfolio, SMEs portfolio and corporate portfolio of the Bank, MPS Capital Services and MPS Leasing Factoring that ended in February 2017.

On 13 February 2018, the Issuer received the follow up letter from the supervisory authority setting out the findings relating to the inspection (mainly in the matter of identification of exposures to credit risk, classification, monitoring, reporting, organisation, data base and collateral management, policy and determination of provisions, and specific disclosure to corporate bodies on the deterioration of credit quality) to which the Issuer replied on 15 March 2018 informing the supervisory authority the programme setting out the remedies expected to be implemented by the end of 2018. In this respect, please note that the Restructuring Plan incorporates the result of the inspection carried out by the ECB on the portfolio of receivables (CFR) as of 31 December 2015 highlighting further allocations to be implemented compared to the coverage levels as at the relevant date. This impact has already been incorporated in the 2017 financial statements. As of the date of this Base Prospectus the Issuer does not believe that further corrections to the receivables – expect to the one set out in the Restructuring Plan – are needed.

In order to ensure the monitoring of the interventions, the Bank started a project named ARGO 3, managed by the Chief Lending Officer. In this respect, the activities are in line with the scheduled planning, and all deliverables scheduled for 30 June 2018 have been completed.

As of the date of this Base Prospectus, the final assessment of the ECB has not yet been sent to the Bank.

Verification activity on banking transparency

During the period September-December 2016, the Bank of Italy carried out a verification activity within sample branches of the Bank for the verification of compliance with the provisions relating to transparency of contractual conditions and the fairness of the relationships with retail customers, pursuant to article 128 of the Italian Banking Act. In a note dated 28 August 2017, the Bank was informed of the findings of the investigation activity, and six observations were expressed, in respect of which the supervisory authority has requested to provide structured and precise clarifications within 60 days of the receipt thereof, reserving to express further evaluations in respect of the responses received. Along with such requests, the Bank was asked for further clarifications about certain conducts that had been subject to petitions received by the authority. On 27 October 2017, the Bank delivered the clarifications requested as well as the indication of the remedy actions deemed necessary, including those with compensatory character. On 7 November 2017, the supervisory authority requested further details, in particular with regard to the timing of such remedy actions.

On the same occasion, the Authority asked whether the Bank had reserved any amount relating to the reimbursement in its financial statements and requested an update on the completion of the intervention plan on transparency approved in August 2013 and the reimbursement activities relating to limitation that occurred in the calculation of interests in case of the negative indexes.

The response sent to the Authority on 15 December 2017 set out an update on the activities, the deadlines and the amount reserved in the income statement relating to the reimbursement for the annulment of the unilateral amendments proposals (Euro 5.8 million) and an update relating to the 2013 intervention plan, almost completed, and on the activities carried out in relation to the negative indexing parameters.

On 7 August 2018, the Bank of Italy sent a further notice inviting the Bank to (i) re-examine the fees schemes relating to the advances on invoices transactions, (ii) strengthen the Bank capacity to quickly face other criticalities found during the inspections and (iii) give updates on the state of implementation of the planned activities. The reply was sent on 19 October 2018 coupled with the assessments of the compliance and audit offices. With regard to point (i) and (ii) the Bank undertook to implement the requests of the Bank of Italy; with regard to point (iii) the state of implementation was provided.

Bank of Italy inspection on transparency in relation to Banca Widiba S.p.A.

During the period between 13 November 2017 and 9 January 2018, Bank of Italy carried out an inspection on Banca Widiba S.p.A. aimed at verifying the organisation and the control systems implemented by the intermediary to ensure the compliance with transparency requirements. In this respect, the authority analysed the regulatory framework, the processes – also the externalised ones – the structure of the controls and a sample of the relationships and transactions relating to the different categories of banking products and services offered by the Bank, the type of clients and the offering channels.

On 10 April 2018, the Bank of Italy notified the inspection report to Banca Widiba S.p.A., setting out ten issues and an assessment "partially compliant" due to weakness in the control structure. This entailed the non fully compliance with the relevant transparency provisions, in particular with reference to the process of unilateral amendment of the terms and conditions and the determination of certain fees.

As a consequence of such weakness, on 11 June 2018, Banca Widiba S.p.A. sent to the supervisory authority the remediation plan, providing for 41 interventions and detailing the ones already implemented (17 as of that date) and the one to be implemented (no. 24), including the relevant timetable. As requested by the Authority, the Bank also gave its opinions on the issues and the relevant intervention set out by Banca Widiba S.p.A. On 28 September 2018, Banca Widiba S.p.A. sent a letter to Bank of Italy setting out the state of interventions implemented in relation to the issue raised by the authority highlighting that, as of that date, 21 interventions had been completed, five interventions about to be completed, 14 interventions still being implemented and one intervention had to be started yet. In addition, as requested by the Authority, Banca Widiba S.p.A. reimbursed the amount wrongfully charged to its customers.

Inspection activity on anti-money laundering

During the month of June 2017, the anti-money laundering service has been subject to an on-site inspection from the Bank of Italy aimed at assessing the procedures in the context of identification and adequate enhanced review on politically exposed persons ("**PEPs**").

During the inspection – started on 5 June 2017 and ended on 6 July 2017 – the Bank of Italy carried out an analysis of the organisational structures, the internal rules and the internal processes, with particular reference to the process of evaluation of PEPs and to the continuous monitoring, in addition to specific considerations on a sample of clients independently identified.

The supervisory authority communicated the result of the inspection to the board of directors of the Bank, describing the goals of the on-site inspections that had been carried out at system level, which are used as standards in order to suggest the best practices observed in the industry. Even if it clarified that a sanctioning procedure would not have been started, the supervisory authority underlined certain areas of improvement that were concerning, in particular: the risk profiling; the adequate verification; and the internal controls and the identification of PEPs. As of the date of this Base Prospectus, the Bank informed the supervisory authority on the remedy activities already implemented and to be implemented in relation to the issues highlighted. The letter of reply – the content of which was approved by the board of directors of the Issuer on 27 October 2017 – was sent on 3 November 2017 and it was drafted by the chief audit executive office and the control, claims and compliance office of the Bank in order to promptly answer to the request of the Authority, highlighting the activities already implemented, the activities which are being implemented and the activities which have been planned.

Between 8 May and 28 August 2018, the UIF carried out the first inspection activity relating the assessment of the procedures created to verify potential anomalies relating to the activity of the Issuer's clients. The supervisory authority has notified eight branch-owners of likewise verbal processes of inspection and notification for a missing warning of suspect transactions, for which the Issuer is jointly liable.

The second inspection, started on 5 June and completed on 27 September 2018, has been conducted on the Bank and on Banca Widiba S.p.A with the aim of verifying the compliance with the anti-money laundering provisions. The results of the inspection carried out by the Bank of Italy have not been communicated yet.

Bank of Italy inspection activity on usury

Starting from 6 June 2018, the Bank of Italy commenced an inspection aimed at verifying the appropriateness of the organisational structures in order to correctly set out the global average interest rates and prevent risks linked to a violation of the provisions on usury. The inspection ended in September 2018. The Bank is waiting the findings of the supervisory authority.

ECB inspection activity in relation to the review of the internal models (TRIM-2939)

On 21 November 2017, in the context of the process of review of the internal models (TRIM – *Targeted Review of Internal Models*) ECB started an on-site inspection relating to the internal model on credit risk for the Issuer and the Group with reference to the parameters *Probability to Default* and *Loss Given Default*, within the perimeter of retail – non SME – providing real estate guarantees.

The on-site inspection relating to the internal model on credit risk was carried out in the period between December 2017 and April 2018. On 10 July 2018, the Bank received from the ECB the inspection assessment report setting out 19 findings in relation to which, on 4 May 2018, the Bank replied by a letter providing for an action plan; the Issuer is waiting for the reply of the ECB.

With a letter dated 30 November 2017, the ECB sent to the Issuer the follow up letter relating to TRIM general topics review setting out one finding which the Bank considers to have solved as communicated to the ECB with a letter of reply on 13 December 2017.

With a following letter dated 15 January 2018, the ECB sent to the Issuer a feedback relating to the auto-assessment phase of TRIM general topics, identifying seven deviations with respect to the asked requirements. On 22 March 2018 the Issuer sent the response letter indicating the remedial actions and the relevant timeline.

Inspection OSI-IT Risk

During the period in between 26 March 2018 and 26 June 2018, the ECB carried out an on-site inspection relating to the Information Technology risk (IT Risk) of the Group. As of the date of this Base Prospectus, the Issuer is waiting to receive the draft follow up letter.

Internal Model Investigation – IMI 40

On 14 June 2018, the ECB formally notified the Issuer of its final decision relating to the internal inspection on the models for the calculation of the requirements in relation to the credit risk ended on 4 December 2015, setting out 21 findings. On 11 July 2018, the Issuer sent to the ECB its plan setting out the relevant remedial actions and implemented the limitations set out in the prudential data.

TRIM inspection on the revision of internal model

On 27 November 2018, in the context of the revision process of the internal models (TRIM – Targeted Review of Internal Models), the Issuer has received notice from the ECB of an on-site inspection, starting 21 January 2019, relating to the internal model on credit risk for the Issuer and the Group, with respect to the PD, LGD, and credit conversion factor ("**CCF**") parameters on corporate credit exposures and others.

OSI- Legal Risk Inspection

On 11 January 2019, the ECB gave notice to the Issuer of an on-site inspection during the month of January regarding the legal risks for the Issuer, the Group and the outsourcing service providers.

Extraordinary transactions carried out in the period 2017 - 2019

Assignment of the equity interests held in Bassilichi S.p.A.

The assignment of the equity interest in Bassilichi S.p.A. from the Bank to the Istituto Centrale delle Banche Popolari Italiane S.p.A ("**ICBPI**") was finalised in June 2017 with the execution of the agreement with CartaSi S.p.A. for the assignment of BMPS activities related to the merchant acquiring business and of the equity interest held in Bassilichi S.p.A. and in Consorzio Triveneto S.p.A.. In relation to the assignment of Bassilichi S.p.A., it was specified that the equity interest in the company Fruendo (the company to which the Issuer had transferred the back-office activities), in which Bassilichi S.p.A held a majority stake, was not included in the assignment.

Juliet transaction

The "Juliet" transaction – resolved by BMPS' board of directors on 14 November 2016 – related to the outsourcing of special servicing activities of the new non-performing loans inflows that are expected to be generated by BMPS over the next ten years in addition to other non-performing loans arising from the securitisation of BPMS assets as well as other securitisation transactions promoted by Quaestio. The completion took place on 14 May 2018 between BMPS, Cerved Group S.p.A. and Quaestio Holding SA; the transaction related to the purchase of a platform for the recovery of non-performing loans of BMPS by Quaestio Cerved Credit Management S.p.A., a company set up by Cerved and Questio Holding.

The Juliet platform provides special servicing activities on non-performing loan portfolios; it is expected to service at least 80 per cent. of the non-performing loans originated by BMPS over a period of ten years in addition to other non-performing loans arising out of securitisation transactions of BMPS and/or Quaestio.

The consideration for the assignment amounted to Euro 52.6 million, in line with the Euro 52.5 million announced on 2 August 2017 adjusted to working capital, to which an earn-out could be added for a total maximum amount of Euro 33.8 million, payable in two tranches upon the realization of certain economic results following the approval of the financial statements of Juliet as at 31 December 2020 and 31 December 2025.

Assignment of the NPL Portfolio and derecognition of the securitised portfolio

On 27 June 2017, the Bank entered into an agreement with Quaestio Capital Management SGR S.p.A. providing for the transfer of a portfolio of non-performing receivables having a gross book value (GBV) of about Euro 26 billion, as of 31 December 2016, (the "**NPL Portfolio**").

The transaction has been structured according to the following phases: firstly (i) the securitisation of the non-performing receivables pursuant to Law 130/99 through the issuance of *senior, mezzanine* and *junior* asset backed notes and (ii) secondly, the transfer of part of such notes to Quaestio SGR on behalf of Italian Recovery Fund.

During the first phase of the transaction, the securitisation vehicle established pursuant to Law 130/99, which acquired BMPS' bad loan portfolio, issued the following notes (ABS, asset-backed securities):

- Senior notes for Euro 2,918 million (the notes had initially been issued in December 2017 for higher amount, equal to Euro 3,095.6 million, then reduced following the first payment date of 30 April 2018), which have been assigned an A3/BBB+/BBB rating by Moody's France S.A.S., Scope Ratings GmbH and DBRS Ratings GmbH, respectively covered by the State Guarantee ("**GACS**") for a gross value of Euro 24.1 billion (net value of Euro 4.3 billion) which have been initially retained by BMPS, MPS Capital Services and MPS Leasing & Factoring (the "**Assigning Banks**"), which will subsequently consider their partial placement on the market.

- Mezzanine Notes for Euro 847.6 million, unrated, the 95 per cent. of which were sold on 22 December 2017 to the Italian Recovery Fund.

- Junior Notes for Euro 565 million, unrated, 95 per cent. of which were sold on 22 June 2018 to the Italian Recovery Fund.

The transfer of the Junior Notes, in addition to that of the Mezzanine Notes and the total outsourcing of portfolio recovery activities, entailed the concurrent derecognition of the NPL Portfolio, for a gross value of approximately Euro 24.1 billion (net value of Euro 4.3 billion). Please note that the economic effects relating to the valuation of the assigned portfolio have already been accounted in the financial year ending on 31 December 2017 on the basis of the realisation values deriving from the relevant agreements.

This transaction marked the full achievement of the objectives set by the Quaestio Agreement, which called for the acquisition by Quaestio of the Mezzanine Notes and Junior Notes of the BMPS Group's securitised NPL Portfolio by 30 June 2018.

Sale of Banca Monte dei Paschi Belgio S.A.

On 5 October 2018, BMPS reached an agreement with a company controlled by funds managed by Warburg Pincus for the sale of Banca Monte dei Paschi Belgio S.A. The agreement is one of the commitments set out in the Restructuring Plan. The impact of such transaction on BMPS CET1 is not relevant and it has already been included in the forecasts set out in the Restructuring Plan. The sale is subject to the approval of the Belgium National Bank and the ECB.

Casaforte global public offer on Class A asset backed notes and Class B asset backed notes issued by Casaforte S.r.l. launched by BMPS

On 26 October 2018, BMPS published, in its capacity as offeror, the offer document (approved on the same date by CONSOB) relating to a voluntary global public offer on the entire outstanding classes of asset-backed notes issued on 22 December by Casaforte pursuant to article 5 of Law/130, saved for the notes already held by BMPS on that date. The offer period started at 8:30 (Italian time) on 29 October 2018 and it ended at 17:30 (Italian time). Following such offer period, BMPS held approximately 97.594 per cent. of the class A asset-backed notes and approximately 99.808 per cent. of the class B asset backed notes issued by Casaforte S.r.l..

Disposals of non-performing loans for a total amount of Euro 3.5 billion

On 2 January 2019, the Issuer announced the signing of binding agreements for the disposal of:

- a portfolio of Euro 2.2 billion of unsecured small-ticket and consumer credit non-performing loans (so-called "Progetto Merlino"). The assignees of this portfolio, which was subdivided into four separate clusters based on the type and/or amount of individual exposures, are IFIS NPL S.p.A. (Small and Consumer Clusters), Credito Fondiario S.p.A and Fire S.p.A (Mid Cluster) and Balbec Capital LP (Large Cluster);

- a portfolio of Euro 0.9 billion of leasing bad loans (so-called "Progetto Morgana"), transferred to Bain Capital Credit; and

- a portfolio of Euro 0.4 billion of UTPs (Unlikely-To-Pay, so-called "Progetto Alfa 2"). With this transaction, the Bank achieves, in 2018, an overall UTP reduction of approximately Euro 1.9 billion, exceeding the Restructuring Plan's annual target of Euro 1.5 billion.

The entire disposal programme will be factored into the 2018 financial statements, with a marginal impact on the income statement. Merlino and Alfa 2 were completed in 2018, whereas Morgana will be completed in 2019.

The conclusion of these transactions, which follow the disposal of bad loans for around Euro 24 billion completed last June, represents an important step forward in the de-risking process envisaged by the Restructuring Plan and in meeting the commitments taken with the European Commission.

Merger by way of incorporation of Perimetro Gestione Proprietà Immobiliari S.C.p.A.

Following the authorisation issued by the ECB on 27 December 2018, on 11 January 2018 the merger project by way of incorporation of Perimetro into BMPS has been filed with the Arezzo-Siena Companies Register pursuant to article 2501-*ter* of the Italian Civil Code. For further information in this respect, reference is made to the press release published on the Issuer's website https://www.gruppomps.it/en/media-and-news/press-releases/press-release-11012019.html on 11 January 2019, which is incorporated by reference into this Base Prospectus.

Other events relating to 2017-2019

Renewal of the partnership with Compass

On 19 September 2017, BMPS and Compass S.p.A. agreed to renew the multi-annual partnership for the distribution of Compass S.p.A. loans through the 1,800-plus branches of the BMPS Group, the expiration of which had been scheduled for 31 December 2017. The new partnership agreement increases the commercial offer, furthermore providing, starting from the new year, an extension to the whole national territory of the financing through loans guaranteed by the disposal of the one-fifth of the borrower's salary, with the assistance of Futuro S.p.A., an entity controlled by Compass S.p.A. and active in providing such type of funding. The new agreement was entered into on 11 October 2017.

Readmission of the BMPS share to trading

On 24 October 2017, CONSOB, by resolution no. 20167, arranged for the revocation of the resolution no. 19840 of 23 December 2016 related to the trading's temporary suspension upon Italian regulated markets, multilateral trading facilities and systematic internalisation systems of any title issued or warranted by the Bank and of any securities having as underlying asset titles issued by the Bank. On 25 October 2017, the BMPS share has been readmitted to trading on the *Mercato Telematico Azionario*.

Extraordinary and ordinary shareholders' meeting of 18 December 2017

On 18 December 2017, the ordinary and extraordinary shareholders' meeting of the Bank approved:

a) a reduction in share capital due to losses, pursuant to article 2446 of the Italian Civil Code, in the amount of around Euro 5.4 billion;

b) amendments to articles 6, 10, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28 and 33 of the by-laws;

c) the appointment of new members (14) to the board of directors;

d) the appointment of a new board of statutory auditors; and

e) remuneration of the members of the board of directors and the board of the statutory auditors.

Furthermore, Stefania Bariatti was appointed as president of the board of directors of the Bank and Antonino Turicchi was appointed as vice-president.

Confirmation of the Chief Executive Officer

On 22 December 2017, the board of directors confirmed the appointment of Marco Morelli as chief executive officer of the Bank.

Issue of subordinated Tier 2 Bond successfully completed

On 11 January 2018, BMPS announced that it has successfully completed the issue of a "Tier 2" subordinated bond with a 10-year maturity, and a size of Euro 750 million. The bond pays a fixed-rate coupon of 5.375% and has an issue price of 100%, consistent with a spread of 500.5 basis points above the 5-year swap rate. The transaction was met with orders for over Euro 2.7 billion from about 250 institutional investors, 3.6 times above the offer.

Andrea Rovellini was appointed Chief Financial Officer of the Bank

On 12 March 2018, Andrea Rovellini was appointed Chief Financial Officer of the Bank, following Francesco Mele resignation.

New organisational structure to serve local areas, customers and digitalisation

On 17 April 2018, Banca Monte dei Paschi di Siena launched a new organisational structure, accompanied by a change in the managerial set-up with a view to progressive generational renewal and the enhancement of internal resources.

The new structure supports the full commercial relaunch of the Bank, which finds its strong focus on attention to the territory and to innovation, in a logic of managerial enhancement and acceleration to the revival of the Bank.

In particular, a new Network Division has been created, which reports directly to the CCO and is in charge of overseeing the BMPS commercial network through its 5 territorial areas, focusing on commercial coordination with a strong customer focus.

In a logic of ever-increasing attention to technological innovation, Widiba, the Group's on-line bank, and the Group's IT Service Company, Consorzio Operativo, report directly to the CEO of BMPS.

At the same time, following the exit of certain managers of the Bank, the managerial line has been renewed, with the enhancement of internal resources who have distinguished themselves for their competence and professional capacity.

Draft SREP Decision

On 5 December 2018, BMPS received the Draft SREP Decision from the supervisory authority. Based on the results arising from the SREP 2018, the Draft SREP Decision sets out the prudential requirements both quantitative (own funds) and qualitative for BMPS, and provides the Bank with some recommendations.

With respect to own funds, according to the Draft SREP Decision, the ECB requires to the Issuer to maintain on a consolidated basis a Total SREP Capital Requirement (TSCR) of 11 per cent., which includes a minimum 8 per cent. requirement of Pillar I and an additional 3 per cent. requirement of Pillar II. Pillar II requirement level is, therefore, unchanged compared to 2018.

Moreover, with respect to Pillar II Capital Guidance and, according to the Draft SREP Decision, the ECB expects that BMPS complies with 1.3 per cent. threshold, compared to 1.5 per cent. threshold in 2018, as mentioned above.

With specific reference to the coverage of the non-performing loans, BMPS received some recommendations from the ECB aimed at ensuring constant improvements in the reduction of pre-existing risks in the Euro Area and to accomplish the same coverage level for the amounts and flows of the non-performing loans in the mid-term. With a press release published last year (11 July 2018), the ECB announced that it would have communicated with each bank to determine the individual supervisory expectations, on the basis of a comparative evaluation (benchmarking) between similar banks, taking into account the current level of NPL ratio and other financial indicators of each bank. In this context, BMPS has been advised to develop, in the coming years (up to the end of 2026), a gradual increase of the coverage levels over the stock of the non-performing loans resulting as such at the end of March 2018, according to a collateral logic to the indications provided in the addendum to the ECB Guidelines for banks on non-performing loans issued starting from April 2018.

In the Draft SREP Decision, the ECB also underlined the weaknesses/matters that need attention that BMPS has to face. The most relevant ones relate to the ability to achieve the objectives set out in the Restructuring Plan: increase the profitability (lower than expected according to the restructuring Plan), and the capital position, affected by the impossibility to proceed with the second issuance of T2 notes within 2018 and from the indirect and direct effects of the BTP-Bund spread dynamic, considering in particular the substantial exposure of BMPS to the Italian sovereign debt.

Furthermore, the Draft SREP Decision highlights the significant challenges set by the Restructuring Plan in relation to the funding and to the capability of BMPS of successfully carrying out the funding strategy, given the turmoil happening in the Italian markets.

On 8 February 2019, the Bank received the 2018 SREP Decision which confirmed the prudential requirements and the recommendations for BMPS contained in the Draft SREP Decision.

Placement of a five-year covered bond issue amounting to Euro 1 billion

On 23 January 2019, for the first time since November 2015, the Issuer completed a "covered bond" issue (bonds backed by Italian residential mortgages) for an amount equal to Euro 1 billion with the settlement date on 29 January 2019 and the maturity date in January 2024, intended for institutional investors.

A pool of banks acted as joint lead managers and bookrunners for the placement of the covered bond which has been rated A1/A+/AAL (Moody's/Fitch/DBRS). The order book amounted to Euro 2.2 billion.

Board of Directors approves preliminary results as at 31 December 2018

On 7 February 2019, the Bank published the press release containing the consolidated financial information as at 31 December 2018 which has been reviewed and approved by the Board of Directors of the Bank (please see the press release published on the Issuer's website https://www.gruppomps.it/en/media-and-news/press-releases/board-of-directors-approves-preliminary-results-as-at-31-december-2018.html on 7 February 2019, which is incorporated by reference into this Base Prospectus). EY S.p.A., as external independent auditors of BMPS, have agreed that such financial information, which has not been audited, is substantially consistent with the relevant final figures to be published in the next annual audited consolidated financial statements of BMPS for the year ended 31 December 2018. On 28 February 2019, the BMPS' Board of Directors approved the Bank's draft financial statements and the BMPS Group's draft consolidated financial statements as at 31 December 2018, incorporating the financial information already approved by the Board of Directors on 7 February 2019 (please see the press release published on the Issuer's website https://www.gruppomps.it/en/media-and-news/press-releases/mps-board-approves-2018-draft-financial-statements.html on 28 February 2019, which is incorporated by reference into this Base Prospectus).

Furthermore, the Bank has updated its multiannual internal estimates of income statement and balance sheet figures so as to take into account the evolution of the current macroeconomic scenario (eg. BTP-Bund spread level in the second half of 2018, consensus on GDP growth estimate, industrial production and household consumption indicators, expected evolution of interest rates), the 2018 results and the contents of the Draft SREP Decision (as confirmed by the 2018 SREP Decision). Such estimates are lower than those contained in the Restructuring Plan, but nonetheless show capital ratios which are above the relevant regulatory requirements.

Ratings

On 3 December 2018, Moody's reduced BMPS' long-term rating to "Caa1" from "B3", changing the outlook to Negative from Stable. At the same time, the rating agency confirmed the bank's "ca" standalone baseline credit assessment (BCA) as 'caa1'.

On 24 July 2018, Fitch confirmed the BMPS' long-term Issuer Default Rating ("IDR") as "B" with Stable outlook and confirmed the short-term rating as "B".

On 19 June 2018, DBRS confirmed the BMPS' long-term rating as "B" (high) and the short-term rating as R-4, and confirmed the relevant outlooks as Stable.

Ratings Agencies	**Long term rating**	**Outlook**	**Short term rating**	**Outlook**	**Last updated**
Moody's	Caa1	Negative	NP[5]	-	3 December 2018
Fitch	B	Stable	B[6]	-	24 July 2018
DBRS	B (High)	Stable	R-4[7]	Stable	19 June 2018

4. Principal companies of the BMPS Group

BMPS, as the parent company of the BMPS Group, performs the functions of policy, governance and control of the controlled financial companies and subsidiaries in addition to its banking activities.

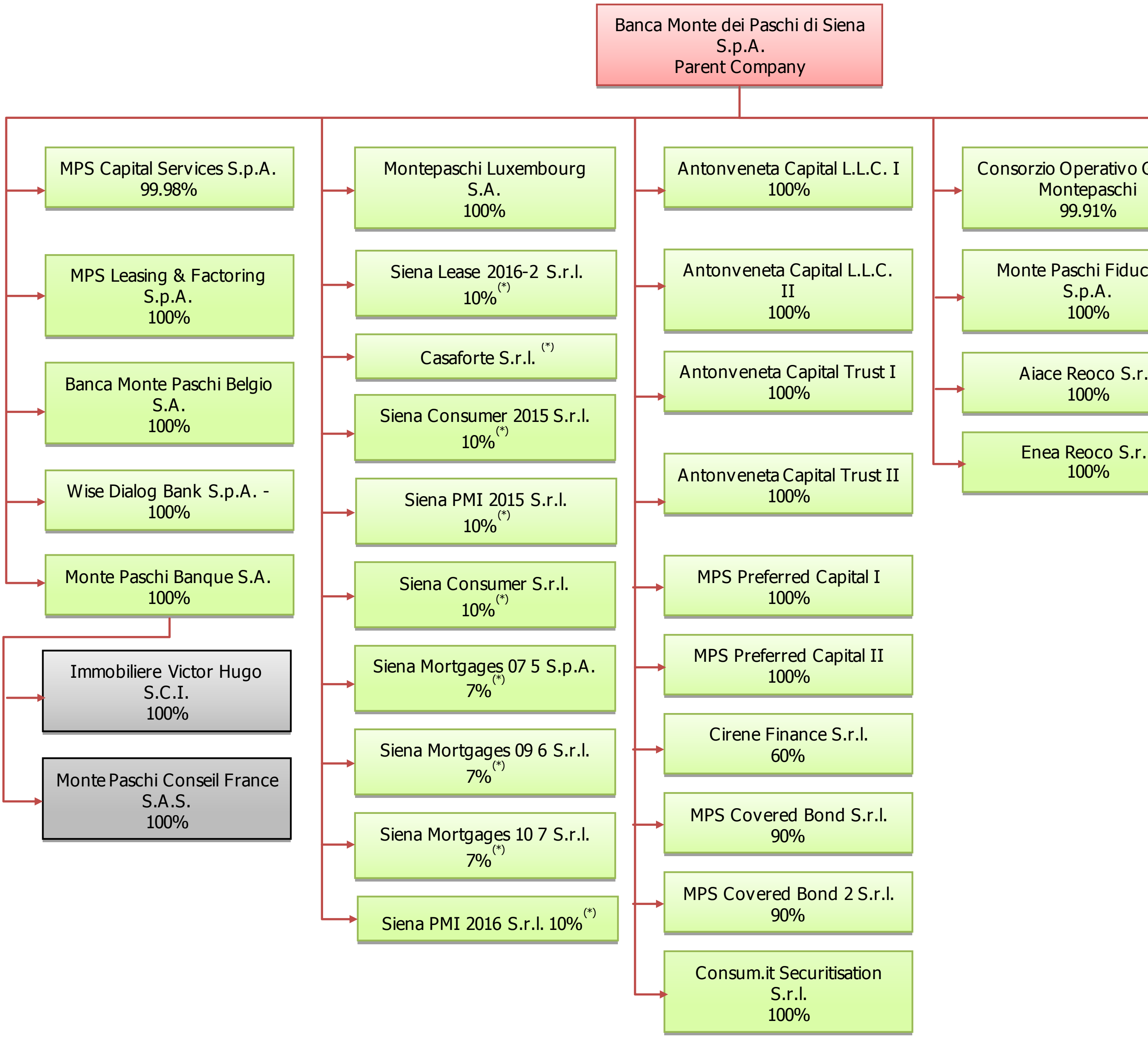
BMPS, as the bank that exercises the management and coordination activities of the BMPS Group, pursuant to the fourth paragraph of article 61 of the Legislative Decree 1 September 1993, n. 385, issues, in the performance of the activities of management and coordination, instructions to the companies of the Group, including execution of the instructions given by the relevant supervisory bodies and in the interest of the stability of the Group.

The list below sets out the main companies of the Group and their percentage ownership as at the date of this Base Prospectus.

5 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.

6 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.

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


Banca Monte dei Paschi di Siena S.p.A. Parent Company
MPS Capital Services S.p.A. 99.98%
MPS Leasing & Factoring S.p.A. 100%
Banca Monte Paschi Belgio S.A. 100%
Wise Dialog Bank S.p.A. - 100%
Monte Paschi Banque S.A. 100%
Immobiliere Victor Hugo S.C.I. 100%
Monte Paschi Conseil France S.A.S. 100%
Montepaschi Luxembourg S.A. 100%
Siena Lease 2016-2 S.r.l. 10% (*)
Casaforte S.r.l. (*)
Siena Consumer 2015 S.r.l. 10% (*)
Siena PMI 2015 S.r.l. 10% (*)
Siena Consumer S.r.l. 10% (*)
Siena Mortgages 07 5 S.p.A. 7% (*)
Siena Mortgages 09 6 S.r.l. 7% (*)
Siena Mortgages 10 7 S.r.l. 7% (*)
Siena PMI 2016 S.r.l. 10% (*)
Antonveneta Capital L.L.C. I 100%
Antonveneta Capital L.L.C. II 100%
Antonveneta Capital Trust I 100%
Antonveneta Capital Trust II 100%
MPS Preferred Capital I 100%
MPS Preferred Capital II 100%
Cirene Finance S.r.l. 60%
MPS Covered Bond S.r.l. 90%
MPS Covered Bond 2 S.r.l. 90%
Consum.it Securitisation S.r.l. 100%
Consorzio Operativo
Montepaschi
99.91%
Monte Paschi Fiduc
S.p.A. 100%
Aiace Reoco S.r.
100%
Enea Reoco S.r.
100%

5. BMPS Group Profile

As at 30 September 2018, the BMPS Group is an Italian banking institution with 23,189 employees, approximately more than 5 million customers, assets of around Euro 132.2 billion and significant market shares in all the areas of business in which it operates.

The Group's main activity is retail banking which involves the provision of banking services for individuals such as financial and insurance products, financial promotion, wealth management and third entities' securities offers. Other areas of business are: leasing and factoring; consumer lending; corporate finance and investment banking.

The following table shows a breakdown of the Issuer's branches by Region as 30 September 2018:

	Number	**Percentage on the total of the branches**
North	**643**	**40.3%**
Piemonte	37	2.3%
Valle d'Aosta	2	0.1%
Liguria	21	1.2%
Lombardia	226	14.2%
Trentino Alto Adige	3	0.2%
Veneto	209	13.1%
Friuli Venezia Giulia	42	2.6%
Emilia Romagna	103	6.4%
Center	**558**	**34.9%**
Toscana	337	21.1%
Marche	42	2.6%
Umbria	40	2.5%
Lazio	139	8.7%
South and Islands	**396**	**24.8%**
Abruzzo	34	2.1%
Molise	5	0.3%
Campania	90	5.6%
Basilicata	10	0.6%
Puglia	96	6.0%
Calabria	43	2.7%
Sardegna	11	0.7%
Sicilia	107	6.7%
Total	**1,597**	**100.0%**

Customers are divided by target segments to which an *ad hoc* service model is applied so as to best respond to the specific needs and demands expressed, and are served through an integrated combination of "physical" and "remote" distribution channels.

The Group mainly operates in Italy through, as at 30 September 2018, 1,597 branches, 208 specialised centres and 115 financial advisory branches.

The foreign network includes, as at 30 September 2018, four operational branches (London, New York, Hong Kong and Shanghai), ten representative office boards located in various "target areas" (EU, Central-Eastern Europe, North Africa, India and China) and two banks under foreign law – Banca Monte Paschi Belgio, actually in dismission, and Monte Paschi Banque S.A., actually in run-off.

Organisational structure

BMPS carried out a significant organisational restructuring, with the aim of strengthening the sales and distribution functions as well as the integrated and coordinated supervision of governance and business support functions.

The initiatives undertaken by BMPS concern:

- The business functions
  - the credit division was strengthened by establishing a specific general division;
  - the specialisation of control of the various business segments was increased by establishing a retail and network division (for the retail and private segments, as well as the coordination of the sales and distribution network) and the corporate and investment banking division (for the corporate, key clients, international activities and private equity segments);
  - financial advisory activities were added to the organisational area set up to develop the new online bank (online bank development area).
- The governance, control and business support function
  - the general finance and operations division was established, to which the chief financial officer division and chief operating officer division will report;
  - the human resources, organisation and communications division was developed to promote effective interoperability between human resources management, business organisational structures and internal/external communications; and
  - the risk division was reorganised with the creation of more cohesive controls of the activities of validation, monitoring and risk reporting.

Other organisational action was taken with objectives associated with business efficiency, organisational rationalisation and compliance with legislative provisions.

The changes involved:

- The head office units and regional coordination:

  the regional area sales and products office is divided into 3 separate units (retail sales and products, corporate sales and products and private sales and products) to achieve more effective specialist control over the reference markets and greater sales control with customers.

- The treasury, finance and capital management area organisation:

  responsibilities and efforts on risk factors and business drivers (liquidity management, strategic risk governance and capital management) have been reallocated. In particular, an internal reorganisation was arranged, refocusing the risk factors area, with related strengthening of the rate risk and liquidity risk monitoring, simplification and standardisation of operating processes, with a view to greater efficiency and a clearer allocation of responsibilities and tasks between BMPS and MPSCS, preserving the latter's sales efficiency;

- The compliance area:

  The Group's FATCA contact (Foreign Account Tax Compliance Act) - the FATCA Officer - has been appointed to meet obligations relating to the reporting of US customer details to the relevant tax authorities, coordinating the roles established in the Group's companies and foreign branches in compliance with their obligations pursuant to the intergovernmental agreement between Italy and the United States to implement FATCA and similar intergovernmental agreements in relevant Group's jurisdictions.

6. Funding

General

As at the date of this Base Prospectus, the Group successfully employs various sources of funding, both on the retail domestic market and on international markets dedicated to qualified investors.

Retail domestic market

The BMPS Group issues various kinds of securities, including fixed rate bonds or floating rate bonds, zero coupons and light structured bonds with different maturities, placed to retail customers of the BMPS Group throughout its network of branches.

International markets

The BMPS Group has different international programmes dedicated to qualified investors.

On a short-term maturity basis, the BMPS Group has a certificate of deposit programme issued under the BMPS London Branch "Euro-Certificate of Deposit Global Programme" and "*French Certificats de Dépot*" dedicated to French investors.

On a medium-term basis, the BMPS Group covers the funding requirements by issuing a variety of debt instruments such as fixed or floating rate notes or zero coupon notes both publicly and privately placed under its dedicated programmes; senior or subordinated unsecured notes issued under the EMTN "Euro 50 billion Debt Issuance Programme" and covered bonds issued under the "Euro 20 billion Covered Bond Programme".

With regard to the issuances under the EMTN Programme, on 1 April 2014, the Group issued Euro 1 billion Senior Unsecured Fixed Rate Notes due 2019; on 11 January 2018 the Group issued Euro 750 million 10NC5 T2 Subordinated Notes due 2028.

With regard to the issuances under the Covered Bond Programme, while the Group issued on 20 October 2015, Euro 750 million worth of 6 year fixed rate covered bonds, and on 19 November 2015, Euro 1 billion worth of 10 year fixed rate covered bonds, for a total aggregate amount of Euro 1,75 billion, in 2016 it carried out four additional transactions of "autocovered" bond for a total notional amount of Euro 2 billion. On 29 January 2019, the Group issued Euro 1 billion worth of five-year fixed rate covered bonds. As at the date of this Base Prospectus, 13 issues were outstanding for a total aggregate notional amount of Euro 8.65 billion.

7. Information Technology

In recent years the BMPS Group has implemented a reorganisation of its information technology (IT) operations directed at promoting more uniformity of IT systems and structures within the Group. As part of this restructuring, a consortium was created to manage the Group's IT systems and serve the need of the various functions within the BMPS Group.

The consortium is currently engaged in several development projects principally for the areas of risk management, trading back office procedures, credit rating and scoring, customer service centres, new products catalogues, payment and settlement procedures and software enhancements for the international branches.

8. Competition

The BMPS Group faces significant competition from a large number of banks throughout Italy and abroad.

A period of consolidation has created larger, more effective and competitive banking groups. Competition in both deposit-taking and lending activities has intensified, contributing to the narrowing of spreads between deposits and loan rates.

In attracting retail deposits and financing retail customers, the Bank primarily competes at the local level with medium-sized local banks, and to a lesser extent, with super-regional banks. The Bank's major competitors in other areas of the Italian banking market are Italian national and super-regional banks, such as UniCredit group, Intesa SanPaolo, Banco Popolare, UBI Banca and BPER group.

Foreign banking institutions operating in Italy, that may also have greater financial and other resources than the BMPS Group, are growing in number and are regarded as increasingly more effective competitors, mainly in corporate banking and sophisticated services related to asset management, securities dealing, brokerage activities and mortgage lending.

9. Legal Proceedings

Judicial and arbitration proceedings

Save as disclosed in this section, in the course of the twelve months preceding the date of this Base Prospectus there has been no governmental, legal or arbitration proceedings (including pending or threatened proceedings known to BMPS) which may have, or which had in the recent past, significant impacts on the Issuer's financial condition or profitability.

As at the date of this Base Prospectus there were various legal proceedings pending against the Bank, including civil, criminal and administrative actions.

These proceedings mainly relate to the financial transactions carried out to fund the acquisition of Banca Antonveneta, various financial transactions carried out by the Bank, among which the transactions relating to the restructuring of the "Alexandria" notes and the "Santorini" transaction, previous capital increases carried out by the Bank in 2008 and 2011 and the FRESH 2008 transaction; these events also led to disciplinary procedures being filed by supervisory authorities against the management in office at the time of such events (which, should sanctions be imposed, would imply that the Bank will be held jointly liable with no certainty that the latter will be able to recover any amounts paid as a result of such obligation after the bringing of recourse actions) and certain legal actions brought against the Bank by consumer associations and individual investors who have subscribed for financial instruments in the context of the share issuances carried out by the Bank. This context also includes corporate liability lawsuits brought by the Bank against the Chairman of the board of directors and the General Manager in office at the time of events and suits for damages against Nomura and Deutsche Bank in connection with the restructuring of the "Alexandria" notes and the "Santorini" transaction, respectively.

In addition to this litigation, there are also (i) disputes deriving from the Bank's ordinary course of business, and concerning, inter alia, clawback actions, compound interest, placement of bonds issued by Governments and companies then defaulted, placement of other financial instruments and products, (ii) labour disputes, (iii) tax disputes and (iv) disputes in various manners related to the Burden Sharing in relation to which please see "*Disputes relating to securities subject to the Burden Sharing*" of this Base Prospectus.

As at the date of this Base Prospectus, 903 complaints have been filed relating to capital increase transactions, the allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2011, for total amounts claimed equal to around Euro 654 million, where quantified, aimed at obtaining the restitution of invested amounts and/or compensation for monetary and non-monetary damages consequent to the alleged losses incurred. Of such requests around 10 per cent. turned into civil actions.

Such requests – individually or collectively brought through two professionals and ADUSBEF – although heterogeneous are mainly reasoned with generic references to the alleged infringement, by BMPS, of the sector legislation in the matter of disclosure and, accordingly, rebutted by the Bank since generic, ungrounded, non-supported by suitable documental evidences and in some instances, time barred. As at the date of this Base Prospectus, the residual *petitum* claimed by complainants who did not institute any judicial proceedings is equal to around Euro 591 million.

In addition, there were also 59 threatened litigations relating to the 2014-2015 capital increases for a total requested amount equal to approximately Euro 17 million (and, consequently, as at 30 September 2018, the overall requested amount is approximately equal to Euro 607 million as at the date of this Base Prospectus).

As at 30 September 2018, the overall petitum in relation to civil proceedings of the Group is equal to Euro 4,555 million of which approximately Euro 3,373 million relating to the proceedings for the ordinary activities of the Issuer, approximately Euro 764 million for the civil proceedings relating to the suits brought by the shareholders in the context of 2008, 2011, 2014 and 2015 capital increases of the Issuer, approximately Euro 606 million in relation to threatened litigations brought against the Issuer relating to the same capital increase transactions and approximately Euro 118 million with respect to requests brought by the civil claimants, where quantified, relating to criminal proceedings no. 29634/14 and no. 955/16 which the Issuer is part of. The overall petitum for tax proceedings of the Group is equal to approximately Euro 120 million for taxes and sanctions (Euro 130 million as at the date of this Base Prospectus) while the overall petitum relating to the labour proceedings is equal to Euro 113.9 million (including the labour proceedings brought by certain employees of Fruendo S.r.l.).

In light of the estimates made on the risks of an adverse outcome in the aforementioned proceedings, as at 30 September 2018, "legal disputes" included under the item "provision for risks and charges", amount to Euro 574.3 million, comprising claw-backs of Euro 61.9 million and civil disputes of Euro 512.4 million. Furthermore, as at the same date, in addition to the above, the "provision for risks and charges" includes tax disputes for Euro 33.0 million and labour disputes for Euro 34.4 million (inclusive also of the legal proceedings initiated by the employees of Fruendo S.r.l., for the description of which, please see "*Labour disputes*" of this Base Prospectus).

Allocations to the "provision for risks and charges" have been made for amounts representing the best possible estimate relating to each dispute, quantified with sufficient reasonableness and, in any case, in accordance with the criteria laid down by the Issuer's policies.

Among the components of the overall "provision for risks and charges" are included, in addition to the allocations provided for "legal disputes", also allocations versus expected losses on estimated disbursements for client complaints.

The estimate of liabilities is based on the information available from time to time and implies in any case, due to several uncertainty factors characterising the different judicial proceedings, multiple and significant evaluation elements. In particular, it is sometimes not possible to produce a reliable estimate as an example and without limitation in case proceedings have not been instituted, in case of possible cross-claims or in the presence of uncertainties in law or in fact such as to make any estimate unreliable. In particular, for further information relating to the methodology used to account allocations into the "provision for risks and charges" with respect to civil and criminal legal proceedings, including threatened litigations, relating to the purchase of securities issued in connection with the capital increase transactions of 2008, 2011, 2014 and 2015, and/or in connection with trading activities based on the allegedly inaccurate disclosure contained in prospectuses and/or financial statements and/or price sensitive information disseminated by BMPS from 2008 to 2015, reference is made to the press release published on the Issuer's website https://www.gruppomps.it/media-e-news/comunicati/comunicato-stampa-20181228.html on 28 December 2018, which is incorporated by reference into this Base Prospectus.

Accordingly, although the Bank believes that the overall "provision for risks and charges" posted in the Financial Statement should be considered adequate in respect of the liabilities potentially consequent to negative impacts, if any, of the aforementioned disputes, it may occur that the provision, if any, may be insufficient to fully cover the charges, expenses, sanctions and compensation and restitution requests associated with the pending proceedings or that the Group may in the future be called to satisfy compensation and restitution costs and obligations not covered by provisions, with potential negative impact on the business and the economic, capital and/or financial condition of the Bank and/or the Group.

Disputes related to criminal investigations and legal affairs in 2012 and 2013

Following the aforementioned criminal investigations involving the Bank in 2012 and 2013, several criminal, sanctioning and civil proceedings were instituted by judges, supervisory authorities, the Bank itself, consumer associations and investors.

The Bank's position in respect of such proceedings is aligned to the principles of business and managerial discontinuity which inspired the renovation actions undertaken by the management which took over from the previous management in office at the time of events, aimed at identifying the best initiatives for the protection of the Bank, its assets and its image thereof, even through direct legal actions against the former top executives.

Criminal investigations and proceedings

(A) *Acquisition of Banca Antonveneta and FRESH 2008*

On 30 July 2013, the public prosecutor's office at the Court of Siena issued a "notice of completion of preliminary investigations", pursuant to article 415-*bis* of the Italian Criminal Procedure Code and article 59 of Legislative Decree 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 joined the proceedings as civil plaintiff for all charges and all defendants for the purpose of the compensation of all non-monetary damages.

Further to objections made by certain defendants, at the hearing of 6 May 2014, the Preliminary Hearing Judge ("**PHJ**") declared that the Court of Siena lacked territorial jurisdiction and the case documents were subsequently transferred to the public prosecutor at the Courts of Milan. The proceeding is still pending. In March 2016, the proceeding was combined with the criminal proceedings pending before the Courts of Milan relating to the "Santorini", "FRESH 2008" and "Chianti Classico" transactions; with respect to these proceedings J.P. Morgan Securities Ltd (now J.P. Morgan Securities plc) does not result as having been sent to trial.

For more information in this respect reference is made to Section (C) below.

In the context of such proceedings, in April 2015, as regards the FRESH 2008 transaction, the Courts of Milan transmitted to the Courts of Rome the case documents relating to the offence of obstruction of the exercise of suspensory functions (article 2638 of the Italian Civil Code) chargeable to the members of the Issuer's board of statutory auditors in office at the time of events (Tommaso Di Tanno, Leonardo Pizzichi and Pietro Fabretti); as regards these criminal proceedings the Issuer was notified that the Preliminary Investigation Judge at the Courts of Rome, on 14 July 2016, upheld the dismissal request for the positions above.

(B) *Restructuring of* "Alexandria" notes

In 2013 the public prosecutor's office at the Court of Siena instituted a criminal proceeding relating to the hypothesis of obstacle to the supervisory activity concerning the transactions related to the restructuring of the "Alexandria" notes, against top representatives of the Bank in office at the time of events. In the context of such proceedings, the first instance proceeding was closed with the conviction (issued on 31 October 2014 by the Courts of Siena) against Mr. Mussari, Mr. Vigni and Mr. Baldassarri. In this proceeding, the Bank's and consumer associations' request to appear as civil plaintiffs was denied.

Again with reference to the transaction related to the restructuring of the "Alexandria" notes, please also note that, the public prosecutor's office at the Court of Milan filed, in the context of the proceedings in which they were accused of the various crimes of false corporate communications and market manipulation, the request for indictment against Mr. Mussari, Mr. Vigni and Mr. Baldassarri and two members of the management of Nomura with respect to the crimes laid down by article 2622, subsections 1, 3 and 4 of the Italian Civil Code and article 185 of the Consolidated Finance Act, committed in association by them, with conduct relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 in the matter of transnational crimes.

The allegations concern the hypothesis of crime resulting from the concealment of losses accrued in the Issuer's financial statement as of 31 December 2009 as a result of the investment in the "Alexandria" notes through the execution of the restructuring transaction thereof and its accounting methods.

In relation to the crimes committed by the aforementioned individuals, the public prosecutor also requested the indictment of the Issuer and Nomura for the administrative offenses set out under articles 25-ter, letter c), and 25-sexies of Legislative Decree No. 231/2001. Due to serving of process formalities, Nomura was excluded as liable party from these proceedings, pursuant to Legislative Decree 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) below.

(C) <u>"FRESH 2008", "Alexandria", "Santorini", "Chianti Classico" Transactions – Criminal proceedings before the Courts of Milan</u>

By decision of 13 January 2016, the public prosecutor's office at the Court of Milan ordered the notification to BMPS and other suspects of the notice of conclusion of preliminary investigations pursuant to and to the effects of article 415-*bis* of the Italian Criminal Procedure Code concerning the investigation threads relating to the "FRESH 2008", "Alexandria", "Santorini" and "Chianti Classico" transactions. According to the press release disclosed on 14 January 2016 by the public prosecutor's office at the Court of Milan, all investigation threads relating to the aforementioned transactions have been completed.

With respect to the "FRESH 2008" transaction (carried out in the context of the fund raising operations for the acquisition of Banca Antonveneta) three BMPS officers and executives in office at the time of events were charged with several criminal offenses, such as: false corporate communications in relation to the 2008 financial statements (article 2622 Italian Civil Code), market manipulation in connection with the 2008 financial statements and the semi-annual financial statements as at 30 June 2008 (article 185 of the Consolidated Finance Act), obstruction of the exercise of supervisory functions of the Bank of Italy (article 2638 of the Italian Civil Code), false statements set out in prospectus (article 173-bis Consolidated Finance Act) with reference to the prospectuses relating to the two capital increases carried out in 2008 and 2011 and to the prospectuses relating to the offering of bonds and certificates carried out during the period 2008-2012. In relation to the latter, also the effects resulting from the incorporation by reference of certain accounting documents have been deemed relevant due to the incorrect recognition of, *inter alia*, the "FRESH 2008", "Alexandria" and "Santorini" transactions.

With reference to the "Santorini" transaction, two former officers and one BMPS executive, and six managers of Deutsche Bank – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2008, 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

With reference to the Alexandria transaction, three BMPS officers and executives in office at the time of events and two managers of Nomura – whose conduct was relevant for the purposes of articles 3 and 4, subsection 1, of Law 146/2006 on transnational crimes – were charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act) in relation to the impacts deriving from the transaction on the financial statements for 2009, 2010, 2011 and on the financial positions as at 31 March 2012, 30 June 2012 and 30 September 2012.

As mentioned above, this proceeding (no. 26934/2014) has been combined with the criminal proceeding pending before the Court of Milan and described in Section (B) "*Restructuring of "Alexandria" notes*" above, in the context of which the indictment was already requested with reference to the crimes related to 2009 financial statements. It has also been deemed to charge the same individuals with the crime of obstruction of the exercise of supervisory functions by CONSOB (article 2638 of the Italian Civil Code) with respect to the reporting of certain transactions carried out between BMPS and Nomura and involving government securities. With the same proceeding, the proceeding pending before the Courts of Siena and described under Section (A) "*Acquisition of Banca Antonveneta and FRESH 2008*" above was also combined.

As regards the "Chianti Classico" transaction, two officers of the Issuer in office at the time of events have been charged with the crime of obstruction of the exercise of supervisory authorities' functions (article 2638 of the Italian Civil Code) due to the omission of some communications in relation to the same transaction to the Bank of Italy and CONSOB.

In relation to the crimes alleged against these individuals, the public prosecutor's office also served the notice of conclusion of preliminary investigations:

- to BMPS for the administrative offenses under articles 25-ter letter. b), 25-ter letter. s) and 25-sexies of Legislative Decree No. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code), obstruction of the exercise of supervisory authorities' functions (article 2638 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act); and

- to Deutsche Bank, Deutsche Bank AG London branch and Nomura for the administrative offenses under articles 25-ter letter. b), and 25-sexies of Legislative Decree No. 231/2001 following the charging of the crimes of false corporate communications (article 2622 of the Italian Civil Code) and market manipulation (article 185 of the Consolidated Finance Act).

The outcomes of the investigation revealed that, in the financial statements and financial reports of BMPS disclosed to the market between the financial statements as at 31 December 2008 and the quarterly reports at 30 September 2012, false data would have been exposed.

As regards the crimes related to the balance sheets as at 31 March 2012, 30 June 2012 and 30 September 2012, the suspects have been charged, having determined the conditions for approval by the new top executives of BMPS, due to the behaviours previously adopted by top managers.

By order of 13 May 2016, the PHJ authorized the filing and admissibility of the claims for damages of the civil plaintiffs against the entities already involved in the proceedings (no. 29634/2014) as defendants pursuant to Legislative Decree 231/2001, having deemed recognisable to the civil plaintiff, in case of criminal proceedings involving the company and its employees, the protection of the compensation right against the entity and resulting in the compensatory requests existing in abstract, not being charged to the entities any joint liability in terms of wilful misconduct or negligence and being relevant an occasional relation between the harmful event and the functions exercised by the accused individuals, in the absence of objections concerning their own personal interests.

On 4 July 2016, with the approval of the public prosecutor's office, BMPS filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank pursuant to Legislative Decree 231/2001.

With the plea bargain, upheld by the PHJ on 14 October 2016, the Bank exited the proceedings as accused of the administrative offence subsequent to crimes committed by its own former executives, limiting the consequences to an administrative monetary sanction of Euro 600,000 and a confiscation for EUR 10 million.

On 1 October 2016, the PHJ ordered the indictment of defendants other than the Bank. At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs served on the Bank the civilly liable summon in respect of the crimes charged to the indicted former directors and managers.

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

The appearance as civil plaintiff of the Bank against Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also denied on the assumption of a Bank's liability for complicity with defendants. As at 30 September 2018, civil plaintiffs who appeared against the Bank in the mentioned proceedings are 1,243 and the overall *petitum*, where quantified, was equal to Euro 42 million.

On 12 May 2017 the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer being in office) has been requested in the context of new criminal proceedings before the Courts of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code), in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the abovementioned financial statements and reports.

In respect of these proceedings, where the Bank is identified as the offended party, the first hearing was held on 5 July 2017, during which some hundreds of individuals and some category associations asked to appear as civil plaintiffs. The PHJ deferred the case to 29 September 2017, for the decision on the requests, as well as for the combination with the proceedings pending against BMPS, as the accused party pursuant to Legislative Decree No. 231/2001 for the same events today charged to Mr. Profumo, 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.

Among the no. 304 civil parties admitted, no. 294 served the writ of summon upon the Bank as civilly liable. At the hearing held on 10 November 2017, wherein the Bank appeared as civilly liable, Mr. Salvadori's attorney argued that the request for the referral of the trial for his client was null and void as his imputability could have been given only for the crime under the article 2622 of the Italian Civil Code and not for the crime under the article 185 of the Consolidated Finance Act. Relating to such point, the same attorney also objected to the lack of competence of the Milan judicial authority. The public prosecutor – while taking part against the territorial competence matter – has agreed with the assumption of the voidance request as argued by Mr Salvadori's attorney who, at this point, required the transmission to his office of the entire proceeding – instead of Mr. Salvadori only – which started on 12 May 2017 against Mr Profumo, Mr Viola and Mr Salvadori in order to avoid any fragmentation and for the purpose of restarting such proceedings as a single proceeding.

At the hearing of 24 November 2017, the PHJ issued an order which:

- declared null and void request for the referral of the trial relating to Mr Salvadori;
- decided for the fragmentation of the relevant position in the main proceedings (against Mr Viola and Mr Profumo and the Bank) in relation to the accusation relating to the crime provided for by article 185 of the Consolidated Finance Act;
- reserved to decide over the claim relating to the territorial competence after the conclusions of the public prosecutor.

The public prosecutor served the notice of conclusion of investigation to Mr Salvadori in relation to the crime provided by for article 185 of the Consolidated Finance Act and filed the (new) request for the referral of the trial relating to Mr Salvadori for this crime and finally requested a (new) preliminary hearing (for the crime of market manipulation).

At the hearing of 9 February 2018, the PHJ called for the proceedings relating to Mr Salvadori following the separation of the proceedings relating to the crime provided for by article 185 of the Consolidated Finance Act decided at the previous hearing.

The damaged parties admitted to the proceedings have summoned against BMPS for his civil liability.

Following the formalisation of the entering appearance of the Issuer, the public prosecutor asked for the issuing of a judgment not to proceed on the grounds that there is no crime, or on the grounds that the fact is not qualified as crime in relation to the different counts filed. Following the hearing, the timetable of the proceedings had been scheduled for 13, 20 and 27 April 2018 in order to continue the discussion and potentially issue the order closing the preliminary hearing. Following the preliminary hearing, the PHJ noted that there were no grounds for issuing a judgment not to proceed and decided for the referral to trial of Mr Viola, Mr Profumo, Mr Salvadori and BMPS (indicted entity pursuant to Legislative Decree No. 231/2001).

At the hearing held on 17 July 2018, 2,243 civil claimants joined in the proceedings. Some of them formally asked that the Bank be summoned as entity liable to pay for damages, while most of the defending counsels merely requested that their clients, by appearing before the Court, benefit from their participation in the proceedings. Some civil claimants joined in the proceedings against the Bank seeking a declaration of liability under Legislative Decree No. 231/2001. At the end of the hearing, the Court adjourned the case to the hearings of 16 October 2018, 6 November 2018, 13 November 2018 and 19 November 2018.

The hearing, scheduled to discuss the civil actions brought as part of criminal proceedings by the civil claimants already joined in the proceedings during the previous hearing held on 17 July 2018, was duly held on 16 October 2018, to which further 165 civil parties were added. The defendants' and the Bank's counsels have claimed that the latter have joined in the proceedings beyond expiry of the relevant terms.

At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272 (the *petitum* relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was approximately equal to Euro 76 million), ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining in the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the objections relating to the lack of territorial competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties. By order issued on 3 December 2018, the Courts rejected the request.

In respect of these criminal proceedings (no. 955/2016), during the meeting held on 12 July 2018 the board of directors of the Bank considered that, for the time being, none of the relevant conditions has been met to lodge a claim for damages under civil law against the former Chairman of the board of directors, Mr. Alessandro Profumo and the former Managing Director, Mr. Fabrizio Viola.

In its decision, the board of directors has taken into account all available elements, with the s ole aim to pursue the Bank's interests and safeguard its assets, considering more in detail that:

(i) the discussion of the case following committal for trial will be an appropriate opportunity to assess, as part of an adversarial procedure, the conduct of the top management in respect of events (*i.e.* how the Alexandria and Santorini transactions have been accounted for) which regards the past of the Bank and which, in light of the settlement agreements executed by the former directors with Nomura and Deutsche Bank, have no current impact on the Banks' accounts;

(ii) furthermore, the Bank has been involved in the same criminal proceedings for both third party liability and liability under Legislative Decree 231/2001. The latter is a type of liability in respect of which the Court of Milan itself has excluded in the past that the same party may also join a civil action. Hence, the Bank may monitor the progress of the discussion, gathering useful elements for its decision, and at the same time present the necessary arguments in order to safeguard its assets; and

(iii) should any issues arise from the evidence gathering phase, and/or from the autonomous investigations already started by the Bank and currently in progress, confirming that the defendants are liable (in addition to the fact that the Bank has actually suffered a measurable loss), such issues might be relied upon to propose to the shareholders' meeting to lodge a claim for damages under civil law vis-à-vis the defendants.

The Bank has however reserved the right to take any and all action to safeguard its assets and interests.

(D) CONSOB verifications on the 2014 Financial Statement and the semi-annual financial report as at 30 June 2015: information pursuant to article 154-*ter*, subsection 7, of the Consolidated Finance Act in relation to the accounting recognition of the "Alexandria" transaction

As regards the "Alexandria" transaction, it is worth noting that with resolution no. 19459 of 11 December 2015, CONSOB, found that the 2014 consolidated and individual financial statements and the semi-annual report as at 30 June 2015 were not compliant with standard set out by IAS 1, IAS 34 and IAS 39 with exclusive reference to the accounting recognition ("at open balances" or "at closed balances") of the "Alexandria" transaction. As a consequence of the above, CONSOB asked the Bank to publicly disclose the following information: (i) a description of the international accounting standards applicable and the findings in this respect; (ii) an illustration of the deficiencies and criticalities found by CONSOB as regards the accounting accuracy of the consolidated and individual financial statement as at 31 December 2014 and the semi-annual financial report as at 30 June 2015; (iii) a suitable disclosure to represent the effects of the application of IAS 8 as regards the errors relating to the recognition, evaluation and presentation of the transaction entered into with Nomura providing an accounting representation of the transaction at closed balances with the recording of a credit derivative in accordance with the definition given by section 9 of IAS 39.

On 16 December 2015, the Issuer then published a press release, which can be seen on the website www.gruppomps.it to which reference is made, and setting out the information requested by the supervisory authority.

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As regards proceedings no. 3861/12 pending before the Courts of Siena Mr. Baldassarri and other individuals, certain managers of the Bank and the founding partners of the Enigma group, were charged with the offence of criminal association aimed at "aggravated fraud in detriment of the assets of BMPS" (in journals, the so-called 5 per cent. Gang). For the sake of completeness, it is worth noting that the request for indictment has been served on the concerned parties and the preliminary hearing has been set for 5 April 2017. The notice scheduling the hearing was also served on the Bank as the offended party. At such hearing the Bank appeared as a civil plaintiff against the accused parties seeking compensation of monetary and non-monetary damages.

At the hearing of 6 March 2018, the Court, having considered not grounded the aggravating circumstance of the internationality, issued a judgment not to proceed because of the statute of limitation of the crime in relation to the count relating to the financial transaction carried out by Lambda Securities S.A.. Therefore the proceedings will continue only in relation to the facts relating to the first count (financial transaction carried out by Enigma). At the following hearing, held on 27 March 2018, other preliminary questions were examined, such as the lack of validity of certain investigation acts.

At this hearing the defence counsels, having considered not grounded the aggravating circumstance also in relation to Enigma, asked the immediate issuing of judgment not to proceed.

At the hearing of 10 April 2018, the Court rejected the counterclaim relating to the statute of limitation of the count relating to the financial transaction carried out by Enigma.

Following the requests for evidence, the preliminary hearing was focused on the examination of some witnesses of the damaged parties and of the public prosecutor, the examination and cross-examination of the expert witness of the public prosecutor, and the examination of some police officers.

As of the date of this Base Prospectus the preparatory phase is pending and other witnesses will be examined by the public prosecutor.

Bank of Italy sanctioning procedures

(A) *Sanctioning procedure following the 2011-2012 inspections of Bank of Italy on the financial risks and determination processes of risk-weighted assets*

After inspections conducted in the period 2011-2012 on the financial risks and determination processes of risk-weighted assets, mainly focused on BMPS' finance structures, the Bank of Italy imposed on 28 March 2013:

a) to the members of the board of directors in office at the time of events (Mussari Giuseppe, Rabizzi Ernesto, Caltagirone Francesco Gaetano, Querci Carlo, Pisaneschi Andrea, Monaci Alfredo, Gorgoni Lorenzo, Campaini Turiddo, Borghi Fabio, De Courtois Frédéric Marie, Costantini Graziano, Capece Minutolo del Sasso Massimiliano), the members of the board of statutory auditors (Di Tanno Tommaso, Turchi Marco, Serpi Paola), the General Manager and Chairman of the Steering Committee (Vigni Antonio) and the other members of the Steering Committee (Baldassarri Gian Luca, Massacesi Marco, Marino Antonio, Romito Nicolino, Rossi Fabrizio, Pompei Giancarlo, Barbarulo Angelo, Menzi Giuseppe), of the regime in the matter of containment of financial risks (article 53, subsection 1, lett. b), of the Italian 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 Italian 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.

(B) *Bank of Italy's sanctioning procedure for the determination of the economic benefits recognised to former General Manager Mr. Antonio Vigni, upon early termination of the employment relation*

On 25 July 2013, the Bank of Italy notified certain members of the board of directors in office at the time of events (Capece Minutolo del Sasso Massimiliano, Costantini Graziano, Gorgoni Lorenzo, Mussari Giuseppe, Rabizzi Ernesto, Campaini Turiddo, de Courtois Frédéric Marie, Monaci Alfredo, Pisaneschi Andrea, Querci Carlo), the members of the board of statutory auditors (Di Tanno Tommaso, Serpi Paola, Turchi Marco) and the Bank, as a jointly liable party, a sanctioning measure relating to the infringement of the provisions issued by the Bank of Italy in the matter of remuneration and incentive policies and practices within banks and banking groups as regards the members of the board of directors, as well as the infringement of the same aforementioned provisions and disclosure duties to the supervisory body by members of the board of statutory auditors; the infringement related to the remuneration (equal to gross Euro 4 million) recognised to former General Manager, Mr. Antonio Vigni, upon termination of the office. Total sanctions imposed amount to Euro 1,287,330 (see Supervisory Bulletin no. 7, July 2013 of the Bank of Italy).

(C) *Bank of Italy's sanctioning proceedings relating to the "FRESH 2008" transaction for infringement of the provisions in the matter if regulatory supervision and informative supervision for failed communications to the supervisory body*

In relation to the FRESH 2008 transaction, on December 2012 the Bank of Italy commenced a sanctioning proceeding for infringement of the provisions in the matter of regulatory supervision for failed compliance with the overall minimum capital requirement at consolidated level as at 30 June 2008, and informative supervision for failed communications to the supervisory body in respect of the indemnity granted to The Bank of New York (Luxembourg) S.A. in March of 2009 the ("**2009 BoNY Indemnity**"), as well as additional documentation concerning amendments to the usufruct agreement with J.P. Morgan Securities Ltd. (now J.P. Morgan Securities plc) and the payment of fees thereto between July 2008 and April 2009; furthermore additional violations related to inaccurate regulatory disclosures and irregularities in accounting and financial reporting modalities have been charged. On 10 October 2013, the Bank of Italy notified to BMPS, as the jointly liable party, the sanctioning measure with which administrative sanctions were imposed on for a total of Euro 3,472,540 against Directors (Mussari Giuseppe, Caltagirone Francesco Gaetano, Rabizzi Ernesto, Borghi Fabio, Campaini Turiddo, Gorgoni Lorenzo, Querci Carlo, Pisaneschi Andrea, Coccheri Lucia, Stefanini Pierluigi) and Statutory Auditors (Di Tanno Tommaso, Pizzichi Leonardo, Fabretti Pietro) in office at the time of events and the former General Manager Antonio Vigni in addition to some company executives in office at the time of events (Morelli Marco, Pirondini Daniele e Rizzi Raffaele Giovanni) (see Supervisory Bulletin no. 10, October 2013 of the Bank of Italy).

The Bank did not challenge the measure and paid the above-mentioned sanctions, as jointly liable party.

CONSOB's sanctioning procedure

(A) *CONSOB's sanctioning procedure for irregularities in the drafting of the prospectus relating to the 2008 capital increase*

By resolution no. 18885 of 17 April 2014, CONSOB completed a sanctioning procedure for the infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the drafting of the prospectus relating to the public offer of subscription and admission to trading of the Bank shares deriving from the capital increase resolved by the shareholders' meeting of 6 March 2008 and imposed administrative monetary sanctions for an amount equal to Euro 450,000 to the *pro tempore* directors and supervisory auditors of the Bank, allocated among each individual on the basis of his office held within the Bank.

The allegations mainly concern the omission of information on total return swap agreements (the so-called "**TROR**") entered into by the Foundation with third financial counterparties and structured to enable the same Foundation to subscribe, indirectly and without immediate payment, for a 49 per cent. stake of FRESH 2008, corresponding to the interest held by the entity in the Bank at that time. The disclosure deficiency on the TROR and their key features allegedly prevented investors from forming an informed opinion on the Bank's capacity to raise "new" resources without the external support of a third-party guarantor as well as on the prospective structure of the Bank's ownership, due to the eligibility for conversion of the FRESH 2008 into BMPS' shares. More in general, the materiality of omissions allegedly prevented investors from forming an adequate opinion on the Bank's capital and financial position, economic results and outlook.

Infringements have been charged to Directors and Statutory Auditors *pro tempore* of the Bank in office at the time of events and to the Bank as a jointly liable party pursuant to article 195, subsection 9, of the Consolidated Finance Act in force at the time.

The Bank did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

(B) *CONSOB's sanctioning procedure for possible irregularities in the drafting of the prospectus relating to the 2011 capital increase*

By resolution no. 18886 of 18 April 2014, CONSOB completed a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the 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 June 2011 and imposed administrative monetary sanctions for an amount equal to Euro 700,000 to the *pro tempore* directors and supervisory auditors of the Bank, allocated among each individual on the basis of his office held within the Bank.

The allegations concern the lack of disclosure relating to the TROR agreements, entered into by the Foundation in 2008 with third financial counterparties and the subsequent dealings occurring in 2011, and the omitted information relating to the granting by the Bank of the 2009 BoNY Indemnity due to its potential impacts. In fact, with the granting of such indemnity the Bank would have assumed obligations in favour of The Bank of New York (Luxembourg) S.A., aimed at holding it harmless with reference to possible claims deriving from actions brought by holders of FRESH 2008, in respect of the shareholders' meeting or the resolutions adopted to introduce some amendments to the terms and conditions of the notes, made necessary by the requests made by the Bank of Italy as part of the prudential evaluation s associated with the proceedings concerning the eligibility for computation of BMPS shares issued for FRESH 2008. As a result of the 2009 BoNY Indemnity, as mentioned above, the Bank of Italy – by way of a resolution of 7 May 2013 adopted pursuant to articles 53 and 67 of Italian Baking Consolidated Act – excluded from regulatory capital the FRESH 2008 Shares for an amount of Euro 76 million, referred to securities held by an investor who had expressed some formal objections prior to the shareholders' meeting and other shareholders who had voted against the resolutions in question.

Additionally, CONSOB considered that the four periodic fees paid by the Bank to J.P. Morgan between July 2008 and April 2009 pursuant to the usufruct agreement entered into between the parties in the context of the FRESH 2008 transaction, due to the characteristics of the obligations undertaken between the parties and a consequent different accounting and book classification of the shares subscribed for by J.P. Morgan, should have been recognised in a different manner, with direct effects on the Bank's net equity.

Accordingly, the Bank objected to the fact that, even subsequent to the effects on the prospectus of the incorporation by reference of the already published accounting documents, the erroneous recognition of (i) the usufruct fees; (ii) the effects of the 2009 BoNY Indemnity; and (iii) the transactions subject matter of restatement of 6 March 2013 ("Alexandria" and "Santorini"), would have prevented investors from reaching an informed assessment on the Bank's capital and financial situation, economic results and outlook.

The Bank did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

(C) *CONSOB's sanctioning procedure for possible irregularities in the drafting of* prospectuses *relating to offers of other financial instruments issued by the Bank in the period 2008-2012*

By resolution no. 18924 of 21 May 2014, CONSOB completed a sanctioning procedure for infringement of article 94, subsections 2 and 3, and article 113, subsection 1, of the Consolidated Finance Act in respect of possible irregularities in the registration documents of the Issuer published in the period June 2008 – June 2012 incorporated by reference in 27 base prospectuses relating to the issuance of bond loans and certificates and imposed monetary administrative sanctions for an overall amount equal to Euro 750,000 to directors and statutory auditors *pro tempore* of the Bank allocated among the single individuals depending on the office held by each officer, as well as its duration and the function actually performed within the Bank.

The Bank did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

(D) CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act (Market manipulation)

As a result of the irregularities found in the recognition and accounting and financial statement representation of the FRESH 2008 transaction components, CONSOB by way of resolution no. 18951 on 18 June 2014 completed a sanctioning procedure against the Chairman of the board of directors, the General Manager and the Chief Financial Officer, respectively Giuseppe Mussari, Antonio Vigni and Daniele Pirondini, in office at the time of events, for violation of article 187-*ter* of the Consolidated Finance Act. The proceedings have been brought against BMPS as a jointly liable party and also as a liable party pursuant to article 187-*quinquies* of the Consolidated Finance Act.

The allegations concerned the publication of false data in the semi-annual report as at 30 June 2008 as regards tier 1 capital, regulatory capital as well as capital ratios. The Bank filed counterclaims to exclude its liability as a legal entity pursuant to article 187-*quinquies* of the Consolidated Finance Act, using similar defensive arguments to those which led the Siena public prosecutor to dismiss the allegations against the Bank under Legislative Decree 231/2001.

With the above mentioned resolution, CONSOB concluded the sanctioning procedure pursuant to article 187-ter of the Consolidated Finance Act, against the above-mentioned three persons imposing Euro 750,000 in administrative sanctions, and an ancillary interdiction mandatory administrative sanction, pursuant to article 187-*quarter*, subsection 1, of the Consolidated Finance Act equal to twelve months, which implies the temporary inability to assume administration, management and control functions in listed companies and companies belonging to the same group of listed companies.

With the same resolution, instead, the payment of the above-mentioned monetary sanctions imposed on the three individuals has been imposed on the Bank as a jointly liable entity, pursuant to article 6, subsection 3, of Law 89/1981, and an additional Euro 750,000 monetary sanction for the violation committed by the three above-mentioned individuals in favour of BMP has further been applied pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act.

The Bank paid the sanctions and appealed in accordance with the terms of law with reference to the limitation to the application of the sanction pursuant to article 187-*quinquies*, subsection 1, letter a) of the Consolidated Finance Act. This appeal brought by the Bank before the Court of Appeal of Florence has been denied and the Bank did not appeal against such decision.

(E) CONSOB's sanctioning procedure for alleged violation of article 115 of the Consolidated Finance Act

With resolution no. 18669 of 2 October 2013, CONSOB imposed on BMPS Euro 300,000 in administrative monetary sanctions for alleged violation of article 115 of the Consolidated Finance Act in respect of a request for information, sent on 13 April 2012, concerning the FRESH 2003 securities and FRESH 2008 securities and the entering into by the Foundation of the "TROR" agreements with third financial parties for the indirect subscription of the securities in question. With decree of 6 June 2014, the Court of Appeal of Florence, after the appeal filed by the Bank, has reduced the formerly imposed administrative sanction to Euro 50,000.

(F) CONSOB's sanctioning procedure for violation of article 149, subsection 3, of the Consolidated Finance Act

By resolution no. 19390 of 11 September 2015, CONSOB notified the Bank, as a jointly liable party, of an allegation letter relating to the violation of article 149, subsection 3, of the Consolidated Finance Act allegedly realised by the members of the board of statutory auditors in office at the time of events after the omitted communication to CONSOB of operational and organisational irregularities found in 2010 subsequent to verifications carried out by the internal audit function in the Bank's treasury finance process.

concluded the sanctioning procedure imposing monetary sanctions for a total amount of Euro 90,000 on the members of the board of statutory auditors in office at the time of events and the Bank, which paid such amount as a jointly liable party pursuant to article 195, subsection 9 of the Consolidated Finance Act in force at the time.

(G) *CONSOB's sanctioning procedure for violation of article 187-ter of the Consolidated Finance Act in respect of the accounting recognition of the "Santorini" and "Alexandria" transactions*

By resolution no. 20344 of 15 March 2018, CONSOB completed a sanctioning procedure against Giuseppe Mussari, Antonio Vigni, Gian Luca Baldassarri, Daniele Pirondini and another manager of the Bank relating to the dissemination, through the financial statements as at 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011, of data deriving from the failed initial recognition at fair value and posting "at open balances" of the "Alexandria" and "Santorini" transactions, finding in this circumstance the dissemination of false information capable of providing false and misleading indications on BMPS shares in violation of article187-*ter*, subsection 1, of the Consolidated Finance Act; in particular a false recognition in the aforementioned financial statements of the size of net equity, result for the year and regulatory capital has been sanctioned.

The Bank was involved in the procedure in its capacity as a jointly liable legal person pursuant to article 6, subsection 3, of Law no. 689/1981 and as an entity liable pursuant to article 187-*quinquies* of the Consolidated Finance Act for the facts committed by the aforementioned individuals with limitation to false and misleading information of the sole consolidated financial statement as at 31 December 2011 since: (i) for financial statements preceding 2011 the 5 year statute of limitation provided for by article 28 of Law no. 689/1981 would be applicable and, furthermore, (ii) starting from financial statement as at 31 December 2012 the Bank published the *pro-forma* data referred to the combined effect of a recognition "at closed balances" of both the "Santorini" and "Alexandria" transactions.

As at the date of this Base Prospectus CONSOB concluded the sanctioning procedure pursuant to article 187-ter of the Consolidated Finance Act imposing to the Bank itself the payment of Euro 700,000 and, in its quality of jointly liable legal person pursuant to Article 6, subsection 3, of Law no. 689/1981 and article 187 quinquies of the Consolidated Finance Act, together with Mr. Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and another employee of the Bank, the payment of Euro 800,000.

The Bank did not appeal against the sanctioning measure and paid in its capacity as a joint liable party.

* * * *

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.

In the claims for the request of payment brought against the individuals sanctioned who did not benefit of the aforementioned suspension (Mr. Giuseppe Mussari, Mr. Antonio Vigni and Mr. Gianluca Baldassari), there have been challenges by such individuals. In such context, the judges expressed a common position related to resolving upon the suspension of the proceedings until the decision of the appeal proceedings brought by the sanctioned individuals.

These activities and the relating case law could influence the length of the proceedings and limit the chance of recovery.

As to the individuals who benefitted from the suspension of the proceedings in relation to the claim for the request of payment and who filed the relevant challenges, several proceedings are still pending.

Corporate liability actions brought by the Bank for the "Alexandria" and "Santorini" transactions

On 1 March 2013, the Bank instituted two separate proceedings for compensatory damages before the Courts of Florence (section specialised in corporate matters). In the first proceeding, related to the "Santorini" transaction, the Bank brought a corporate liability action pursuant to article 2392, 2393 and 2396 of the Italian Civil Code against the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Deutsche Bank for complicity in the non-fulfilments and/or offenses attributable to Antonio Vigni, asking for the joint conviction of the defendants for an amount not lower than Euro 500 million, then better specified during the trial.

In the second proceeding, in connection with the "Alexandria" transaction, the Bank brought a corporate liability action pursuant to article 2393 and 2396 of the Italian Civil Code against the former Chairman of the board of directors, Giuseppe Mussari, and the former General Manager, Antonio Vigni, as well as a claim for damages pursuant to article 2043 of the Italian Civil Code against Nomura for complicity in the non-fulfilments and/or offenses attributable to the two former company officers, seeking the joint conviction of the defendants for an amount not lower than Euro 700 million, then better specified during the trial. Nomura filed, on a conditional basis, a transversal request against Mr. Mussari and Mr. Vigni, from whom it seeks to be held harmless and indemnified in case the requests expressed by the Bank against it are upheld. A similar request has been filed by Mr. Mussari against Nomura, Mr. Vigni and Mr. Gian Luca Baldassarri, the summon to trial of whom was authorised with measure of 19 April 2014.

The corporate liability actions, initially authorized by the board of directors on 28 February 2013, were subsequently ratified by the Bank shareholders' meeting held on 29 April 2013.

The decision to institute the aforementioned corporate liability actions, also enforcing the non-contractual liability of the two investment banks, has been adopted in consideration of the opportunity to sue, in one single venue, both the former Bank's officers who had realised or contributed in the realization of the aforementioned financial transactions, and the two banking counterparties for having contributed in the non-fulfilments and/or unlawful acts put in place by the aforementioned Bank officers.

It is worth noting that the Bank, in its initial briefs commencing proceedings, expressly reserved the right to enforce, in another venue, the possible liability of Mussari, Vigni and other individuals, for other acts and/or transactions, as well as against Mr. Gianluca Baldassarri, former head of the Finance Area, in respect of the same transaction, as well as possible invalidity profiles of the agreements at the basis of the challenged financial transactions, including after the conclusion of the audits in progress and the developments in the enquiries of the investigating judges.

The Foundation, *Coordinamento delle Associazioni per la Difesa dell'Ambiente e la 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 AG, on 19 December 2013, a settlement agreement was reached between the Bank and Deutsche Bank AG regarding, *inter alia*, also the claim for damages. It is worth noting that this settlement agreement is limited to the internal liability share attributable to Deutsche Bank AG. In the action the Bank specified that, as a result of the transaction with Deutsche Bank AG, it obtained an economic benefit of Euro 221 million, accordingly asking the judge to take such amount into account in the determination of the *quantum* of the damages due by the defendant Vigni compared to the overall damage incurred thereby, subject to prior determination of the liability share ascribable in abstract to Deutsche Bank AG.

Accordingly, BMPS' liability action brought against Antonio Vigni as well as any other claim against other parties jointly liable with reference to the "Santorini" transaction remained unaffected. Such latter proceeding has ended, in the first instance, with the conviction of Antonio Vigni and compensation for pecuniary damage in favour of the Bank. With appeal suit, Mr. Vigni appealed the decision and introduced the appeal proceeding which was concluded on 9 January 2018 with a judgment ordering the counterparty to pay an amount of Euro 50 million plus burdens provided by law.

It is worth noting that Nomura, at the same date – but after the institution of the abovementioned corporate liability and damage action by the Bank before the Courts of Florence – instituted an action for declaration before the English Commercial Court (2013 Folio 292) seeking, *inter alia*, the declaration of the validity of the contracts relating to the restructuring of the "Alexandria" notes and the lack of Nomura's contractual liability or the lack of unjust enrichment. The Bank requested this case to be stayed in light of the risk of partial overlapping with the proceedings already instituted in Italy which, by admission of the same Nomura, have been instituted before the English one.

The Commercial Court did not uphold this request and accordingly the trial continued. The Bank appeared for these proceedings on 12 March 2014 enforcing the invalidity and ineffectiveness of the agreements relating to the transactions associated with the restructuring of the "Alexandria" notes seeking the restitution of the amounts quantified as Nomura's unjust enrichment, plus interest quantified in the measure of the ordinary trade receivable rates, and not to be held bound to pay any other amounts, or by any other obligations in respect of the aforementioned contracts, the full restitution of the amounts paid for the performance thereof.

It is worth noting that, in the context of the closing of the Alexandria transaction which occurred on 23 September 2015, the damage claim launched by the Issuer against Nomura in March 2013 before the Court of Florence has been settled. The settlement refers only to Nomura's liability share, without any prejudice to the corporate liability action against the former Chairman and former General Manager, and without prejudice to any other BMPS claim against other parties, external to Nomura, possibly jointly liable with respect to the "Alexandria" transaction. The settlement agreement also closes the proceeding brought by Nomura before the English court.

The liability action then continues against the former Chairman (who sued Mr. Baldassarri) and the former General Manager. Nomura remained part of the trial since it was addressee of indemnity requests by the former Chairman.

The case has been closed by the Court of Florence (decision n. 2755/2017, on 7 August 2017) as a consequence of the joining by BMPS as damaged party in the criminal proceeding pending before the Court of Milan. The Bank promoted the social responsibility action, authorized in the past by the shareholders' meeting, by starting a new civil proceeding, which is now pending before the Court of Florence.

Besides adhering to the actions brought by the Bank, the Foundation also instituted two independent suits, on one side, against Mr. Mussari, Mr. Vigni and Nomura and, on the other side, against Mr. Vigni and Deutsche Bank, seeking in both cases a declaration of liability of the defendants pursuant to article 2395 of the Italian Civil Code for the direct damage allegedly suffered by the Foundation for having subscribed for BMPS' capital increase approved in 2011, at a price different from that which would have been correct, had the "Alexandria" and "Santorini" restructuring been duly represented in BMPS's financial statements.

As regards the proceeding instituted by the Foundation in respect of the "Santorini" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 333.6 million on account of pecuniary damage and Euro 47.5 million on account of non-pecuniary damage), Mr. Vigni has been authorised to sue the Bank by virtue of an indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship. The Bank, appearing for the proceeding to rebut the claims against it, preliminarily objected to the lack of jurisdiction of the Courts of Florence, deeming competent the Courts of Siena as the labour judge. Mr. Vigni adhered to such objection and hence relinquished the case against the Bank. The Judge then ordered the dismissal of the case between Mr. Vigni and the Bank. To the extent known to the Bank, the proceeding is currently pending between the Foundation and the defendants.

As regards the proceeding instituted by the Foundation in respect of the "Alexandria" transaction (in the context of which it asked for the conviction of the defendants to compensate an amount of Euro 268.8 million on account of pecuniary damage, then increased to Euro 329 million in accordance with the conclusions of the plaintiff's technical advisor, and Euro 46.4 million on account of non-pecuniary damage): (i) Mr. Vigni has been authorised to sue the Bank by virtue of the aforementioned indemnity undertaking (in respect of third party claims) allegedly undertaken by the Bank in his favour in the context of the consensual termination agreement of the directorship relation; (ii) Mr. Mussari has been authorised to sue the Bank as liable, pursuant to article 2049 of the Italian Civil Code, for the fact that some managers are allegedly liable for the realisation of the transaction carried out with Nomura. The Bank was then served the writs of summon in its capacity as third party sued by the aforementioned defendants in the proceedings autonomously brought by the Foundation and appeared for trial rebutting the requests filed against it. Furthermore, with subsequent authorised brief, Nomura extended its requests against the Bank, asking to determine the liability share ascribable to the latter and to be held harmless thereby for the liability share exceeding that ascribable thereto. However, the settlement agreement entered into between the Bank and Nomura on 23 September 2015 provides - *inter alia* – for such request to be relinquished.

Even in this case Mr. Vigni relinquished the trial against the Bank as a result of the functional incompetence objection of the Courts of Florence, while the recourse/indemnity action brought by Mr. Mussari against the Bank continued. Following the technical appraisal, the judge scheduled the hearing for the specification of the final conclusion on 18 July 2019, inviting the parties to refer to the findings of the technical appraisal.

* * * *

In the event that the conducts of the management in office at the time of events were relevant under a criminal point of view and in the context of any actions already instituted, the Bank also assessed whether to appear as the civil plaintiff at the criminal proceedings seeking restitutions and/or compensations (pursuant to article 185 and 187 of the Italian Criminal Code). Specifically, the Bank appeared as the civil plaintiff, in the context of the criminal proceedings pending before the Courts of Milan – in which the Nomura, FRESH 2008, Santorini, Alexandria/Nomura, Chianti Classico cases have been combined – against Vigni, Mussari, Pirondini and Baldassarri seeking to obtain compensation for all pecuniary and non-pecuniary damages, however, with the order dated 6 April 2017 it has been excluded on the assumption of its joint liability with the defendants.

On 1 October 2016, a decree ordering a trial before the Courts of Milan – second criminal section for the hearing of 15 December 2016 was issued.

At the hearing of 15 December 2016 before the second criminal section of the Courts of Milan, subsequent to the request as civilly liable parties of the Banks BMPS, Nomura, Deutsche Bank, around 1,500 civil plaintiffs sued the Bank as a civilly liable party in respect of the crimes charged to the indicted former directors and managers.

In the course of the proceedings, by order of the Courts some civil plaintiffs were excluded. As at 30 September 2018, civil plaintiffs that appeared against the Bank were in aggregate around 1,243.

As at the date of this Base Prospectus, a precise monetary figure relating to the overall compensatory requests and accordingly the economic burden the Bank will have to bear cannot be predicted, since many civil plaintiffs' requests are not quantified and such quantification shall wait for the developments of the trial. However, also with the support of its experts, the Bank considers the overall amount reserved for the proceedings to be in line with its internal policies.

It is worth noting that on 12 May 2017, the indictment of officers Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) has been requested in the context of a new criminal proceeding before the Court of Milan where they are charged with the crimes of false corporate communications (article 2622 of the Italian Civil Code) in respect of the accounting of the "Santorini" and "Alexandria" transactions, as regards the Bank's financial statements, reports and other corporate communications, from 31 December 2012 until 31 December 2014 and as regards the semi-annual report as at 30 June 2015 as well as market manipulation (article 185 of the Consolidated Finance Act) in relation to communications released to the public with regard to the approval of the abovementioned financial statements and reports.

In relation to such proceeding, in which the Bank is identified as the offended person, the first hearing was held on 5 July 2017, during which several hundred individuals and some professional associations requested to join the proceeding.

Civil Proceedings

(A) *Civil actions instituted by shareholders in the context of the 2008, 2011, 2014 and 2015 capital increases*

It should be noted that certain investors/shareholders of the Bank have started proceedings aimed at obtaining compensation for the damages incurred thereby due to the alleged inaccurate disclosure given by the Issuer in the context of the 2008, 2011, 2014 and 2015 capital increase transactions and, in any case, as regards the alleged inaccuracy of the price sensitive information given from 2008 to 2015, as at the date of this Base Prospectus, have filed no. 30 claims for damages before the different Courts. The plaintiffs in these civil actions are suing the Bank mainly seeking a declaration of the Bank's liability under article 94 of the Consolidated Finance Act and the cancellation of the subscription agreement of the capital increases on the basis of wilful misconduct and/or essential error under the Italian Civil Code. The overall *petitum* of the abovementioned proceedings amounts to around Euro 764 million.

As at the date of this Base Prospectus, various claims have been brought by investors individually, through consumer associations or legal advisers (903, of which 69 intervened in the proceedings instituted by Marangoni Arnaldo and described below) for a total of around Euro 654 million of the claimed amount, where quantified, referred to alleged losses associated with the share capital transaction, alleged inaccuracy of the information contained in the prospectuses and/or financial statements and/or the price sensitive information given by BMPS from 2008 to 2011 about 10 per cent. of such requests have then turned into civil proceedings (mostly with the intervention in the proceeding promoted by a sole shareholder).

Such claims have been brought individually or collectively through two professionals and ADUSBEF and although heterogeneous, they appear reasoned by generic references to the alleged violation, by the Bank, of the banking legislation with reference to the matter of disclosure and therefore have been rebutted by the Bank since deemed generic, ungrounded, unsupported by suitable documentary evidence and in some cases time barred. As at the date of this Base Prospectus, the amount of the residual *petitum* claimed by plaintiffs who did not bring legal actions is equal to around Euro 591 million.

In addition, there were also 59 threatened litigations relating to the capital increase 2014-2015 for an amount requested equal to approximately Euro 17 million (and, therefore, overall equal to Euro 607 million as at the date of this Base Prospectus).

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Please find below a description of the four most relevant disputes brought by shareholders and/or investors of the Bank, in relation to which the aggregate petita is equal to around Euro 688 million.

(i) Legal dispute Banca Monte dei Paschi di Siena S.p.A./Portatori dei Titoli FRESH 2008.

Certain holders of FRESH 2008 securities (for the description of which, please see "*Major Events*" – "*FRESH 2008*" of this Base Prospectus) expiring in 2099 summoned BMPS, Mitsubishi UFJ Investors Services & Banking Luxembourg S.A. (which replaced the bank issuing the debenture loan Bank of New York Mellon Luxembourg), the English company J.P. Morgan Securities Ltd. (currently J.P. Morgan Securities plc) and the American company J.P. Morgan Chase Bank N.A. (which entered into a swap agreement with the debenture loan issurer) before the Court of Luxembourg asking the court to ascertain that the Burden Sharing Decree does not apply to FRESH 2008 securities' holders and, consequently, to declare that said bonds cannot be forcibly converted into shares, and to declare that these bonds shall continue to remain valid and effective in accordance with the terms and conditions for the issue thereof, as these are governed by the Luxembourg Law, and finally asking the court to declare that, without the conversion of FRESH 2008 securities, BMPS is not entitled to obtain from JP Morgan the payment of Euro 49.9 million to the detriment of FRESH 2008 securities' holders. The Court of Luxembourg has not yet confirmed the dates of the hearings.

For the sake of completeness, it should be noted that, following the commencement of said proceedings, on 19 April 2018, the Bank filed an action before the Court of Milan against J.P. Morgan Securities Ltd (currently J. P. Morgan Securities plc) and J.P. Morgan Chase Bank N.A. London Branch as well as the representative of FRESH 2008 securities' holders and Mitsubishi Investors Services & Banking (Luxembourg) S.A. asking the court to ascertain that the Italian court has sole jurisdiction to decide on the usufruct/life interest agreement and company swap agreement entered into by the Bank with the first two defendants within the scope of the 2008 capital increase. Consequently, the Bank asked the court: (i) to ascertain the ineffectiveness of the usufruct/life interest agreement and company swap agreement which provide for payment obligations vis-à-vis JP Morgan Securities Ltd (currently J. P. Morgan Securities plc) and J.P. Morgan Chase Bank N.A. after the entry into force of Decree 237; (ii) to ascertain that the usufruct/life interest agreement is ineffective and/or has been terminated and/or has expired or, subordinately; and (iii) to ascertain that the usufruct/life interest agreement has been terminated due to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, deeming existing the prejudicial issue raised by the defendants in relation to the jurisdiction and considered the existence of a dispute with the same *petitum* and legal issue pending before the Court of Luxembourg, has granted the parties time limits to replicate against the ritual objections and has adjourned the hearing to 16 April 2019 to discuss the controversial issue.

(ii) <u>Dispute Banca Monte dei Paschi di Siena S.p.A. / Marangoni Arnaldo +124</u>

In July 2015, Arnaldo Marangoni sued the Bank claiming to have purchased shares between 2008 and 2013, both during the 2008 and 2011 capital increases, and on the electronic stock market on the basis of the alleged false disclosure given by the Bank on its capital, economic, financial, profit and management situation. During the trial through voluntary intervention, another 124 individuals came forward with the same contestations (although the respective positions are not fully homogeneous). The 69 interveners requested: (i) the declaration of falsehood of the individual financial statements, quarterly and semi-annual reports, the 2008 and 2011 capital increase prospectuses, and the price sensitive press releases relating to 2008, 2009, 2010, 2011 and 2012 of BMPS and, accordingly, (ii) BMPS conviction to pay pecuniary and non-pecuniary damages for a *petitum* equal to around Euro 97 million (*petitum* then decreased to around Euro 89 million).

On 25 January 2018, the Judge rejected the counterclaims on the preliminary questions, postponing the proceedings to 13 February 2018. At the hearing the Issuer filed a reservation to appeal the non definitive judgment of the Court of Milan and the Judge postponed the proceedings to the hearing to be held on 18 December 2018. At the hearing, the Court reserved its decision on the evidence.

(iii) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Coop Centro Italia S.c.p.a.*

By writ of summon dated 26 July 2016, Coop Centro Italia s.c.p.a. sued the Bank, together with CONSOB, before the Court of Florence (section specialised in corporate matters), for the hearing of 20 January 2017, claiming damages for an aggregate of Euro 85.5 million - then determined as 103.4 million during the trial - due to an alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for Euro 20.3 million in respect of the 2008 capital increase and Euro 9.2 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of the Consolidated Finance Act or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of the Consolidated Finance Act, for Euro 56 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB, liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the authority and those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit determined during the trial. On the hearing of 12 October 2017 the judge reserved his position in relation to the preliminary requests.

At the hearing held on 12 October 2017, the judge resolved upon a technical appraisal and the relevant technical operations started on 30 October 2018. The hearing has been postponed to 23 May 2019 for the technical appraisal.

(iv) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Coofin S.r.l.*

By writ of summon dated 26 July 2016, Coofin S.r.l. sued the Bank, together with CONSOB, before the Courts of Florence (section specialised in corporate matters), at the hearing of 20 January 2017, claiming overall damages of Euro 51.6 million - then determined as Euro 61.4 million during the trial - due to alleged falsehood of the prospectuses relating to the Bank's 2008, 2011 and 2014 capital increases in which the company participated.

Specifically, the opponent claimed damages for approximately Euro 11.5 million for the 2008 capital increase and Euro 6.1 million for the 2011 capital increase, for contractual liability pursuant to article 1218 of the Italian Civil Code, as well as article 94, subsection 8 of Legislative Decree No. 58/98 or article 2049 of the Italian Civil Code in relation to the actions of its then officers and employees, as well as, always pursuant to article 1218 of the Italian Civil Code and article 94, subsection 8 of Legislative Decree No. 58/98, for Euro 34 million, jointly and severally – or subordinately each to the extent of pertinence – with CONSOB liable pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the authority and those of its commissioners and officers, with regard to the 2014 capital increase, the above in respect of the capital losses incurred as well as the loss of profit determined during the trial. During the hearing held on 13 March 2018 the Court reserved its position in relation to the admission of preliminary evidence. Following the hearing set for 13 March 2018, the Court then postponed to 6 December 2018 for the admission of preliminary evidence and by a separate order postponed to a hearing on 5 March 2019 the discussion of the exception for the expiration of time objection filed by the Bank and aimed at obtaining the authorisation to produce as evidence the CONSOB note dated June 2017 on the effectiveness of *pro-forma*.

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

The counterparties (the "**Funds**") with a writ of summons notified on 22 November 2017 filed a suit before the Court of Milan against the Issuer, Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori asking to ascertain and declare: (i) an alleged liability of BMPS pursuant to article 94 of the Consolidated Finance Act and for the conduct of Mussari, Vigni, Profumo and Viola pursuant to article 2395 of the Italian Civil Code for the misconducts made with respect to the plaintiffs; (ii) an alleged liability of Mussari and Vigni in relation to the investments made by the Funds in 2012 on the basis of untrue information; (iii) an alleged liability of Viola, Profumo and Salvadori in relation to the investments made by the Funds after 2012 and (iv) an alleged liability of Nomura pursuant to article 2043 of the Italian Civil Code and as a consequence to condemn jointly BMPS and Nomura to reimburse the material damages equal to Euro 423.9 million to Alken Funds Sicav and Euro 10 million for minor management fees and reputational damages to the management company of Alken Luxembourg S.A. and Mussari and Vigni, jointly with BMPS and Nomura, for the damages arising out from the investments made in 2012 and Viola, Profumo and Salvadori, jointly with BMPS and Nomura, for the damages following 2012. The counterparties requested also to condemn the defendants to reimburse the non-material damages, following the determination of the crime of false corporate communications.

The first hearing, initially scheduled for 18 September 2018, has been deferred to 11 December 2018, and the Issuer entered an appearance within the established deadline and submitted its defence arguments. It is to be noted that three natural persons have entered an appearance with separate statements of defence seeking damages for a total amount of approximately Euro 0.7 million. At the hearing held on 11 December 2018, the Court reserved its decision on the prejudicial exceptions raised by the parties. The Court, lifting its reservation and in acceptance of the objections raised by all the defendants, declared the summons of Alken null and void due to the failure to specify the dates on which shares have been purchased, granting the claimants time limits to complete the claims within 11 January 2019. Conversely, the Court considered Alken's claims raised in connection with the alleged incorrect accounting entries sufficiently specific and rejected the objection of invalidity relating to the appearance documents. The first hearing, therefore, has been deferred to 30 January 2019.

(vi) *Dispute Banca Monte dei Paschi di Siena S.p.A. / Bentivoglio Roberto + 3*

By writ of summons served on 15 November 2017 four natural persons, in their capacity as shareholders of BMPS, summoned the Bank and two other banks (also parties to the criminal proceedings) before the Court of Milan, seeking that the defendants be jointly ordered to pay compensation for damages allegedly suffered and amounting to Euro 21.5 million for financial damages and Euro 0.9 million for non-financial damages.

In particular, based on the information provided by the Bank as of 6 February 2013, and the facts and accusations made in criminal proceedings before the Court of Milan against former representatives of the Bank and the other defendants (proceeding from which they have been stricken off as civil parties), the plaintiffs claimed compensation for the financial damage arising from the depreciation in value of the BMPS shares they possessed as of 31 December 2007 compared to the value of the shares as at 6 February 2013, the date on which the statement reporting the presence of errors in the Bank's financial statements for the previous financial years was published.

The parties raised such objections pursuant to articles 2049 and 2622 of the Italian Civil Code, for misleading company statements and other offences committed by the defendants' executives and for offences punishable under Legislative Decree 231/2001. The plaintiffs also claimed non-financial damages under article 185 of the Italian Criminal Code and 2043 of the Italian Civil Code. The hearing, initially scheduled on 10 April 2018, was held on 11 September 2018. The Bank entered an appearance within the established deadline objecting to plaintiff's claims. The next hearing was scheduled for 25 June 2019.

Disputes relating to securities subject to the Burden Sharing

As of the date of this Base Prospectus, 67 claims have been filed by former holders of subordinated bonds subject to Burden Sharing for an overall *petitum* of approximately Euro 23 million.

It should be highlighted that, for part of the litigation underway, the plaintiffs are no longer the holders of the securities as they sold the securities prior to the entry into force of Decree 237. It should also be stressed that the opposing parties' objections are focused on the alleged lack of any notice and/or however on the breach of the specific industry legislation (Consolidated Finance Act and its implementing regulations) exactly as in any other "similar" case covering financial matters commenced against the Bank. Indeed, the plaintiffs claimed occurred misselling, i.e. distribution of the above financial instruments in breach of the Consolidated Finance Act (and its implementing regulations), as well as in breach of the general principles of fairness, transparency and diligence.

Disputes deriving from ordinary business

While carrying out its ordinary business, the Group, similarly to the other banking groups, is involved in various judicial proceedings concerning, *inter alia*, allegations in the matters of: claw-back, compound interest, placement of bond securities issued by governments and companies then defaulted, placement of schemes and financial products, which, the latter types show a consistent overall decrease and are not material in terms of *petitum* and related civil funds.

With respect to the proceedings regarding bankruptcy claw backs, the reform that has been implemented since 2005 has reduced and limited the scope of insolvency claw backs, especially those concerning direct payments in accounts. For those still eligible for proposal – or already pending at the date of entry into force of the reform – the Bank uses all available arguments to defend its position.

With respect to disputes concerning compound interests, interest and conditions since 1999 there has been a progressive increase of claims brought by account holders for the retrocession of interest expenses due to quarterly compound interest. In such cases, plaintiffs also contest the legality of the interest rate and the calculation method for the fees. In this latter respect, the interpretation introduced by the Supreme Court's, with effect from 2010 in the matter of usury - on the basis of which the maximum overdraft fees, even before the entry into force of Law 2/2009, had to be taken into account in the calculation of the global effective rate (GER), in contrast with the guidance of the Bank of Italy – is frequently the basis for lawsuits brought by customers. Most of the cases involve claims related to the balances of current accounts, but increasingly frequent are disputes concerning compound interests, referring to the legitimacy of the so-called "French compound interests" of mortgage loans, and the violations of Law 108/1996 on usury, on maturing loans.

In the matter of compound interests, the reform of article 120 of the 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 capitalisation (such as, *inter alia*, the provisions according to which: (i) interests accrued in a current account or in a payment account (both in favour of the Bank and in favour of the account holder) are calculated with the same frequency in any case not lower than one year and that (ii) accrued interests do not give rise to further interests, except for delay interests, and are calculated exclusively on capital and, in case of opening of credit lines settled in the current account, for overdrafts even in the absence of a credit line or in excess of the credit line).

As previously highlighted, against the estimates made regarding the risk of losing the judgments referred to in this paragraph, the provisions made for legal disputes described herein fall within the overall provision for risks and charges highlighted above.

Civil disputes arising in connection with the ordinary business of the Issuer

Please find below the most relevant proceedings in terms of *petitum* and relating state of the case.

(A) *Civil dispute instituted by the extraordinary administration of SNIA S.p.A. before the Courts of Milan*

The action, brought by the Extraordinary Administration of SNIA S.p.A. ("**SNIA**") against the former directors, statutory auditors and (direct and indirect) shareholders of the same company (including BMPS), seeks the declaration of the defendants' joint liabilities for damages, originally not quantified and allegedly caused to the company. The action is grounded on intricate and complex corporate matters which concerned the company in the ten-year period between 1999 and 2009, which, as far as the Bank and other appearing parties are concerned, pivot around the company's demerger in 2003.

SNIA contested the Bank, in its capacity as an indirect shareholder and a member of a shareholders' agreement of the controlling entity, about having a controlling and coordinating position over it and having adopted such conduct which would have caused damages to the company's assets, and, specifically: 1) the design and realisation of a distraction spin-off of the company, to the detriment of the shareholders and the creditors of the company; 2) the drafting and approval of untrue financial statements starting from financial year 2000, and, in particular, the drafting and approval of the financial statement 2002, since it was allegedly untrue and considered as a reference capital representation for the purpose of the spin-off, and the subsequent financial statements; 3) the origination of environmental damage claims by the Ministry of Environment and for Protection of the Land and Sea and the Ministry of Economy and Finance and of two distinct administrative managements (Commissioner of the Lagoon of Grado and Marano and Commissioner of the Sacco River; the "**Administrative Managements**"), now dissolved, and exercised in the context of the admission to liability in the insolvency procedures of SNIA and one subsidiary. During the trial, in support of the plaintiff's requests, the aforementioned Ministries appeared *ad adiuvandum*.

The *petitum*, not determinable in origin, on occasion of the clarification of requests was quantified for a portion of the contested conducts against the Bank and other defendants, in Euro 572 million, with further damages allegedly incurred and the requested compensation, which remained, undetermined.

With decision no. 1795/2016 of 10 February 2016, the Courts of Milan, having declared – *inter alia* – the inadmissibility of the interventions of the Ministries of Environment and Economy, rejected the claims of the extraordinary administration of SNIA S.p.A. against the various parties, including the Bank, convicting the plaintiff to refund trial costs.

With separate writs of appeal, notified in March, the ministries on the one hand and the extraordinary administration of SNIA S.p.A. on the other filed an appeal against the first instance ruling, repeating the grounds for the appeal and the arguments already expressed before the Court.

With its writ of appeal, SNIA asked the conviction of BMPS and the other defendants to pay, on a joint and several basis or, subordinately, on a partial basis: a) the amount of Euro 3.5 billion, conditional on the definition of the objection proceedings to liabilities of SNIA brought by the Ministries together with the aforementioned extraordinary administrators and pending before the Courts of Milan (or another amount established during the trial, in equity pursuant to article 1226 of the Italian Civil Code, or, subordinately, after quantification by CAE); b) the amount of Euro 572 million for damages so-called "instantaneous" from spin-off (or Euro 388 million, or another amount established during the trial, in equity pursuant to article 1226 of the Italian Civil Code, or after quantification by CAE, with legal interests even compound interests and money revaluation of the amount due upon actual payment).

At the same time, with its writ of appeal, the ministries asked for the reform of the Court decision, asking for the *ad adiuvandum* intervention to be declared inadmissible and their exclusion illegitimate, ordering the referral of the trial to the first instance judge, for having him uphold the conclusions already expressed for the upholding of SNIA requests.

At the hearing of 19 July 2016, relating to the appeal filed by the Ministries, the Court of Appeal – having acknowledged the pending of the "parallel" proceeding brought by SNIA S.p.A.'s extraordinary administrators – deferred the hearing to 4 October 2016 for the purpose of combining the two appeals. The first hearings were set, respectively, for 15 July and 4 October 2016. In the course of the latter hearing, the Judge ordered that the appeals be combined and deferred, through reserve, its decision on the request to suspend the execution of the first instance decision. On 21 October 2016, the Court lifted its reservation and suspended the execution of the appealed decision. The next hearing was set for 20 June 2018 for closing arguments. On 20 June 2018, the trial was postponed to 23 January 2019. At the hearing held on 23 January 2019, the panel reserved its decision on the referral request for negotiations as the Bank authorised (but not yet formalised) a settlement agreement which provides for the abandonment of the legal action against the Bank and the compensation of the expenses.

For the sake of completeness, it is to be noted that the Ministry of Environment filed an appeal against the Bank, as well as against other companies, for the voidance/reform of decision no. 3447/2016 rendered by the Regional Administrative Court of Lazio. Such decision was given in the context of a proceeding instituted before the Regional Administrative Court of Lazio by BMPS against the measure prot. no. 14568 of 24 July 2015, by which the Ministry of Environment ordered some companies, amongst which was BMPS, since deemed for various reasons involved in the pollution produced by the Caffaro industries in the three natural sites (SIN) Lagoon of Grado and Marano (Tor Viscosa), Basin of the Sacco River (Colleferro) and Brescia Caffaro (Brescia), to "*adopt with immediate effect all appropriate initiatives to control, limit, remove or otherwise manage any damage factor in the above sites ... complying with the clearance programme of the Extraordinary Administration or provision of this Ministry*" pursuant to article 305 subsection 2 lett. b of Legislative Decree 152/2006.

With decision no. 3447/2016, the TAR voided the ministerial measure and convicted the Ministry to pay trial expenses. The appeal has been filed without requesting the appeal decision to be stayed and, as of the date of this Base Prospectus, the public hearing on the merits has not been scheduled yet.

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

This action, where BMPS is sued together with other credit institutions and companies, concerns the declaration of alleged monetary and non-monetary damages suffered by the plaintiff company after an alleged illegitimate reporting to the central credit bureau. The action is currently in the investigation phase and the Judge, having ordered the renewal of the expert appraisal, withheld the case also to allow the parties to assess possible settlement agreements. The relating *petitum* is equal to Euro 157 million. With such claim it has been requested to condemn jointly the defendants, proportionally with reference to their conducts. The defence of the Issuer is that the bad financial situation of Fatrotek S.r.l. justified the actions taken by the Issuer. The hearing was scheduled for 31 May 2018 where the expert nominated by the Judge was to be sworn in.

During the hearing held on 31 May 2018, the Court reserved to decide over several procedural issues of the defendants preliminary to the expert witness' appointment and swearing. On 5 June 2018, the company was declared bankrupt. The Court scheduled the hearing on 7 December 2018 for the appointment of the expert witness. Pending the proceedings, Fatrotek S.r.l. bankruptcy receiver rejoined the proceedings which will continue at the aforementioned hearing.

(C) *Civil dispute instituted by the bankruptcy receivership of Medeghini S.p.A. in bankruptcy before the Courts of Brescia*

The action concerns the claim for damages brought by the bankruptcy receivership of the company for certain banking transactions in the context of the capital increase carried out in 2007 by the subsequently failed company. In particular, the receivership complained about the merely fictitious nature of the capital increase, since, as a consequence of a series of accounting movements, the amount destined thereto would have been transmitted to the company's accounts only formally, without turning into an effective capital increase.

During the trial an expert appraisal has been ordered at the end of which the expert appointed by one of the parties deemed established and documented a damage of around Euro 2.8 million, but does not specify whether such damage is to be ascribed to a conduct of the Bank or whether, instead, the damage is caused by the failed company directors against all creditors through the continuation of the business.

The defence of the Issuer has been structured with a number of arguments based on both facts and law provisions and aimed at highlighting the lack of grounds of the claims made by the bankruptcy procedure due to the absence of any link between the actions that brought to the default and the conduct of the Bank.

During the course of the technical consultancy requested by the Court the claims of the counterparty, aiming at demonstrating the link between the capital increase and the subsequent actions that would have made the insolvency worse – and where the Issuer had operated as a mere performer – have been repeatedly challenged by the technical consultant of the Bank.

During the official technical consultancy, the consultant appointed by the Court accepted almost all the arguments raised by the Bank and highlighted that the counterparty's request, in the way it had been made, had no grounds from the perspective of a compensation since no damage had been suffered. As of the date of this Base Prospectus, the Court is about to rule.

(D) *Civil dispute instituted by the bankruptcy receivership of the company Antonio Amato & Company Molini Pastifici S.p.A. in liquidation before the Courts of Naples – section specialised in corporate matters*

This action was brought by the bankruptcy receivership of the company against the former directors and statutory auditors of the subsequently failed company and against the Bank together with other credit institutions for the compensation of alleged damages, quantified in the difference between the procedure's assets and liabilities, deriving, *inter alia*, from a pool loan granted by lending institutions which would have delayed the emergence of the insolvency state of the subsequently failed company, worsening its state of financial distress. The case is under preliminary investigation and a tax expert nominated by the judge has been admitted. The petitum is equal to Euro 90 million.

BMPS duly appeared for trial filing preliminary and prejudicial counterclaims relating to the lack of territorial competence and lack of active legitimacy and, in the merit, asking for the claims brought by the plaintiff to be rejected on the grounds that were inadmissible and/or not grounded, and thirdly and on a subordination basis, the reduction of the potential condemn to reimburse, on the basis of the different degree of negligence, pursuant to article 2055 second paragraph of the Italian Civil Code.

The following hearing has been held on 14 February 2019 also to examine the technical expertise.

(E) *Civil disputes instituted by Riscossione Sicilia S.p.A. and the Assessorato of Economy of Sicily 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 seeking the conviction of the Bank to the payment of Euro 106.8 million.

Riscossione Sicilia S.p.A.'s claim, as set out in the writ of summon, falls within the realm of the complex relations between the Bank and the plaintiff, originating from the transfer to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by BMPS in Monte Paschi Serit S.p.A. (then Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia S.p.A., in relation to the contractual provisions relating to such disposal, asked for the Bank's conviction, under its contractual liability for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A..

The Bank duly appeared for trial filing a counterclaim against Riscossione Sicilia S.p.A.. As of the date of this Base Prospectus, the proceeding is in the preparatory phase and the Court admitted the technical appraisal which commenced its operations on 4 September 2018. The Court scheduled the following hearing on 18 February 2019.

With the petition filed on 30 November 2016 the BMPS asked the Courts of Palermo to order Riscossione Sicilia S.p.A to immediately pay the amount of Euro 40 million, plus interest and expenses, due to the failed payment by the defendant of certain overdue instalments relating to two loan agreements. With decree issued on 17 January 2017 the Courts of Palermo ordered Riscossione Sicilia to pay the plaintiff the amount of Euro 40.7 million. The petition, together with the decree and the writ of execution for the amount for which interim execution was granted, has been notified to Riscossione Sicilia on 8 February 2017.

With writ of summon notified on 11 March 2017, Riscossione Sicilia filed an appeal against such injunctive relief asking for the withdrawal thereof and, as cross-claim, the conviction of the Bank to the payment of an amount of around Euro 66 million.

At the basis of its appeal Riscossione Sicilia S.p.A alleged to be owed the amount of Euro 106.8 million by the Bank by virtue of some representations and warranties contained in two share assignment agreements with which the BMPS had assigned to Riscossione Sicilia the full share capital of the company Serit – Sicilia S.p.A.. In the writ of summon, Riscossione Sicilia acknowledged the circumstances according to which its requests are already the subject matter of another action pending before the same Courts.

BMPS duly appeared for trial asking for the rejection of the opponent's claims. By order dated 26 January 2018, the judge (i) rejected the counterparty requests and (ii) accepted the Bank's request to grant provisional execution of the injunction for the entire amount. At the hearing of 12 June 2018, the judge ordered to join the counterclaim made to the injunction with the aforementioned proceeding and postponed the hearing to 5 November 2018. At the hearing of 5 November 2018, the judge postponed the discussion pursuant to article 281-*sexies* Italian Civil Procedure Code to 24 September 2019.

For the sake of completeness it is highlighted that, on 19 October 2017 Riscossione Sicilia S.p.A. appealed against the decision issued by the Court of Palermo on 6 October 2017 – by which the court rejected the injunction pursuant article 700 of the Italian Civil Procedure Code promoted by Riscossione Sicilia S.p.A. against the suspension of the credit facility notified by the Bank.

On 12 January 2018, the hearing for the discussion was held and on 26 January 2018, the Court rejected the claim for Riscossione Sicilia S.p.A..

On 10 May 2018, the Regional Department of Economy of Sicily filed an injunction pursuant to article 700 of the Italian Civil Procedure Code against BMPS and Riscossione Sicilia S.p.A. before the Court of Palermo, requesting that BMPS to be prohibited from suspending the concessions in order to allow Riscossione Sicilia S.p.A., in its capacity as tax collecting agent, to transfer the amount equal to approximately Euro 68.6 million to be paid as taxes to the Sicilian Region. The Bank duly appeared for trial. The Court, with an order dated 28 June 2018, rejected the injunction.

On 17 July 2018, the Assessorato of Economy of Sicily notified the Bank of an injunction pursuant to article 2 of Royal Decree No. 639/1910 and an injunction to return the above mentioned amount of Euro 68.6 million pursuant to article 823 of the Italian Civil Code within 30 days. The Bank challenged such an injunction requesting the suspension of its effectiveness. In this respect, the first hearing has been scheduled on 12 December 2018. The Court, with an order dated 24 August 2018, rejected the request for the suspension, specifying that the injunction can be executed on the money standing to the credit of the account opened by Riscossione Sicilia S.p.A.. Upon the filing of a request by the defendant to sue Riscossione Sicilia S.p.A., the Court of Palermo has deferred the first hearing, initially scheduled on 12 December 2018, to 20 March 2019.

For the sake of completeness, it is to be noted that BMPS has also promoted an administrative trial before the Regional Administrative Court of Sicily – office of Palermo seeking the declaration of nullity and the voidance of the injunction issued by the Assessorato of Economy of Sicily on 17 July 2018 pursuant to article 2 of Royal Decree No. 639/1910.

The appeal aims at challenging such injunction in which is stated that "*as alternative, pursuant to article 823, paragraph 2, of the Italian Civil Code, order to Banca Monte dei Paschi di Siena itself (...) to provide, within 30 days from receipt of the present, for returning to the Region of Sicily the amount of Euro 68,573,105.83, plus interest at the rate established by special provisions for late payment in commercial transaction, as required by article 1284, paragraph 4 of the Italian Civil Code*".

Following the notification of the appeal on 16 October 2018, BMPS has filed the appeal itself on 12 November 2018 without contextually asking for the scheduling of the hearing (such request may be presented within 12 November 2019).

The Assessorato of Economy of Sicily duly appeared for trial assisted by the government lawyer on 15 November 2018.

(F) *Civil dispute instituted by Edilgarba s.r.l. before the Courts of Milan*

Edilgarba sued BMPS complaining about the BMPS' non-fulfilment of the obligations deriving from the land loan agreement entered into on 13 September 2006 between Edilgarba and Banca Antonveneta (subsequently BMPS). Edilgarba seeks compensation for alleged damages incurred (quantified at around Euro 28.5 million), as well as the damages to its image and commercial reputation (quantified as a minimum of Euro 3 million).

During the trial an expert appraisal had been ordered, and then supplemented, which established that the actual damage deriving from the transaction incurred by Edilgarba, which shall take into account the costs borne by the plaintiff, is equal to Euro 12 million, the receivable owed to the same bank by the funded company to Euro 10.6 million and the value of a mortgaged area estimated as Euro 6.6 million at the time of the renegotiation of the mortgage is to date equal to Euro 2.6 million. The *petitum* amounts to around Euro 31.5 million.

By decision filed on 7 January 2019, the Court, in partial acceptance of the plaintiff's claims and in partial acceptance of the Bank's claims, ordered the Bank to pay the plaintiff the amount of Euro 1.6 million, plus revaluation, interest and litigation costs being partially compensated.

(G) *Civil dispute instituted by Mr. Giosuè Pagano and Lucia Siani pending before the Court of Appeal of Salerno*

By decision of 12 March 2012, the Court of Salerno rejected the plaintiffs' requests, that asked for the conviction of BMPS and for the compensation of Euro 30 million and Euro 15 million in favour of the plaintiffs, for alleged liability of the Bank for the bankruptcy of a company, of which the plaintiff was the sole director and the other plaintiff the guarantor. The plaintiffs filed an appeal against such decision repeating the requests filed in the first instance proceeding and asking for the decision to be reformed and for the Bank to be convicted to the compensation for damages, to be liquidated in Euro 30 million and Euro 15 million.

By order of 14 October 2013, after retaining the case at the hearing of 3 October 2013, the Court of Appeal of Salerno rejected the suspension request of the enforceable nature of the first instance decision and set for closing arguments the hearing of 6 October 2016, subsequently postponed to 8 November 2018. Further to this hearing, the Court is about to rule and as at the date of this Base Prospectus, the Bank is waiting for the decision.

(H) *Civil dispute instituted by Formenti Seleco S.p.A. in extraordinary administration before the Courts of Monza*

Formenti Seleco S.p.A. in extraordinary administration instituted a proceeding – against a group of banks, amongst which is the Issuer – seeking compensation for damages associated with abusive granting of credit. The *petitum* in this action is around Euro 45 million. The Courts di Monza, with procedural justification, rejected the plaintiff's claims. Subsequently, Formenti Seleco appealed the decision before the Court of Appeal of Milan which, in turn, rejected the plaintiff's claims. The latter appealed the decision before the Supreme Court which, with decision 11798/2017, confirmed the decision of the Court of Appeal of Milan, upholding only in part the appeal reason relating to the sharing of first instance trial expenses; the Court accordingly referred the case to the Court of Appeal of Milan for the sole decision on expenses with the relevant hearing scheduled for 22 November 2018. The measure of the Court of Appeal rejecting the principal request for conviction of the Bank, (with others) to the payment of the amount of Euro 45.6 million has then become definitive.

(I) *Civil dispute instituted by Serventi Micheli Terzilia and Others against Zenith Bankruptcy, BMPS and other credit institutions before the Courts of Parma*

In this action, the directors of failed Zenith S.p.A. – sued by the bankruptcy receiver with liability action pursuant to article 146 of Bankruptcy Law – in turn summon to court the Bank and other credit institutions seeking a declaration of their exclusive and/or joint liability, since they would have substituted themselves to the directors carrying out actions allowing for the return and/or acquisition of guarantees for the considerable amount of credits claimed. The action, after the judge has rejected investigation requests, has been deferred to 11 December 2018 for closing arguments. As at the same date, the judgment has been interrupted by the death of one of the plaintiffs. The *petitum* is equal to around Euro 26.5 million.

(J) *Civil dispute instituted by Congregazione Religiosa delle Suore Ancelle Divina Provvidenza before the Courts of Trani.*

The *petitum* for this action is equal to around Euro 20 million and concerns complaints on the terms and interests applied to current accounts relations. At the hearing held on 3 May 2017 closing arguments have been filed and the judge retained the case to prepare a settlement agreement to be proposed to the parties. At the hearing of 3 May 2017, already set for the clarification of conclusion, the judge reserved the decision upon a possible settlement proposal to be submitted to the parties. However, the judge lifted the reserve and decided not to submit to the parties any settlement proposal. As a consequence, the judge scheduled the hearing for specification of a final conclusions on 3 October 2018. The Court reserved its decision.

(K) *Civil dispute instituted by the receivership of CO.E.STRA. S.p.A. before the Courts of Florence*

On 4 December 2014, CO.E.STRA. S.p.A., within the context of the arrangement with creditors procedures, served a writ of summon to the Bank and the other banks participating in a pool to ascertain and declare their contractual or non-contractual liability in relation to the restructuring agreement signed by CO.E.STRA. S.p.A. on 30 November 2011, with subsequent request for joint liability of the banks with respect to the alleged damages suffered for having caused/worsened the distress of CO.E.STRA. S.p.A., quantified by the latter in Euro 34.6 million. The order of the judge has been challenged before the Supreme Court on the basis of lack of competence pursuant to article 42 of the Italian Code of Civil

Procedure. The hearing was held on 12 April 2018 in private and the Supreme Court referred the proceedings to a public hearing scheduled to be held on 5 February 2019. As at the date of this Base Prospectus, the decision on the lack of competence is still pending as the judge has deemed appropriate to wait for the solution of the same legal issue raised in a different proceeding which might be ruled by the United Sections of the Supreme Court.

(L) *Action brought by BMPS before the Courts of Rome against CODACONS et alios.*

By writ of summon of 5 March 2014, BMPS instituted before the Court of Rome a legal action against CODACONS, its legal representative and an external consultant of this association seeking their joint conviction to compensate the damages that have been and may be suffered (in future) by the Bank as a result of various conducts unjustly detrimental to the Bank's reputation. In particular, among the unlawful conducts at the basis of the action, there would be CODACONS publication of multiple press releases since the beginning of 2013, in which it claimed that the Bank had applied erroneous accounting treatment to the transactions related to the restructuring of the "Santorini" transaction and the "Alexandria" notes, as well as the unlawful resorting to the State aid procedure executed through the New Financial Instruments. Pecuniary damages of Euro 25 million and non-pecuniary damages of Euro 5 million have been claimed. The first hearing, set in the writ of summon for 20 November 2014, has been deferred to 14 January 2015. The defendants appeared for trial also raising counterclaims for damages, quantified by one of the defendants in approximately Euro 23 million and alleging the existence of a conflict of interest in the institution of the judgment such as to legitimate the appointment request of a special receiver pursuant to article 78 of the Italian Civil Procedure Code. The Judge set the next hearing for final argument, on 17 January 2018.

While proceedings were pending, an agreement was entered into between the Bank, on the one hand, and CODACONS and its legal representative, on the other hand, for the mutual waiver of the claims lodged as part of the proceedings as well as the waiver by CODACONS and its legal representative of any claim lodged against the Bank before any civil and criminal judicial authority. The proceedings will continue between the Bank and the Association's external advisor, originally summoned along with the Association.

By way of a sentence filed on 12 December 2018, the Court partially upheld the requests made by the Bank against the consultant and rejected the counterclaim of the latter. By writ of summon served on 9 January 2019, the counterparty appealed to the Bank for the hearing scheduled for 23 May 2019.

(M) *Civil proceedings commenced by Lucchini SpA in Amministrazione Straordinaria before the Court of Milan vis-à-vis the Bank and other 11 credit institutions and companies.*

By writ of summons served on 23 March 2018 the Extraordinary Administration of Lucchini SpA summoned the Bank and 11 other banks and companies before the Court of Milan, asking that the defendants be jointly sentenced to pay for the damage allegedly suffered and quantified in approximately Euro 350.5 million as main claim, and approximately Euro 261.2 million as subordinate claim.

The Extraordinary Administration's main claim regards the damages caused by the delayed opening of the company's Extraordinary Administration procedure as well as those related to the amounts received by the defendants pursuant to a restructuring agreement. In summary, Lucchini contends that the defendants' liability arises from said restructuring agreement entered into between the parties on December 2011, which, according to the claimant, allowed the contracting parties on the one hand to hide the actual financial distress of the Company, preventing – or rather delaying – the opening of insolvency proceedings, and on the other, to unlawfully interfere with the management of the company's business, which qualifies as an abuse of management and coordination powers under articles 2497 and 2497 *sexies* of the Italian Civil Procedure Code. The Extraordinary Administration claims that the Banks are liable, not only in respect of said abuse of management and coordination powers, but also in their capacity as *de facto* directors and for the activities performed and breaches committed by the directors appointed by the Banks under articles 2055 and 2049 of the Italian Civil Code. At the first hearing held on 30 October 2018, the Bank duly appeared presenting its defence. The proceedings were postponed to 9 April 2019.

(N) *Arbitration promoted by Cinecittà Centro Commerciale Srl*

By deed of appointment of the arbitrator, notified on 21 May 2018, Cinecittà Centro Commerciale S.r.l. ("**Cinecittà**") informed the Bank of its intention to enter into arbitration proceedings under the arbitration clause provided for by Article 27 of the regulatory agreement signed between the parties in 2009, contesting the validity of the derivative contracts executed on the basis of the above mentioned agreement and the validity of a settlement agreement entered into between Cinecittà and the Bank in 2016. As a result of this annulment, based both on the alleged violation of the specific sector regulations for derivatives contracts and for violation of the civil regulations governing contractual relations, including article 1972 of the Italian Civil Code for the transaction, Cinecittà requested the board of arbitrators to order the Bank to pay compensation for the damages suffered by Cinecittà in an amount of not less than Euro 23.1 million plus interest and damages.

At the hearing, held on 27 July 2018, the board assigned the parties time limits for pleadings and adjourned the hearing to 10 December 2018, and then officially to 22 January 2019, for the appearance of the parties. The next hearing is scheduled on 27 May 2019 to discuss the preliminary objections.

Complaint to the Board of Statutory Auditors pursuant to article 2408 of the Italian Civil Code

As of the date of this Base Prospectus, there have not been any complaints pursuant to article 2408 of the Italian Civil Code. In 2017 and in the first months of 2018 certain complaints were filed with the board of statutory auditors (sometimes for information only) which are not material.

The Board in any case has always verified whether such complaints were grounded so as to eventually take action to solve the relevant issues, especially with regard to internal managerial issues or activities of the Bank not considered fully appropriate.

Anti-money laundering

As at the date of this Base Prospectus 13 judicial proceedings are pending before the ordinary judicial authority in opposition to sanctioning decrees issued by the MEF in the past years against some employees of BMPS and the Bank (as a jointly liable party for the payment) for infringements of reporting obligations on suspicious transactions pursuant to Legislative Decree No. 231/2007. The overall amount of the opposed monetary sanctions is equal to approximately Euro 4.8 million of which around Euro 1.8 million 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 other competent authority. The upholding of the Bank's position may entail the avoidance by the judicial authority of the sanctioning measure imposed by the MEF and, in case the payment of the sanction has already been executed, the recovery of the related amount.

For the sake of completeness it is worth noting that, as at 31 December 2018, 38 administrative proceedings are pending – in addition to the abovementioned proceedings in respect of which the opposition proceeding are in progress – instituted by the competent authorities for the alleged violation of the anti-money laundering regime. The overall amount of the *petitum* related to the abovementioned administrative proceedings is equal to around Euro 100.3 million.

Labour disputes

As at the date of this Base Prospectus the Bank is a party in around 650 judicial proceedings both active and passive of labour nature concerning, inter alia, appeals against individual dismissals, declaration requests of subordinate employment relations with indefinite duration, compensation for damages due to professional setbacks, requests for higher positions and miscellaneous economic claims.

Provisions were created to pay the costs associated with these proceedings, based on an internal assessment of the potential risk. The provisions the Bank created regarding this type of litigation are comprised within the "provision for risks and charges" which amounts to around Euro 33.1 million (Euro 34.4 million at consolidated level) as at 30 September 2018.

It has to be further specified that, after the transfer of the back-office activities business unit to Fruendo S.r.l. occurred in January 2014 which concerned 1,064 resources, 634 employees (then were reduced to 487 as a results of renouncement/conciliation and deaths) sued the Bank before the Courts of Siena, Rome, Mantua and Lecce seeking, inter alia, the continuation of the employment relationship with the Bank, subject to prior declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

As at the date of this Base Prospectus, for one plaintiff a first instance action is pending with a hearing set for 13 March 2019, while for the other 479 first and/or second instance decisions already intervened with an unfavourable outcome for the Bank and consequent entitlement for the same employees to be rehired.

In particular, a first instance judgment was already issued for no. 143 employees (by the Courts of Lecce and Rome) that the Bank has already challenged and/or has reserved to challenge by the ritual terms in front of the competent Court of Appeal with hearings scheduled between January 2019 and February 2020. A second instance judgment has instead already occurred for no. 336 employees (by the Courts of Appeals of Florence, Rome and Brescia) against which the Bank has already promoted the challenge in front of the Supreme Court (as at the date of this Base Prospectus, the schedule of the public hearing by the Supreme Court in relation to all the claims filed is pending).

For the sake of full disclosure, it is worth noting that both the Bank and Fruendo have filed a petition in the Court of Appeals in Rome, Lecce and Brescia for referral to the European Court of Justice of preliminary matters that are essential for the purposes of ruling. In particular, an assessment was requested regarding the conformity to EC Directive 2001/23 of article 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court, to which the appealed judgments conform, and whether:

– the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code and therefore would require the consent of the concerned workers; and

– the automatic transfer of employment relationships pursuant to article 2112 of the Italian Civil Code would not be permitted and therefore the consent of the concerned workers would be required if, in the case of a transfer of an economic entity carrying out banking back office activities, the transferring Bank would maintain ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

As at the date of this Base Prospectus, no. 72 employees (later reduced to 31 after no. 25 renouncements to be ratified in accordance with the law and no. 16 reconciliations) over no. 479 entitled, notified an act of precept by which they have demanded to be reinserted into the labour sole book ("Libro Unico del Lavoro") of the Bank and for restoring their contribution and insurance position, both opposed by the Bank with appeals in front of the labour section of the Court of Siena. At the latest hearings, the trials were referred for the discussion on 15 February 2019.

Even if the Bank's opposition were not to lead to the results hoped for, to date no economic impact is expected for the Issuer deriving from the integration of arrears of salaries for the employees re-instated in office, having all plaintiffs retained the remuneration treatments granted within BMPS upon assignment of the business unit, and instead not having been subject to the salary decreases applied to MPS employees, by virtue of the trade union agreements of 19 December 2012 and 24 December 2015.

Given the above, the Bank, jointly with Fruendo S.r.l., is analysing the issues arising from the possible unfavourable ruling in the labour disputes.

Please finally note that 32 employees filed a complaint for the offence of failed malicious execution of judicial measure (article 388 criminal code). In the context of the criminal proceedings 567/17 instituted before the Criminal Courts of Siena, after the mentioned complaint, the public prosecutor filed a dismissal request against accused persons Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco which was challenged by the claimants.

The public prosecutor again requested the closure of the proceedings for lack of grounds which has been opposed by the persons who filed the complaints on 2 March 2018, with the relevant hearing scheduled for 11 April 2018. At the hearing of 11 April 2018, scheduled for deciding the request of closure, the Judge for the Preliminary Investigation reserved his decision in the term of 5 days. On 12 April 2018, the Judge for the Preliminary Investigation rejected the opposition filed on 2 March 2018 and declared the closure of the proceedings.

Furthermore, it is worth noting that during 2017, 52 employees of Fruendo S.r.l. (then reduced to 32 following renouncement/conciliation) have sued the Bank before the Court of Siena (with 6 separate proceedings) in order to demand the continuation of the working relationship with the Bank, following the declaration of illegal interposition of workforce ("*illecita interposizione di manodopera*"), so-called "*appalto illecit*o" (which has no criminal implications) in the context of services disposed through outsourcing from the Bank to Fruendo S.r.l.. On 26 January 2019, the Court of Siena upheld the motivations brought by the Bank, rejecting the claims raised by the plaintiffs.

The amount of the petitum and of the related Fund for the Risks and Liabilities referred to in the labour litigation above described is also inclusive of such judicial claims.

In such case as well, the potential negative outcome of the proceeding would determine, as of today, the restoration of the employment relationship with the Bank without liabilities for the previous wage differences, since such appellants were continuously employed with Fruendo S.r.l. and have maintained the wage treatment granted by BMPS in the context of the transfer of the business unit.

Finally, it is worth noting that, in relation to the Restructuring Plan, the evolution of the expenses related to the employees does not provide for the re-integration of those individuals that have summoned the Bank, in relation to the transfer of the back-office unit to Fruendo S.r.l. occurred in January 2014. Such circumstance is explicitly emphasised in the text of the commitment, with specific reference to the interested target, as well as number of employees and cost/income ratio. As a consequence of the above, in the event that the Bank, following an adverse judgment, were constrained to re-integrate the employees related to such litigation, the Bank will have discretion, with the agreement of DG Comp, to consequently adjust such target.

Sanctioning procedures

Bank of Italy

(A) *Bank of Italy's sanctioning procedures in the matter of anti-money laundering and transparency of transactions and banking and financial services*

Following the Bank of Italy's inspections between September 2012 and January 2013, the supervisory authority launched a sanctioning procedure in April 2013 against the members of the board of directors and board of statutory auditors in office at the time of the events, several officers of the company and BMPS, as jointly liable parties, for irregularities in the transparency of transactions and banking and financial services and lack of fairness in the relations between brokers and clients (article 53, subsection 1, letters b) and d), article 67, subsection 1, letters b) and d), Title VI of the Italian 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.

CONSOB

(B) *CONSOB's sanctioning procedures for failed compliance with the provisions in the matter of a public offer of financial instruments and rules concerning the provision of investment services*

Subsequent to investigations carried out in 2012, on 19 April 2013 CONSOB notified the opening of two proceedings concerning failed compliance with (1) the provisions in the matter of a public offer of financial instruments (article 95, subsection 1, lett. c), of the Consolidated Finance Act and article 34-*decies* of the Issuer's regulation) with reference to the conduction of the public offer of the product "Casaforte classe A" as part of the "Chianti Classico" transaction; and (2) the rules concerning the provision of investment services (article 21, subsection 1, lett. a) and d), and subsection 1-*bis*, lett. a), of the Consolidated Finance Act; article 15, 23 and 25 of the Joint Regulation Bank of Italy/CONSOB of 29 October 2007; article 39 and 40 of CONSOB regulation no. 16190 of 29 October 2007; article 8, subsection 1, of the Consolidated Finance Act). Specifically, as regards the procedure in *sub* (2), objections have been raised concerning: (i) irregularities relating to the conflict of interest regime; (ii) irregularities relating to the suitability assessment of transactions; (iii) irregularities relating to pricing procedures of products issued thereby; and (iv) disclosure of untrue or partial data and information.

The violations have been charged by CONSOB mainly against the members of the Bank's board of directors and board of statutory auditors in office at the time of events, as well as against certain company officers. The Bank, as jointly liable party for the payment of sanctions, pursuant to article 195, subsection 9, of the Consolidated Finance Act, intervened in the various phases of the proceeding, transmitting to the supervisory authority accurate counterclaims for each allegation.

As regards the first proceedings in sub (1), with resolution no. 18850 of 2 April 2014, CONSOB closed it imposing pecuniary administrative sanctions for an aggregate amount of Euro 43,000, on the General Manager then in office and some managers of the Issuer's corporate structures and did not find any violation on the side of the members of the board of directors and board of statutory auditors in office at the time of events. The measure has not been challenged by the Bank.

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

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

The Bank commenced the preparatory activities to the exercise of the recourse actions under the terms of law, evaluating the filing thereof in relation to the bringing of appeals by the individuals subject to sanctions against the measures and also in relation to the position of those individuals found to have acted with wilful misconduct or gross negligence, those in respect of which a corporate liability action has been brought, there are indictment requests in the context of criminal proceedings or significant disputes are pending.

As regards the proceedings in sub (1), a recourse action has been brought against Mr. Vigni; the action, instituted before the Courts of Siena, has been deferred to 12 December 2018 following the failure of the assisted negotiation procedure. As at the date of this Base Prospectus, the proceedings are on-going.

As regards the proceedings in sub (2), a recourse action has been brought before the Courts of Siena against Mr. Mussari, Mr. Vigni and Mr. Baldassarri; on 23 April 2017, the action has been stayed until the ruling on the appeal proceedings brought by the defendants against the sanctioning measure.

AGCM

(C) *Competition and Market Authority ("**AGCM**") Proceedings I794 of the AGCM – Remuneration of the SEDA service*

On 21 January 2016, the AGCM opened proceedings I794 against the Italian Banking Association (ABI) in respect of the remuneration of the SEDA service. Such proceeding was subsequently extended (on 13 April 2016) to the eleven most important Italian banks, amongst which was BMPS. According to AGCM the interbank agreement for the remuneration of the SEDA service may represent an agreement restricting competition pursuant to article 101 of the Treaty on the Functioning of the European Union, since it would imply "the absence of any competitive pressure", with a consequent possible increase in overall prices to be borne by enterprises, which may be in turn charged to consumers.

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

BMPS challenged the measure before the TAR, the appeal has been filed and notified and the order setting the hearing is being awaited. The appeal does not suspend the execution of the measures provided by the authority.

(D) *Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*

Between 2013 and the early 2017 BMPS referred customers interested in purchasing investment diamonds to Diamond Private Investment S.p.A. (DPI), pursuant to an agreement entered into in 2012 (similar agreements were entered into by the major Italian banks with DPI itself and other companies in the industry). Such activity led to the execution of agreements for the purchase of investment diamonds between the Bank's customers and DPI.

The activity was suspended in the early 2017, also due to the fact that proceedings were opened by the AGCM against DPI in connection with the alleged breach of the Consumer Code, resulting in unfair commercial practices. Afterwards, in April 2017, the proceedings were also extended, inter alia, to BMPS, and ended up with a sanction against DPI and the banks involved.

By notice dated 26 July 2017, the AGCM held that BMPS and the other bank involved in the proceedings were not liable for one of the two charges; as far as BMPS is concerned, the proceedings continued only in respect of the remaining charge regarding breach of the rules on transparency in contractual and advertising documents.

BMPS had previously entered with DPI into a customer referral agreement, and AGCM held that the bank was actively involved in the promotion and sale of investment diamonds. The proceedings ended with the decision taken by AGCM during the hearing held on 20 September 2017, and notified to the parties on 30 October 2017. AGCM held that the breaches the parties had been charged with had actually been committed, and sentenced BMPS to pay a fine of Euro 2 million. The Bank paid the fine within the relevant terms and challenged the decision before the Administrative Regional Court TAR of Lazio; at the hearing held on 17 October 2018 the Court reserved its decision. Meanwhile, the Bank has taken action to reimburse its customers previously referred to DPI, who have purchased diamonds from the latter and intend to exit from their investment. By a decision published on 14 November 2018, the Regional Administrative Court of Lazio (TAR) rejected the appeal of BMPS and confirmed the AGCM sanctions; the Bank, following proper evaluations of the legal grounds of the events, has decided not to appeal against such decision which, consequentely, became the final judgment.

For the sake of completeness, it is highlighted that, with reference to such events, in the context of the criminal proceedings pending for alleged fraud, the judge for preliminary investigations of the Court of Milan notified the Bank of two seizure decrees, also for the alleged offence of self-laundering in relation to which the Bank would be liable pursuant to Legislative Decree 231/2001.

Privacy

In April 2015 the tax police, lieutenant unit of Sant'Angelo dei Lombardi, served on BMPS two formal written notices for the alleged violation of articles 161 and 162, subsection 2-*bis* of Legislative Decree No. 196/2003 relating to the Data Protection Code inviting to pay a reduced sanction equal to Euro 128,000; the notice was served on the Bank in its role as "data controller" in the context of the activity carried out by a former financial advisor, against whom a criminal proceeding was instituted for the crimes committed during such activity, as well as jointly liable party. BMPS asked the data protection authority to dismiss the proceedings because the alleged events were ascribable only to the personal liability of the financial advisor without any involvement of the Bank in any respect whatsoever. As at the date of this Base Prospectus, the proceeding is still in progress. The maximum applicable sanction, should the authority deem the verifications grounded, amounts to Euro 624,000.

The tax police, lieutenant unit of Molfetta, in May 2015 served on the Bank a formal written notice for the alleged violation of articles 33 and 162, subsection 2-*bis* of Legislative Decree 30 June 2003, no. 196 "Data Protection Code". The administrative offence element of the proceedings provides for a maximum sanction of Euro 240,000. The notice was served on the Bank as joint obligor for the facts ascribable to an employee, who was charged with having processed customers' personal data omitting to comply with the security measures provided for by article 33 of the aforementioned "Code". On 4 June 2015, the Bank sent the data protection authority a defensive brief in which it requested the dismissal of the proceeding due to it being unrelated to the events. As at the date of this Base Prospectus, the proceeding is still in progress.

Judicial proceedings pursuant to Italian Legislative Decree 231/2001

In the context of a proceeding instituted by the public prosecutor's office at the Court of Forlì against several natural persons and three legal persons for money laundering and obstacle to the exercise of public supervisory functions, the Bank was charged with three administrative offenses from crime: obstruction of the exercise of public supervisory functions pursuant to article 2638 of the Italian Civil Code, money laundering pursuant to article 648-*bis* of the Italian Criminal Code and transnational criminal association (article 416 of the Italian Criminal Code).

In particular, the public prosecutor believes that the employees of the Forlì branch of the Bank, subject to the direction and supervision of people in senior positions within the Bank, have committed, in the interest and to the advantage of the Bank, the above described crimes.

According to the indictment, the commission of these offenses would have been possible due to the breach of the direction and supervision obligations for the adoption and effective implementation by the Bank, prior to the commission of such offenses, of an organisation, management and control model suitable to prevent crimes such as those at hand.

BMPS' activities, subject to disputes, which are within the time period 2005-2008, relate to operations carried out by the branch of Forlì, on behalf of the Cassa di Risparmio of San Marino, on a management account opened with the Bank of Italy – Branch of Forlì on behalf of BMPS.

In consideration of the particular location within the Republic of San Marino, the Cassa di Risparmio of San Marino had in fact required the Forlì branch of BMPS to use such account to meet its cash demands, through the cash deposit/withdrawal operations at the relevant branch of the Bank of Italy.

Such operations, characterised by a strong movement of cash, and the anomalies charged by the judicial authority on the registration in the single digital archive (*Archivio Unico Informatico* – "**AUI**") of the relating transactions, which at that time, considering unequivocal legislation on the relations between Italy and the Republic of San Marino, led BMPS to consider the Cassa di Risparmio of San Marino as a "licensed intermediary", representing the basis of the allegations against to Bank.

According to the judicial authority, such operations would have been put in place to prevent the identification of the criminal origin of such amounts, as well as the traceability of all hidden exchange operations related to illicit amounts.

In particular, the employees of the Forlì branch have been jointly charged with the crime of obstructing the functions of public supervisory authorities, money laundering, violation of the Italian anti-money laundering regime and criminal association in relation to the transnational crime pursuant to Law 146/2006, the commission of which is assumed to have been permitted because of the breach of the direction and supervision obligations by the Bank in the alleged absence of a suitable and effective organisational model.

The conduct put in place by employees, according to the opinion of the judicial authority, would have permitted to conceal the commission of money laundering offenses, not to acquire accurate information on the actual beneficiaries of such transactions nor on the real characteristics, purpose and nature of the related accounting movements with effects on the recordings in the AUI. The Bank's defence in these proceedings seeks to prove the non-existence of the crimes at the basis of the allegations against it and to demonstrate the adoption and effective implementation, yet at the time of events of an organisation, management and control model suitable to prevent crimes such as those at hand.

The PHJ at the Court of Forlì ordered the indictment of the defendants, amongst which was BMPS, for profiles of administrative liability of entities. Following a preliminary issue concerning territorial jurisdiction with the Court of Rimini, at the hearing of 1 December 2017 the proceeding was postponed (i) to 5 June 2018 for the discussion of preliminary issues and (ii) to 17 April 2019 for the continuation of the proceeding.

Following the compulsory charges ordered by the judge of the preliminary investigation of Milan for the crimes of false corporate communications and market manipulation, the Bank has been included in the register of the suspects for the administrative offences pursuant to article 25-*ter*, *lett. b)* and article 25-*sexies* of Legislative Decree 231/2001.

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

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

Following the preliminary hearing the PHJ recognised that there were no grounds for the issuing of a judgment not to proceed and it has declared the referral to trial of Mr Viola, Mr Profumo and Mr Salvadori and BMPS (as entity indicted pursuant to Legislative Decree 231 of 2001).

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

The hearing scheduled to discuss the civil actions brought as part of criminal proceedings by the civil claimants already joined in the proceedings during the previous hearing held on 17 July 2018 was duly held on 16 October 2018, to which further 165 civil parties were added. The defendants' and the Bank's counsels have claimed that the latter have joined in the proceedings beyond expiry of the relevant terms.

At the hearing held on 6 November 2018, the Panel declared the exclusion from the proceeding of certain civil parties that, consequently, amounted to 2,272 (the *petitum* relating to this proceeding, where quantified in connection with the filing of damaged civil parties, was equal to approximately Euro 76 million), ordering the extension of the proceeding between the Bank and the new civil plaintiffs admitted without further formalities and rejecting the request for joining the proceedings by CONSOB, Bank of Italy and Ernst & Young as civil responsibles.

By order issued at the hearing held on 19 November 2018, the Court rejected the objections relating to the lack of territorial competence previously raised by the defending counsels and, consequently, the discussion of the case started and the next hearing has been scheduled on 18 March 2019, reserving a decision with respect to the request of a conservative seizure against Mr. Profumo and Mr. Viola raised by certain parties. By order issued on 3 December 2018, the Courts rejected the request.

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

On 19 February 2019, the Bank was served by the judge for preliminary investigations of the Court of Milan with a decree of preventive seizure relating to the diamonds case reported hereby. The decree was notified to numerous natural persons, two diamond companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as five banking institutions, including the Issuer, leading to the preventive seizure against the Issuer of the profit arising from the crime of continued aggravated fraud, for the amount equal to Euro 35.5 million. The Issuer was also notified of a decree of preventive seizure for equivalent pursuant to article 53 Legislative Decree 231/2001 in relation to the crime of self-money laundering, for an amount equal to Euro 195,237.33. As at the date of the Base Prospectus, three employees of the Issuer are involved in this case, but identification of any other natural persons belonging to the BMPS structure is ongoing. The Issuer is proposing a request for review of the above mentioned precautionary measure.

Such proceeding refers to the same events which have been the subject of the administrative procedure PS 10678 opened by the Antitrust Authority (AGCM), for further information reference is made to paragraph "*Proceedings PS 10678 of the AGCM – Violations of the Consumer Code in the sale of investment diamonds*" above.

Tax disputes

The Bank and the main Group companies are involved in a number of tax disputes. As at the date of this Base Prospectus around 60 cases are pending, for approximately Euro 130 million for taxes and sanctions (Euro 120 million as at 30 September 2018). The value of disputes also includes that associated with tax verifications closed for which no dispute is currently pending since the tax authority has not yet formalised any claim or contestation.

Pending disputes with a likely unfavourable outcome are of a limited number and amount (approximately Euro 10 million) and are guarded by adequate allocations to the overall provisions for risks and charges.

Please find below an overview of the most significant pending proceedings in terms of petitum (over Euro 10 million as taxes and penalties), and the main investigations in progress, which may yet have a potential impact for which there are no proceedings pending.

(A) <u>*Revaluation substitute tax*</u>

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 Supreme Court and the Bank filed a counterclaim.

The risk of an unfavourable outcome in the case has been assessed by the company and its advisers as remote.

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

BMPS is involved in the proceedings instituted by – at the time of events – the investee company Anima SGR S.p.A. against the allegations moved by the Regional Tax Office of Lombardy against Prima SGR S.p.A. (a company already included in the tax consolidation, now merged by incorporation into Anima SGR S.p.A.) for lack of competence or pertinence of some costs deducted in tax years 2006, 2007 and 2008.

The Regional Tax Office of Lombardy claimed in aggregate, Euro 20.6 million for taxes and sanctions: (i) for financial year 2006 taxes of around Euro 4.3 million and sanctions of around Euro 5.1 million; (ii) for financial year 2007 taxes of around Euro 2.8 million and sanctions of around Euro 3.6 million; and (iii) for financial year 2008 taxes of around Euro 2.1 million and sanctions of around Euro 2.7 million.

The tax assessment notices were challenged before the Provincial Tax Committee of Milan. In respect of financial year 2006, the proceeding is currently pending before the Supreme Court following the challenge of the judgment pursuant to which the Regional Tax Committee of Lombardy upheld the first instance judgment save for the exception relating to the challenge for wrongful withholding of costs equal to approximately Euro 2.7 million. In relation to financial years 2007 and 2008, the proceedings following the appeal lodged by the Bank against the negative ruling of the Provincial Tax Committee of Lombardy of 21 December 2017 (which upheld the appeal of the Regional Tax Office against the first instance judgment favourable to the bank), is still pending before the Supreme Court.

Furthermore, in respect of financial year 2006, on 2 May 2017, the Regional Direction of Lombardy notified a partial self-protection measure with which, upholding the request brought by the Bank, the sanctions relating to one of the allegations in the dispute have been disregarded and overall sanctions have been re-determined, for an amount of around Euro 3.9 million (instead of 5.1 million). Accordingly, net of the taxes already paid on a definitive basis, for around Euro 0.6 million, with reference to one allegation which was not challenged during the trial, the overall amount due to taxes and sanctions is reduced from Euro 20.6 million to Euro 18.8 million.

According to BMPS and its consultants, the risk of a negative outcome for this dispute shall be qualified as likely in respect of Euro 1.8 million and possible in respect of Euro 17 million.

(C) *<u>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</u>*

BMPS is involved in the legal action instituted by the investee company AXA MPS Assicurazioni Vita (a company already included in the tax consolidation) against the complaints lodged by the Regional Tax Office of Lazio regarding the tax treatment of the write-downs carried out in respect of the units held in the Luxembourg-based open-ended investment company Monte Sicav.

In particular, the Tax Office claimed that the qualification of the securities issued by Monte Sicav Equity was not correct (i.e. series or mass issued securities), and that such securities should have instead been qualified as equity interests and consequently been governed by the relevant regime. More specifically, the auditors maintained that the adjustments in value of Monte Sicav Equity's securities could not be entirely deducted in the financial year during which they had been posted, *i.e.* 2004, as was done by the company.

As a consequence, the Regional Tax Office of Lazio included the entire amount of value adjustments posted and deducted by AXA MPS Assicurazioni Vita within the tax base, claiming that the company shall pay higher taxes and sanctions for Euro 26.2 million.

The tax claims were challenged by AXA MPS Assicurazioni Vita and BMPS before the District Tax Committee of Rome, which has entirely rejected the petitions lodged by the two companies. Such decision was further confirmed on appeal, when the first instance judgment was totally upheld by the Regional Tax Committee of Lazio. The proceedings are currently pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case can be qualified as likely for Euro 3 million and possible for Euro 23.2 million.

Without prejudice to the *petitum* limits of these legal actions, it should however be noted – in light of the similarities of claims with those described above – that, in line with the claims relating to tax period 2004, the tax authority claimed that the value adjustments posted by AXA MPS Assicurazioni Vita for Monte Sicav's shares could not be deducted entirely for the tax period 2003 either. The tax claim was challenged by AXA MPS Assicurazioni Vita before the District Tax Committee of Rome, which entirely rejected the petition. The first instance judgment was promptly challenged but in its decision of 26 May 2015 (filed on 17 June 2015) the competent Regional Tax Committee rejected the appeal. These proceedings are also pending before the Supreme Court.

BMPS and its advisers believe that the risk of a negative outcome in the case is to be qualified as likely for Euro 1 million and possible for around Euro 6.5 million.

It is worth noting that the impact on BMPS of the liabilities (if any) arising from the above proceedings depends on the involvement (if any) of BMPS deriving from the guarantee clauses set out in the assignment agreements of AXA MPS Assicurazioni Vita.

(D) *<u>Maritime leasing</u>*

MPS Leasing & Factoring S.p.A. has been served a number of tax assessment notices regarding the previous use of maritime leasing agreements, which can be qualified as a typical case of "abuse of rights". In such notices, the tax authority included the difference between the ordinary rate currently in force and the VAT flat-rate within the tax base, as clarified by Ministerial Circular no. 49/2002. The proceedings pending to date regard tax years 2004 to 2010 (excluding 2005, in respect of which a final decision has been taken), for an amount of approximately Euro 11.6 million. As at the date of this Base Prospectus the judgments handed down at the various stages of the dispute for years 2004 to 2010, were favourable to the company, except for year 2006, in respect of which the petition was partially upheld on appeal. The company and its advisers believe that there is a remote risk of a negative outcome in the case in respect of all disputes in general. With regard to the claims for year 2006 alone, upheld by the Appeal Court and regarding a potential liability (in terms of taxes and sanctions) of approximately Euro 165,000, the risk has been deemed to be possible.

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With the exception of the foregoing, during the 12 months preceding the date of this Base Prospectus, there were no governmental proceedings, legal or arbitration (including proceedings pending or threatened of which BMPS is aware) that may have or has had in the recent past a material impact on the financial situation or the profitability of the Issuer.

MANAGEMENT OF THE BANK

The Bank is managed by a board of directors tasked with the strategic supervision. The board of directors in office consists of 14 members. Each member of the board of directors meets the requirements prescribed by the BMPS's by-laws.

The chief executive officer is appointed by the board of directors.

Under the Italian civil code, the Bank is required to have a board of statutory auditors.

Board of Directors

The board of directors was appointed by the ordinary shareholders' meeting of 18 December 2017 and such appointment will expire on the date of the shareholders' meeting approving the financial statements for the year ending on 31 December 2019.

The board of directors is currently made up as follows.

Name	Position	Date of birth	Position held
Stefania Bariatti (*)	Chair	28 October 1956	Vice President of the Board of Directors of SIAS S.p.A. Sole Director of Canova Guerrazzi s.s. Vice President and member of the Board of Directors of the Italian Banking Association
Antonino Turicchi	deputy chair	13 March 1965	Advisor to Autostrade per l'Italia S.p.A. Director of Leonardo S.p.A. Chair of the Board of Directors of STMicroelectronics Holding N.V. Manager of Direzione VII – Finanze e privatizzazioni del Dipartimento del Tesoro del Ministero dell'Economia e delle Finanze
Marco Morelli	chief executive officer	08 December 1961	Director and member of the Board of Directors of the Italian Banking Association Vice President of the Board

Name	Position	Date of birth	Position held
			of Directors of Fondazione Onlus Gino Rigoldi
Maria Elena Cappello (**)	Director	24 July 1968	Director of Prysmian S.p.A. Director and member of the Sustainability committee of Saipem S.p.A. Director and member of the related party committee of TIM S.p.A.
Marco Giorgino (**)	Director	11 December 1969	Chair of the Board of Directors of Vedogreen S.r.l. Director of REAL STEP SICAF S.p.A. Director of Luxottica S.p.A. Statutory Auditor of RGI S.p.A.
Fiorella Kostoris (**)	Director	5 May 1945	
Roberto Lancellotti (**)	Director	21 July 1964	Director of Datalogic S.p.A.
Nicola Maione (**)	Director	9 December 1971	Chair of the Board of Directors of ENAV S.p.A. Director of Associazione Bancaria Italiana
Stefania Petruccioli (**)	Director	5 July 1967	Director of Dè Longhi S.p.A. Director of Interpump Group S.p.A. Director of RCS Media Group S.p.A. Director of Comecer S.p.A. Director of Newton S.r.l. Director of F2A S.p.A. Director of Italian Banking Association

Name	Position	Date of birth	Position held
Salvatore Fernando Piazzolla (*)	Director	5 March 1953	
Angelo Riccaboni (**)	Director	24 July 1959	Chair of Fundacion PRIMA Chair of Fondazione Sclavo Director of Fondazione Smith Kline Chair of the Steering committee of Santa Chaira Lab Innovation Center of University of Siena Director of Università degli Studi di Milano – Bicocca
Michele Santoro (**)	Director	28 March 1955	
Giorgio Valerio (**)	Director	13 July 1966	Director and Member of the control and risk committee, the nominating and compensation committee and the Related Party committee of Massimo Zanetti Beverage Group S.p.A. Chair of the Board of Directors of Niuma S.r.l. Director of ALP.I S.p.A.
Roberta Casali (**) (***)	Director	25 January 1962	Director of Antirion SGR S.p.A.

Notes:
(*) Independent director pursuant to the Consolidated Finance Act.
(**) Independent director pursuant to the Consolidated Finance Act and the Corporate Governance Code of Listed Companies (the "Corporate Governance Code").
(***) coopted on 12 July 2018 by the board of directors, in place of the board member Giuseppina Capaldo, who resigned on 4 May 2018. Roberta Casali will remain in office until the next Shareholders' Meeting.

Each member of the board of directors must be suitable for carrying out its role. To this extent each member of the board of directors shall meet the requirements prescribed by law and BMPS' by-laws. In particular, in addition to the requirements of integrity (that are the same for all the members), professionalism and independence (that are instead graduated according to the proportionality principle), each director shall meet the requirements of competence and fairness, also in respect of the timeframe needed to fulfil its mandate. Such requirements have been carefully evaluated by the supervisory authorities (the ECB and the Bank of Italy) in accordance with their supervisory provisions and notified to the public pursuant to the Issuers' Regulations and the self-regulatory code.

The members of the board of directors are all domiciled for their position at the Bank's registered office.

The business address of each member of the board of directors is Banca Monte dei Paschi di Siena S.p.A., Piazza Salimbeni 3, 53100, Siena, Italy.

The board of directors meets regularly at the Bank's registered office. Meetings of the board of directors are convened on a monthly basis upon request of the chairman. Meetings may also be convened upon reasonable and detailed request of at least three directors or upon written request of the board of statutory auditors or at least every statutory auditor addressed to the chairman. Meetings may be held in person or through video-conference. The quorum for meetings of the board of directors is a majority of the directors in office. Resolutions are adopted by the vote of a majority of the directors attending the meetings.

Chief Executive Officer

The chief executive officer carries out its functions within the limits of the delegated powers and in the manner determined by the board of directors. The chief executive officer also holds powers to be exercised as a matter of urgency by the chairman of the board of directors, in the event of an absence or impediment of him or any substitute.

The chief executive officer is Mr. Marco Morelli confirmed by the board of directors on 22 December 2017 (in charge from 20 September 2016).

The address of the CEO for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

General Manager

The current general manager is Marco Morelli who was appointed by the board of directors on 14 September 2016 (in charge from 20 September 2016). Marco Morelli has also been appointed as chief executive officer. The general manager is appointed by the board of directors which may also remove or suspend him from his office.

The General Manager attends the meeting of the board of directors but has no right to vote on proposed resolutions at such meetings.

The general manager undertakes all operations and acts which are not expressly reserved for the board of directors or the executive committee. He oversees and is responsible for the overall administration and structure of the Bank and implements resolutions of the board of directors. He participates in meetings of the board of directors and proposes matters to the board of directors for approval, including matters relating to loans, the coordination of activities of the Group and the employees.

The address of the general manager for the duties he discharges is: Piazza Salimbeni 3, Siena, Italy.

Financial Reporting Officer

On 26 November 2016, the board of directors appointed Nicola Massimo Clarelli as financial reporting officer, pursuant to article 28 of the by-laws.

Managers with strategic responsibilities

The table below sets forth the names of the current management of the Bank with strategic responsibilities, together with their positions.

Name	Position	Date of birth	Position held
Marco Morelli	general manager and Chief Executive Officer	08 December 1961	Director and member of the Board of Directors of the Italian Banking Association Vice president of the board of directors of Fondazione Onlus Gino Rigoldi
Giovanni Ametrano	head of performing loan	06 April 1965	Director of MPS Leasing & Factoring S.p.A.
Maurizio Bai	head of network division	23 July 1967	//
Giampiero Bergami	chief commercial officer	27 February 1968	Director of Banca Monte Paschi Belgio S.A. Director of Bonfiglioli Riduttori S.p.A.
Vittorio Calvanico	chief operating officer	08 February 1964	Director of MPS Capital Services Banca per le Imprese S.p.A. Director of Ausilia S.r.l.
Pierfrancesco Cocco	chief audit executive	07 June 1954	//
Eleonora Cola	head of retail	18 July 1965	Director of Consorzio Operativo Gruppo Montepaschi S.c.p.a. Director of AXA MPS Assicurazioni Vita S.p.A.

			Director of AXA MPS Assicurazioni Danni S.p.A. Director of Microcredito di Solidarietà S.p.A.
Ilaria Dalla Riva	chief human capital officer	20 November 1970	Director of Wise Dialog Bank – Widiba S.p.A. Director of MPS Capital Services Banca per le Imprese S.p.A. Director of MPS Leasing & Factoring S.p.A. Vice president of the Board of Directors of Consorzio Operativo Gruppo Montepaschi S.c.p.a. Director of CONSEL – Consorzio Elis per la formazione professionale superior S.c.a.r.l. Member of the coordination committee of the Osservatorio Giovani Editori
Fabiano Fossali	head of corporate	22 March 1968	Director of MPS Leasing & Factoring S.p.A.
Fabrizio Leandri	chief lending officer	21 April 1966	//
Ettore Minnella	head of operations	18 September	//

		1960	
Andrea Rovellini	chief financial officer	15 February 1959	Director of Wise Dialog Bank – Widiba S.p.A. Director of AXA MPS Assicurazioni Danni S.p.A. Director of AXA MPS Assicurazioni Vita S.p.A. Director of Nuova Sorgenia Holding S.p.A.
Marco Palocci	head of external and institutional relations	02 December 1960	Vice President of the Board of Directors of Fondazione Banca Agricola Mantovana Member of the Board of Directors of Fondazione Musei Senesi Member of the Board of Directors of Fondazione Banca Antonveneta
Riccardo Quagliana	head of group general counsel	04 February 1971	Vice president of Wise Dialog Bank – Widiba S.p.A. Director of MPS Capital Services Banca per le Imprese S.p.A. Director of Conciliatore bancario finanziario

Leonardo Bellucci	chief risk officer	21 February 1974	//
Lucia Savarese	head of non-performing loan	30 March 1964	Director of MPS Capital Services banca per le Imprese S.p.A.
Federico Vitto	head of wealth management	14 November 1968	Chair of MPS Fiduciaria S.p.A. Director of AXA MPS Assicurazioni Danni S.p.A. Director of AXA MPS Assicurazioni Vita S.p.A. Managing director of ASSIOM Forex servizi S.r.l. Director of AXA MPS Financial Designated Activity Company (DAC)
Ettore Carneade	head of compliance area	16 June 1961	//
Nicola Massimo Clarelli	chief financial reporting officer	22 October 1971	//

The address of the managers with strategic responsibilities of the Bank for the duties they discharge is: Piazza Salimbeni 3, Siena, Italy.

Board of Statutory Auditors

The board of statutory auditors is composed of three standing members and two alternate members. Statutory auditors are appointed by the ordinary shareholders' meeting for a three year term and may be re-elected. The shareholders' meeting also sets the remuneration of the statutory auditors for their entire term.

The board of statutory auditors is required to verify that the Bank complies with applicable law and its by-laws, respects the principles of correct administration, and maintains an adequate organisational structure, internal controls and administrative and accounting systems. The board of statutory auditors has a duty to shareholders to whom they report at the annual general shareholders' meeting approving the financial statements.

The members of the board of statutory auditors are required to meet at least once every 90 days and take part in meetings of the board of directors, the shareholders' meetings and meetings of the executive committee.

The board of statutory auditors was appointed by the ordinary shareholders' meeting of 18 December 2017 and such appointment will expire on the shareholders' meeting called to approve the 2019 financial statements.

The following table sets out the members of the Bank's board of statutory auditors:

Name	Title	Position held
Elena Cenderelli	Chair	chair of the board of statutory auditors of AXA MPS Assicurazioni Vita S.p.A.
		chair of the board of statutory auditors of AXA MPS Assicurazioni Danni S.p.A.
Raffaella Fantini	Auditor	auditor of SO.G.IM S.p.A.
		auditor of ICCAB S.r.l.
		auditor of Ecuador S.p.A.
		auditor of Società Immobiliare Minerva S.r.l.
		auditor of BP Real Estate S.p.A.
		auditor of Coni Servizi S.p.A.
		auditor of Istituto Nazionale previdenza giornalisti italiani
Paolo Salvadori	Auditor	chair of the board of statutory auditors of SEVIAN S.r.l.
		chair of the board of directors of AXA Italia Servizi S.c.p.a.
		chair of the board of statutory auditors of Italia Due Ponti S.p.A.
		chair of the board of statutory auditors of MA Centro Inossidabili S.p.A.
Daniele Federico Monarca	alternate auditor	auditor of ICM S.p.A.
		director of Blue Financial Communication S.p.A.

chief executive officer of Pigreco Corporate Finance S.r.l.

chair of the board of statutory auditors of ADVALORA S.p.A.

auditor of Fiera Milano S.p.A.

director of Il cielo in una stanza S.r.l.

chair of the board of directors Consaequo Partners S.r.l.

Statutory Auditing

Pursuant to article 27 of the Bank's by-laws, on 29 April 2011 the ordinary shareholders' meeting appointed EY S.p.A. as independent auditors for a nine-year period (2011-2019) pursuant to articles 13 and seq. of the Legislative Decree No. 39 of 27 January 2010 (the "**Decree 39**") and article 2409-bis of the Italian civil code.

The statutory audit shall be performed by an independent auditor meeting the requirements established by law.

Conflict of Interest

BMPS is an Italian bank with shares listed on regulated markets and as such deals with any conflicts of interest of the members of its administrative, management and supervisory body in accordance with the requirements of article 2391 ("*Directors' interests*") and article 2391-*bis* of the Italian Civil Code ("*Related party transactions*"), article 53, paragraph 4 ("*Regulatory supervision*") and article 136 ("*Obligations of bank corporate officers*") of the Italian Consolidated Banking Act and the regulatory provisions on related party transactions adopted by CONSOB with Resolution no. 17221 of 12 March 2010 ("*Regulation on Related Party transactions*") and by the Bank of Italy on 12 December 2011 ("*Circular 263/2006—Update no. 9 on risk and conflicts of interest with respect to affiliated parties*").

In the context of these requirements, the board of directors has adopted a specific "Directive of the Group in the context of the compliance with provisions for related parties, affiliated parties and the obligations of bank representative" (the "**Directive**") setting out the organizational model (principles and responsabilities) adopted by the Group with respect to the process relating to the "compliance with provisions for related parties, affiliated parties and the obligations of bank representative" and, in particular, laying down at the Group's level the principles and rules related to the conflicts of interest for the Group, without prejudice to the provisions of the Italian Civil Code. The Directive was approved by the board of directors after receiving the prior favourable opinion of the related party transactions committee (consisting of independent directors) and the board of statutory auditors.

In particular, the Global Policy set out the principles and rules for the BMPS Group in order to control the risk arising from the potential conflict of interests with certain individuals which are close to the Bank's decision-making centres. The Global Policy provides for, *inter alia,* the establishment, composition and functioning of the related parties committee, the borders of the related parties and affiliated parties, the authorisation of transactions with related parties and affiliated parties and the cases of exclusion from decision-making procedures with respect to such transactions.

In addition, having importance in this respect are certain provisions in the Bank's by-laws which require specific information flows in the case of interests held by members of the administrative, management and supervisory bodies which are designed to ensure the independence of directors and statutory auditors. Article 17 of BMPS's by-laws requires *inter alia* (i) the board of directors to promptly report on a timely basis to the board of statutory auditors on any transactions in which its members have an interest, on their own behalf or on behalf of third parties, (ii) each director to inform the other directors and the board of statutory auditors of any interest which they may have in a specific transaction of BMPS, on their own behalf or on behalf of third parties, and refrain from any resolutions in which he or she has a conflict of interest, on their own behalf or on behalf of a third party, pursuant to the applicable legislation.

In addition to requiring compliance with the provisions of article 136 of the Italian Banking Act, article 19 of BMPS's by-laws provides for an obligation of the members of the board of directors to inform the board of directors and the board of statutory auditors of any business in which they are personally involved or which regards entities or companies of which they are directors, statutory auditors or employees (except for companies of the BMPS Group) as well as to refrain from any resolutions in which they have a conflict of interest, on their own behalf or on behalf of any third party, pursuant to the applicable legislation. Article 15 of BMPS's by-laws states that the directors shall not hold positions as members of the board of directors, the management board or the supervisory board of competitor banks. Article 24 of BMPS's by-laws states that the members of the board of statutory auditors shall not hold other positions in other banks (not belonging to the Group or subject to joint control) and may only hold positions in control bodies in other companies of the BMPS Group or of financial conglomerate as well as in which BMPS holds, directly or indirectly, a strategic shareholding.

To the best of BMPS's knowledge and belief, as of the date of this Base Prospectus there are no conflicts involving the members of its administrative, management and supervisory bodies, current or potential, between their obligations towards the Bank and their private interests and/or their obligations towards third parties, other than those occurring within the context of specific resolutions adopted by BMPS in accordance with the article 2391 of the Italian Civil Code and article 136 of the Italian Consolidated Banking Act. Given the BMPS's business, the private interests that can occur relate mainly to transactions which entail financing and loans typical of the bank business.

The means by which the board of directors is appointed, as governed by BMPS's by-laws, ensures that directors fulfil the independence requirements. More specifically, pursuant to article 15, when the board of directors is appointed, each list filed by shareholders shall have a number of candidates, specifically indicated, fulfilling the independence requirements established for the statutory auditors by the law and the additional independence requirements prescribed by the corporate governance code, not lower than two and at least equal to 1/3 of the candidates in the list. Pursuant to article 3 of the corporate governance code, the board of directors has the duty to assess the independence of its non-executive members when they are appointed and on an annual basis.

As prescribed by the corporate governance code and the supervisory provisions on the organization and corporate governance of banks issued by the Bank of Italy (as amended by the title IV, chapter 1 of the Circular No. 285 of 17 December 2013), the board of directors performs the self-assessments at least annually.

The main transactions concluded with related parties are described in the 2018 First Half Financial Report, published and available on the Bank's website *www.gruppomps.it.*

Main Shareholders as at the date of this Base Prospectus

Shareholders	**% share capital on overall share capital**

Italian Ministry of Economy and Finance	**68.247%**
Assicurazioni Generali S.p.A. (indirectly through subsidiaries)	**4.319%**
Banca Monte dei Paschi di Siena S.p.A.	**3.181%**

As at the date of this Base Prospectus, pursuant to article 93 of the Consolidated Finance Act the Issuer is controlled by the Italian Ministry of Economy and Finance ("MEF"), following the subscription of the share capital increase reserved to the MEF pursuant to the Decree of 23 December 2016, no. 237 and its related ministerial Decree adopted on 27 July 2017.

TAXATION

Republic of Italy

The statements herein regarding taxation are based on the laws in force in Italy as of the date of this Base Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The following overview does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Tax treatment of Notes

Legislative Decree No. 239 of 1 April 1996, as subsequently amended, ("**Decree 239**") provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) issued, *inter alia*, by Italian banks. For this purpose, bonds and debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at redemption, an amount not lower than their nominal value and which do not grant the holder any direct or indirect right of participation to (or of control of) management of the issuer.

The tax regime set forth by Decree 239 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, inter alia, Italian banks (other than shares and assimilated instruments).

Italian resident Noteholders

Where an Italian resident Noteholder is (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime – see under "Capital gains tax" below); (b) a non-commercial partnership; (c) a non-commercial private or public institution; or (d) an investor exempt from Italian corporate income taxation, interest, premium and other income relating to the Notes, are subject to a final withholding tax, referred to as "*imposta sostitutiva*", levied at the rate of 26 per cent.. In the event that the Noteholders described under (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not acting in connection with an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from any income taxation, including the *imposta sostitutiva*, on interest, premium and other income relating to the Notes if the Notes are included in a long-term individual savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Law No. 232 of 11 December 2016 (the "**Finance Act 2017**") and in Article 1(210-215) of Law No. 145 of 30 December 2018 (the "**Finance Act 2019**").

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to the regional tax on productive activities ("**IRAP**")).

Under the current regime provided by Law Decree No. 351 of 25 September 2001 converted into law with amendments by Law No. 410 of 23 November 2001 ("**Decree 351**"), Law Decree No. 78 of 31 May 2010, converted into Law No. 122 of 30 July 2010 and Legislative Decree No. 44 of 4 March 2014, all as amended, payments of interest, premiums or other proceeds in respect of the Notes deposited with an authorised intermediary made to Italian resident real estate investment funds and Italian real estate SICAFs established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 or pursuant to Article 14-*bis* of Law No. 86 of 25 January 1994 ("**Real Estate Funds**"), are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of a Real Estate Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent.

If the investor is resident in Italy and is an open-ended or closed-ended investment fund, a SICAF (an investment company with fixed capital other than a real estate SICAFs) or a SICAV (an investment company with variable capital) established in Italy (the "**Fund**") and either (i) the Fund or (ii) its manager is subject to the supervision of a regulatory authority, and the relevant Notes are held by an authorised intermediary, interest, premium and other income accrued during the holding period on such Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund. The Fund will not be subject to taxation on such results but a withholding tax of 26 per cent. will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (the "**Collective Investment Fund Tax**").

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree No. 252 of 5 December 2005) (the "**Pension Fund**") and the Notes are deposited with an authorised intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to a 20 per cent. substitute tax.

Subject to certain conditions (including minimum holding period requirement) and limitations, interest and other income on the Notes may be excluded from any income taxation if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of the Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Pursuant to Decree 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**") as subsequently amended and integrated.

An Intermediary must (i) (a) be resident in Italy or (b) be a permanent establishment in Italy of a non-Italian resident financial intermediary or (c) an entity or a company not resident in Italy, acting through a system of centralised administration of notes and directly connected with the Department of Revenue of the Italian Ministry of Finance having appointed an Italian representative for the purposes of Decree No. 239; and (ii) intervene, in any way, in the collection of interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes or in a change of the Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any entity paying interest to a Noteholder (or by the Issuer should the interest be paid directly by this latter). If interest, premium and other income on the Notes are not collected through an Intermediary or any entity paying interest and as such no *imposta sostitutiva* is levied, the Italian resident beneficial owners listed above will be required to include interest, premium and other income in their yearly income tax return and subject them to a final substitute tax at a rate of 26 per cent..

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are connected, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy as listed in the Italian Ministerial Decree of 4 September 1996, as amended by Ministerial Decree of 23 March 2017 and possibly further amended by future decrees issued pursuant to Article 11(4)(c) of Decree 239 (as amended by Legislative Decree No.147 of 14 September 2015) (the "**White List**"); or (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (c) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) an institutional investor which is established in a country which is included in the White List, even if it does not possess the status of taxpayer in its own country of establishment.

In order to ensure gross payment, non-Italian resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected must (a) be the beneficial owners of the payments of interest, premium or other income; (b) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance and (c) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001, as subsequently amended.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. or, in any case, at the reduced rate provided for by the applicable double tax treaty, if any, to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries not included in the White List or who do not comply with the abovementioned provisions.

Atypical securities

Interest payments relating to Notes that are not deemed to fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) may be subject to a withholding tax, levied at the rate of 26 per cent.. For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from Italian withholding tax on proceeds received under Notes classifying as atypical securities, if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Where the Noteholder is (a) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected; (b) an Italian company or a similar Italian commercial entity; (c) a permanent establishment in Italy of a foreign entity; (d) an Italian commercial partnership; or (e) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. For non-Italian resident Noteholders, the withholding tax rate may be reduced by any applicable tax treaty.

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is (i) an individual holding the Notes not in connection with an entrepreneurial activity, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent.. Noteholders may set off losses with gains.

Subject to certain limitations and requirements (including a minimum holding period), Italian resident individuals not engaged in an entrepreneurial activity or social security entities pursuant to Legislative Decree No. 509 of 30 June 1994 and Legislative Decree No. 103 of 10 February 1996 may be exempt from Italian capital gain taxes, including the *imposta sostitutiva*, on capital gains realised upon sale or redemption of the Notes, if the Notes are included in a long-term individual savings account (*piano individuale di risparmio a lungo termine*) that meets the requirements set forth in Article 1(100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Noteholders under (i) to (iii) above, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. The relevant Noteholder must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Noteholders under (i) to (iii) above may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato* regime). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries (including permanent establishments in Italy of non-Italian resident intermediaries) and (b) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any decrease in value of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains realised by a Noteholder who is an Italian Real Estate Fund will be subject neither to *imposta sostitutiva* nor to any other income tax at the level of the Real Estate Fund, but subsequent distributions made in favour of unitholders or shareholders will be subject, in certain circumstances, to a withholding tax of 26 per cent..

Any capital gains realised by a Noteholder which is a Fund will not be subject to *imposta sostitutiva*, but will be included in the result of the relevant portfolio. Such result will not be taxed with the Fund, but subsequent distributions in favour of unitholders of shareholders may be subject to the Collective Investment Fund Tax.

Any capital gains realised by a Noteholder who is a Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax. Subject to certain conditions (including minimum holding period requirement) and limitations, capital gains on the Notes may be excluded from the taxable base of the 20 per cent. substitute tax if the Notes are included in a long-term savings account (*piano di risparmio a lungo termine*) that meets the requirements set forth in Article 1 (100-114) of Finance Act 2017 and in Article 1(210-215) of Finance Act 2019.

Capital gains realised by non-Italian-resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes traded on regulated markets (and, in certain cases, subject to filing of required documentation) are neither subject to the *imposta sostitutiva* nor to any other Italian income tax.

Capital gains realised by non-Italian resident Noteholders, not having a permanent establishment in Italy to which the Notes are connected, from the sale or redemption of Notes not traded on regulated markets are not subject to the *imposta sostitutiva*, provided that the effective beneficiary: (a) is resident in a country included in the White List; or (b) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (c) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (d) is an institutional investor which is established in a country included in the White List, even if it does not possess the status of taxpayer in its own country of establishment, and a proper documentation is filed.

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

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of the Notes.

Inheritance and gift taxes

Pursuant to Law Decree No. 262 of 3 October 2006, converted into Law No. 286 of 24 November 2006, as subsequently amended, the transfers of any valuable asset (including shares, notes or other securities) as a result of death or donation are taxed as follows:

(i) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding Euro 1 million for each beneficiary;

(ii) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding €100,000 for each beneficiary; and

(iii) any other transfer is, in principle, subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax is levied at the rate mentioned above in (i), (ii) and (iii) on the value exceeding, for each beneficiary, €1,500,000.

Transfer tax

Following the repeal of the Italian transfer tax, contracts relating to the transfer of securities are subject to the following registration tax: (i) public deeds and notarised deeds are subject to fixed registration tax at a rate of €200; (ii) private deeds are subject to registration tax only in the case of use (*caso d'uso*) or voluntary registration.

Tax Monitoring

According to the Law Decree No. 167 of 28 June 1990, converted with amendments into Law No. 227 of 4 August 1990, as amended from time to time, individuals, non-profit entities and certain partnerships (*società semplici* or similar partnerships in accordance with Article 5 of Presidential Decree No. 917 of 22 December 1986) resident in Italy for tax purposes, under certain conditions, are required to report for tax monitoring purposes in their yearly income tax return the amount of investments (including the Notes) directly or indirectly held abroad. Such obligation is not provided if, inter alia, each of the overall value of the foreign investments which are only composed by deposits and/or bank accounts when their aggregate value never exceeds a Euro 15,000 threshold throughout the year.

The requirement applies also where the persons above, being not the direct holders of the financial instruments, are the actual owners ("*titolari effettivi*") of the financial instruments in accordance with Article 1(2)(u) and the Technical Annex of the Decree No. 231 of 21 November 2007.

Furthermore, the above reporting requirement is not required to comply with respect to Notes deposited for management or administration with qualified Italian financial intermediaries, with respect to contracts entered into through their intervention, upon condition that the items of income derived from the Notes have been subject to tax by the same intermediaries.

Stamp duty

Pursuant to Article 19(1) of Decree No. 201 of 6 December 2011 ("**Decree 201**"), a proportional stamp duty applies on an annual basis to the periodic reporting communications sent by financial intermediaries to their clients for the Notes deposited therewith. The stamp duty applies at a rate of 0.2 per cent. (and cannot exceed €14,000, for taxpayers different from individuals). This stamp duty is determined on the basis of the market value or – if no market value figure is available – the nominal value or redemption amount of the Notes held.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Economy on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 20 June 2012) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Wealth Tax on securities deposited abroad

Pursuant to Article 19(18) of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay an additional wealth tax at a rate of 0.2 per cent..

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes, if any, paid in the State where the financial assets are held (up to an amount equal to the Italian wealth tax due).

Luxembourg Taxation

The following overview is of a general nature and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues, and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 20 per cent.

The proposed European Union financial transactions tax (FTT)

On 14 February 2014, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common EU FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Republic of Italy have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the "**Programme Agreement**") dated 8 March 2019, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". The Programme Agreement provides that the obligations of the Dealers to subscribe for Notes may be subject to certain conditions precedent, including (among other things) receipt of legal opinions from counsel. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The Form of Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"); and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

(a) the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

(b) the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other offering material relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of the Consolidated Finance Act and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Consolidated Finance Act and Article 34-*ter*, of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Consolidated Finance Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and the Italian Consolidated Banking Act; and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Italian Consolidated Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply, to the best of its knowledge and belief, with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes were duly authorised by a resolution of the Board of Directors of BMPS dated 18 November 1999 and the updating of the Programme has been duly authorised by resolution of the Board of Directors of the Bank held on 5 October 2017.

Approval, listing and admission to trading of Notes

Application for approval has been made to the CSSF to approve this document as a base prospectus and application has been made to the Luxembourg Stock Exchange for Notes (other than Exempt Notes) issued under the Programme to be admitted to trading on the Regulated Market on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

Documents Available

For the period of 12 months following the date of publication of this Base Prospectus, copies of the following documents will, when published, be available free of charge from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

(i) the constitutional documents (with an English translation thereof) of BMPS;

(ii) the consolidated and non-consolidated audited financial statements of BMPS in respect of the financial years ended 31 December 2017 and 31 December 2016 (with an English translation thereof) with the audit reports prepared in connection therewith. BMPS currently prepares audited consolidated and non-consolidated accounts on an annual basis;

(iii) the most recently published annual report of BMPS and the most recently published consolidated and non-consolidated annual (audited) and semi-annual and quarterly (unaudited) (if any) financial statements of BMPS (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith, if any. BMPS currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis and unaudited consolidated interim accounts on a quarterly basis;

(iv) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(v) a copy of this Base Prospectus;

(vi) any future base prospectuses, prospectuses, information memoranda and supplements, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(vii) in the case of each issue of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the Form of Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the Form of Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Condition for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant Change or Material Adverse Change

Since 30 September 2018 there has been no significant change in the financial or trading position of the Issuer and/or the Group and since 31 December 2017 there has been no material adverse change in the prospects of the Issuer and/or the Group.

Litigation

Save as disclosed in the "Banca Monte dei Paschi di Siena S.p.A." section, paragraph 9 (*Legal Proceedings*), neither BMPS nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which BMPS is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of BMPS or the Group.

Auditors

EY S.p.A., independent registered public accounting firm and a member of *Assirevi Associazione Italiana Revisori Contabili*, the Italian Auditors Association, has audited the Issuer's consolidated financial statements, without qualification, in accordance with IFRS, for the financial year ended on 31 December 2017.

EY S.p.A., independent registered public accounting firm and a member of *Assirevi Associazione Italiana Revisori Contabili*, the Italian Auditors Association, has audited the Issuer's consolidated financial statements, without qualification, in accordance with IFRS, for the financial year ended on 31 December 2016.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions (including the provision of loan facilities) and other related transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business.

MPS Capital Services Banca per le Imprese S.p.A., which acts as Dealer, is a direct subsidiary of the Issuer.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. If any of the Dealers or their affiliates has a lending relationship with the Issuer, certain of the Dealers or their affiliates routinely or may hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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