State Aid SA.47677 (2017/N) – Italy New aid and amended restructuring plan of Banca Monte dei Paschi di Siena

European Commission

https://elischolar.library.yale.edu/ypfs-documents2/2789
Brussels, 4.7.2017
C(2017) 4690 final

In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […].

PUBLIC VERSION
This document is made available for information purposes only.

Subject: State Aid SA.47677 (2017/N) – Italy
New aid and amended restructuring plan of Banca Monte dei Paschi di Siena

Sir,

1. PROCEDURE

(1) By decision of 27 November 2013\(^1\) ("the 2013 Restructuring Decision"), the Commission approved restructuring aid granted to Banca Monte dei Paschi di Siena ("MPS" or "the Bank"), on the basis of the Bank's restructuring plan ("the 2013 Restructuring Plan") and its underlying commitments ("the 2013 Commitments").

(2) On 29 July 2016, the European Banking Authority ("EBA") published the results of the 2016 EU-wide stress test\(^2\), which revealed that the Bank had a shortfall in the adverse scenario. The Bank's subsequent attempt to raise new private capital was not successful\(^3\).

---


Onorevole Angelino Alfano
Ministro degli Affari esteri e della Cooperazione Internazionale
P.le della Farnesina 1
I - 00194 Roma
On 23 December 2016 the Italian authorities approved the Law-Decree 237/2016 ("the Law-Decree") setting out the legal framework for liquidity aid and precautionary recapitalisations. On 30 December 2016 the Bank applied for a precautionary recapitalisation.

By decision of 29 December 2016 ("the Liquidity Decision") – following a statement on 23 December 2016 by the European Central Bank ("ECB") that the Bank was solvent – the Commission approved EUR 15 billion of individual liquidity aid to the Bank. The Italian authorities committed to present a restructuring plan within 2 months of the granting of the guarantees unless this liquidity support would be repaid within those 2 months.

On 28 June 2017, the Commission received a new statement from the ECB indicating that the Bank was solvent at that date. On the same date, the ECB also sent to the Commission its SREP decision of 19 June 2017 establishing the Bank's overall capital requirements and guidance.

Following numerous pre-notification contacts in the form of teleconferences, meetings and written exchanges, the Italian authorities, on 28 June 2017, notified recapitalisation aid of up to EUR 5.4 billion accompanied by a new restructuring plan ("the 2017 Restructuring Plan") and new restructuring commitments ("the 2017 Commitments"). The notification also contained a signed term sheet in which the Bank and a purchaser agreed on the sale of the junior tranches of a securitisation vehicle to which the bad loans or sofferenze loans would be transferred.

By letter of 28 June 2017, Italy agreed to waive its rights deriving from Article 342 of the Treaty in conjunction with Article 3 of Regulation 1/1958 and to have this Decision adopted and notified in English.

---

7 See recital (9) of the Liquidity Decision. On 23 December 2016, the Chair and the Vice-Chair of the Supervisory Board of the ECB sent a letter to the Italian authorities which said that at 30 September 2016 - on a consolidated level - the Bank had a Common Equity Tier 1 ratio of 11.49% and that the Bank was solvent at the day of sending the letter from the point of view of compliance with the minimum capital requirements.
8 Supervisory Review and Evaluation Process.
9 The definitions of non-performing loans ("NPEs") adopted by the Bank of Italy (https://www.bancaditalia.it/media/views/2017/npl/index.html) identify three subcategories of NPEs:
- Bad loans (also referred to as "sofferenze") are exposures to debtors that are insolvent or in substantially similar circumstances.
- Unlikely-to-pay exposures (aside from those included among bad loans) are those in respect of which banks believe the debtors are unlikely to meet their contractual obligations in full unless action such as the enforcement of guarantees is taken.
- Overdrawn and/or past-due exposures (aside from those classified among bad loans and unlikely-to-pay exposures) are those that are overdrawn and/or past-due by more than 90 days and for above a predefined amount.
10 Council Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).
2. BACKGROUND AND DESCRIPTION OF THE AID MEASURES

2.1. The Bank and its difficulties

2.1.1. Key financial data

(8) The Bank is the fourth largest Italian bank\textsuperscript{12} with a total balance sheet of EUR 153 billion, risk-weighted assets ("RWA") of EUR 65.5 billion, 25,566 employees and 2,032 branches. Its market share at national level in terms of number of branches is [5-10]%, [0-5]% based on direct funding (deposits and debt securities) and [5-10]% based on customer loans\textsuperscript{13}. The Bank is mainly active in the retail and SME segments. From a geographic perspective, the Bank is mainly present in Italy, but it also has subsidiaries in Belgium and France\textsuperscript{14} and branches in New York, London, Shanghai and Hong Kong.

(9) On 9 March 2017, the Bank published its 2016 annual accounts, disclosing a net loss for the year of EUR 3,241 million, mainly because of extraordinary loan loss provisions. In 2016, the Bank also reported deposit outflows of EUR 15 billion. In terms of regulatory capital, as of 31 December 2016, the Bank's Core Equity Tier 1\textsuperscript{15} ("CET1") - ratio\textsuperscript{16} stood at 8.2% while its total capital ratio was 10.4%.

(10) On 4 May 2017, the Bank published its 1Q 2017 results and reported a net loss of EUR 169 million, a CET1-ratio of 6.5% and a total capital ratio of 8.9%. Its total assets and RWA (as of 31 March 2017) amounted to EUR 148.8 billion and EUR 64.5 billion respectively. The Bank also announced that it had recovered EUR 5 billion in deposits in the first quarter of 2017.

2.1.2. The 2012-2013 State Aid

(11) On 17 December 2012, the Commission temporarily approved\textsuperscript{17} as rescue aid a EUR 3.9 billion State recapitalisation of the Bank in the form of hybrid capital instruments. The Commission approved the measure on a definitive basis as restructuring aid by means of the 2013 Restructuring Decision. By June 2015, the Bank had fully repaid the 2013 recapitalisation aid.

2.1.3. The EBA 2016 EU-wide stress test and the Bank's private capital raising attempt

(12) On 29 July 2016, the EBA published the results of the 2016 EU-wide stress test\textsuperscript{18}. In that stress test, the Bank had a negative CET1-ratio\textsuperscript{19} of -2.44% in the

\textsuperscript{12} Following the merger between Banco Popolare and Banca Popolare di Milano.
\textsuperscript{14} All figures as of 31 December 2016.
\textsuperscript{15} As of 31 December 2016, the Belgian and French subsidiaries have EUR 3.6 billion of assets, 27 branches and 385 FTEs.
\textsuperscript{16} Ratio of Common Equity Tier 1 as a % of risk-weighted assets.
\textsuperscript{18} See footnote 2.
\textsuperscript{19} Fully-loaded, which means based on prudential rules as they will apply at the end of the transition period in 2019.
adverse scenario. The main drivers which led to that low CET1-ratio were the adverse case assumptions related to net interest income (-6.6%), credit risk (-2.3%) and market risk (sovereign bonds in the available-for-sale portfolio)(-1.6%).

(13) In the baseline scenario however, the Bank had no capital shortfall, showing a CET1-ratio of 12%. The 2016 stress test was different from previous stress tests in that it was not preceded by an asset quality review ("AQR") and it also did not contain a pass/fail threshold. In essence, the 2016 stress test was a key input for the ECB's 2016 SREP process.

(14) On 29 July 2016, in order to deal with its asset quality issues and its capital shortfall in the adverse scenario, the Bank announced "Project Charles" which consisted of the following actions:

- a sale of its entire bad loan\(^{20}\) portfolio of EUR 28.5 billion (which would also result in accounting de-recognition of that portfolio)\(^{21}\) conditional on a successful capital increase;
- an increase of the loan loss coverage of "unlikely-to-pay" and "past-due" loans to around 40% of gross book value ("GBV") and;
- a capital increase of EUR 5 billion to be implemented through:
  i. a voluntary tender offer to the holders of subordinated debt instruments – also known as a Liability Management Exercise ("LME") – to be completed before, and conditional on, the successful implementation of the rights issue;
  ii. a rights issue with also a tranche reserved to cornerstone institutional investors.

(15) Following the appointment of a new CEO and General Manager in September 2016, the Bank decided to launch its capital transaction immediately after an Italian constitutional referendum (which was originally scheduled for mid-October 2016 but later postponed to 4 December 2016).

(16) The LME initially raised total proceeds of EUR 2.5 billion (nominal value) but the prospective institutional investors eventually did not confirm their initial interest in the rights issue. On 23 December 2016 the Bank acknowledged that the whole private transaction (i.e. the capital increase in combination with the sale of the bad loans portfolio) had failed.

2.1.4. The legal basis for the aid measures: the Law-Decree

(17) Under the Law-Decree a bank can request the State to subscribe to new shares of the bank if all the following conditions are met:

i. The need to strengthen the bank's capital position was identified in the adverse scenario of a stress test;

ii. The bank has implemented a private capital raising plan but the implementation of that plan did not generate enough capital to meet the bank's capital needs\(^{22}\);

\(^{20}\) For the definition of the different NPE categories, please see footnote 10.

\(^{21}\) A portfolio of EUR 27.6 billion to be disposed to a securitisation vehicle at a price equal to 33% of Gross Book Value and a separate disposal of EUR 0.9 billion of leasing receivables.
iii. The Commission found – by means of a State aid Decision – the State measure to be compatible with the internal market\(^{21}\);

iv. Burden-sharing measures are implemented before the implementation of the State recapitalisation\(^{24}\). In the specific case of MPS, burden-sharing is implemented by means of a conversion of subordinated debt instruments in ordinary shares at pre-defined conversion rates\(^{25}\); burden-sharing measures imply *inter alia* that provisions related to patrimonial rights on the bank's shares or on other capital instruments subject to burden-sharing that limit the full recognition of the shares or of the capital instruments as CET1 are void\(^{26}\);

v. The number of newly issued shares attributed to the State is determined by a methodology that ensures a significant dilution of the existing shareholders\(^{27}\).

(18) The Law-Decree also describes that the Bank – in order to end or prevent misselling related litigation – might compensate retail holders of subordinated debt (who had seen their subordinated debt converted into equity as a result of the burden-sharing measures\(^{28}\)) but only when a number of precisely defined conditions are met\(^{29}\). As part of that compensation, the Bank would purchase converted shares from the missold subordinated debt holders and offer as a consideration a senior bond. Following such compensation, the State would purchase existing shares held by the Bank.

2.1.5. *The Bank's precautionary recapitalisation request*

(19) On 23 December 2016, the Bank announced that it would request a precautionary recapitalisation as provided for by the Law-Decree.

(20) By letter of 23 December 2016, the ECB informed the Bank that it had quantified the Bank's capital shortfall\(^{30}\) in the adverse scenario of the 2016 stress

\(^{22}\) See Article 14 of the Law-Decree.

\(^{23}\) See Articles 17 and 18 of the Law-Decree.

\(^{24}\) See Articles 18 and 22 of the Law-Decree.

\(^{25}\) See Article 23 of the Law-Decree. Out of 11 issuances subject to conversion, one is converted at a rate of 18% of the nominal value (a Floating Rate Equity-linked Subordinated Hybrid or "FRESH"), three at a rate of 75% of the nominal value (Tier 1 issuances) and seven at a rate of 100% of the nominal value (Tier 2 issuances).

\(^{26}\) See Article 22 paragraph 4 of the Law-Decree.

\(^{27}\) See Article 18 of the Law-Decree and the Annex to the Law-Decree and explained more in detail in recital (60).

\(^{28}\) See Article 19 paragraph 2 of the Law-Decree.

\(^{29}\) The instruments were issued under an obligation of publishing a prospectus (the Bank explained that in its case, this relates to the subdebt instrument with ISIN-code IT0004352586), were not purchased by qualified counterparties or professional clients different from the bank in absence of advisory services provided by the bank; the instruments were subscribed prior to 1 January 2016; the shareholders are not qualified counterparties nor professional clients; the settlement's structure implies that the Bank purchases the shares stemming from the conversion of subordinated debt, offering as a consideration a non-subordinated bond with a maturity comparable to that of the converted subordinated debt and a coupon in line with that of comparable senior bonds issued by the bank; the compensation paid by the Bank to the missold retail investors cannot exceed the lower between the one determined using the methodology provided for newly issued shares and the price paid by the investor to purchase the instrument; the investors accepting the settlement renounce any other recourse related to the sale of the instruments.

\(^{30}\) In order to calculate the capital shortfall, the ECB had used a total capital threshold of 11.5% of RWA.
test and that this shortfall amounted to EUR 8.8 billion. In the same letter, the ECB confirmed that the Bank had no shortfall in the baseline scenario.

(21) On 30 December 2016, the Bank submitted an application for extraordinary public support in the form of a precautionary recapitalisation in order to address the capital shortfall.

2.1.6. The ECB's solvency statement

(22) On 28 June 2017, the ECB sent a letter to the European Commission which stipulated that at 31 March 2017 – on a consolidated level – the Bank had a CET1-ratio of 6.46% and a total capital ratio of 8.89%. The letter concluded that the Bank was solvent (at the day of sending the letter) from the point of view of compliance with the Pillar 1 minimum capital requirements – as per Article 92 of Regulation (EU) No 575/2013 (“CRR”).

2.2. The aid measures

(23) Table 1 below summarises the measures that will be assessed in this decision:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Type of measure</th>
<th>Amount of aid (EUR billion)</th>
<th>Aid/RWA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt guarantees (Measure 1)</td>
<td>Liquidity support</td>
<td>15</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Precautionary recapitalisation (Measure 2)</td>
<td>Capital support</td>
<td>Up to 5.4</td>
<td>8.2%32</td>
</tr>
</tbody>
</table>

2.2.1. The liquidity aid (Measure 1)

(24) On 23 December 2016, the Bank formally requested liquidity aid33 in the form of State guarantees on senior liabilities for a maximum nominal amount of EUR 15 billion. The Bank explained that its liquidity position had sharply deteriorated in the course of December 2016 and that a significant amount of liabilities had a maturity date in the first quarter of 2017.

(25) The Commission temporarily approved the liquidity aid based on commitments offered by the Italian authorities. Italy committed for instance to submit a restructuring or wind-down plan of the Bank within two months from the day of the granting of the guarantees (unless the aid would be reimbursed within those two months).

32 In relation to Risk Weighted Assets as of 31 December 2016 of EUR 65.5 billion.
33 In a letter addressed to the Bank of Italy and the ECB with the Italian Ministry of Economy and Finance (“MEF”) in copy.

On 24 February 2017, the Italian authorities submitted a first draft of a restructuring plan of the Bank, in compliance with the commitment described in recital (16)(iv) of the Liquidity Decision. The final version of the 2017 Restructuring Plan was submitted on 28 June 2017.

2.2.2. The precautionary recapitalisation (Measure 2)

On 30 December 2016, following the Bank's unsuccessful attempt to raise private capital, the Bank requested public financial support in the form of a precautionary recapitalisation.

On 28 June 2017, the Italian authorities notified a recapitalisation of up to EUR 5.4 billion, explaining that the precise size of the recapitalisation would depend on the level of acceptance of retail subordinated debt holders of the compensation offer described in recital (18)\(^{34}\). After the burden-sharing-related conversion of subordinated debt into equity, eligible retail subordinated debt holders will have the right, but not the obligation, to accept a settlement agreement with the Bank to exchange their shares (resulting from the conversion) into a senior bond. According to the figures of the Bank and taking into account the total State aid budget of EUR 5.4 billion, the maximum possible take up of the settlement is EUR 1.5 billion.

In conclusion, the State will recapitalise the Bank as follows:

i. by subscribing to EUR 3.9 billion newly issued shares;

ii. by purchasing up to EUR 1.5 billion in existing shares (in the context of the misselling settlement).

2.3. The 2017 Restructuring Plan and the 2017 Commitments

2.3.1. Restoration of viability

The Italian authorities together with the Bank provided the Commission with the 2017 Restructuring Plan to demonstrate the Bank's ability to return to viability by the end of the restructuring period (i.e. 31 December 2021). The following elements are key to the Bank’s restructuring:

i. an increase of the Bank's efficiency;

---

\(^{34}\) In order to put the Bank's misselling problem in context, the Italian authorities provided the following information:

(i) a Consob note dated 23 April 2010 by which the Authority, as a result of an activity of securities’ supervision and inspection, noticed weaknesses in implementing the MiFID requirements, entered into force since November 1st, 2007;

(ii) the punitive measure adopted by Consob with resolution no. 18856 dated 9 April 2014 concerning the assessment of deficiencies regarding procedures and controls in relation to the suitability test of the client’s transactions;

(iii) the punitive measure adopted by Consob resolution no. 18924 dated 21 May 2014.
i. a hive-off of the Bank's bad loans portfolio;

ii. an overhaul of the Bank's credit risk management processes.

(32) The 2017 Restructuring Plan contains financial projections for the period 2017-2021, which were provided for both a base case and an adverse case scenario. The projections are based on a State recapitalisation of EUR 5.4 billion, which together with the conversion of the subordinated debt instruments into shareholders' equity of EUR 2.9 billion\(^{35}\) and the capital generating effect from the sale of the merchant acquiring business of EUR 0.5 billion\(^{36}\) should in the end increase the Bank's CET1 by approximately EUR 8.8 billion.

**Base case scenario**

(33) The base case scenario is based on a macro-economic scenario which assumes a modest recovery of Italian Gross Domestic Product ("GDP"). The key macroeconomic assumptions underlying the base case scenario are presented in Table 2 below:

<table>
<thead>
<tr>
<th>Table 2: Key macro-economic assumptions</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (annual change)</td>
<td>0.9%</td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Inflation rate (annual average)</td>
<td>-0.1%</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.5%</td>
<td>1.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>1m EURIBOR (annual average)</td>
<td>-0.3%</td>
<td>-0.3%</td>
<td>-0.2%</td>
<td>0.1%</td>
<td>0.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>ECB main refinancing operations rate (end of year)</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.75%</td>
</tr>
<tr>
<td>10-year spread Italy-Germany gvt. Bond</td>
<td>161 bps(^{37})</td>
<td>156 bps</td>
<td>150 bps</td>
<td>143 bps</td>
<td>140 bps</td>
<td>137 bps</td>
</tr>
</tbody>
</table>

(34) On the basis of this macro-economic scenario and its own business outlook, the Bank expects total operating income to remain flat over the restructuring period (EUR 4.28 billion in 2016 as compared to EUR 4.27 billion in 2021). Net interest income is expected to decrease by 2.2%, while net fee income is expected to grow by 9.2%.

(35) In terms of costs, the Bank will implement a significant cost cutting program and will refocus on its core domestic market. The Bank will also redesign its network and will reduce the number of branches (including coordination centres) from 2 032 in 2016 to 1 432 in 2021 (i.e. minus 30%). During the restructuring period, the Bank will also reduce its headcount by 22% or 5 501 employees to 20 065.\(^{38}\) As a result, staff expenses – in the period 2016-2021 –

---

\(^{35}\) Considering also the positive impact in terms of CET1 of EUR 0.2 billion stemming from the burden-sharing on the usufruct contract related to the FRESH 2008 operation.

\(^{36}\) On 7 February 2017, the Bank announced the sale of its merchant acquiring business for EUR 520 million (http://english.mps.it/media-and-news/press-releases/ComunicatiStampaAllegati/2017/CS_2017_02_03_ENG.pdf). The capital generating effect of this sale is approximately EUR 500 million.

\(^{37}\) Basis points.
will decline by EUR 291 million or 18%. The 2017 Restructuring Plan also includes further optimisation of the accounting category "other administrative expenses", which will decline from EUR 792 million in 2016 to EUR 585 million in 2021. This 26% reduction will be achieved through a revision of the Bank's business and operating model and will include cost savings from network rationalisation as well as further cost cutting on logistics, security, energy management, IT and real estate.

(36) Moreover, the 2017 Restructuring Plan also contains an additional conditional cost cutting measure. If in 2018, 2019, or 2020, the "Net Margin" – calculated as Total Operating Income less Total Operating Costs (Personnel Expenses, Administrative Costs, Amortisation and Depreciation) – as projected in the 2017 Restructuring Plan is not achieved\(^{39}\), the Bank – in order to reach the targeted profitability – will implement additional cost reductions as specified in the 2017 Commitments (unless the return on equity ("ROE") is equal to the target provided in the 2017 Restructuring Plan).

(37) Loan loss provisions are projected to go down from EUR 4 459 million in 2016 to EUR 528 million in 2021 implying an improvement of the cost of risk to less than 60 bps.

(38) Following its restructuring, the Bank projects to deliver net income of EUR 1 219 million in 2021 (compared to a EUR 3 241 million loss in 2016) and, a cost-income ratio of 50.6% (compared to 61.2% in 2016). The ROE (after tax) is expected to reach 10.7% for the year 2021. In terms of capital, the Bank will respect its regulatory capital requirements (including guidance) throughout the period 2018-2021 (as illustrated in Table 3 below). In order to strengthen the Bank's total capital position, the Italian authorities also committed that the Bank would issue to private investors a Tier 2 instrument with a nominal value of at least EUR […] billion by […] and one of at least EUR […] billion by […]

(39) As part of the 2017 Restructuring Plan, the Bank will also divest or substantially deleverage its subsidiaries in Belgium and France. In this respect, the Italian authorities together with the Bank have submitted two versions of the base case scenario: a first one (summarised in Table 3 below) in which these two subsidiaries are sold in […], and a second one in which these two subsidiaries are put in wind down (if the Bank does not manage to sell them within the deadline in line with the 2017 Commitments) ("base case with run-off of foreign subsidiaries").

(40) Under this "base case with run-off of foreign subsidiaries", at the end of the restructuring period in 2021, the Bank will also have [1 250 - 1 500] branches as in the base case with sold subsidiaries but [50-500] more employees totalling [19 000 – 22 000]. Still the Bank would achieve a comparable net income of EUR [1 000 – 1 250] million, a cost-income ratio of [45-55]% and a ROE (after tax) of [8-15]%. The Bank would also fulfil its regulatory capital requirements throughout the period 2018-2021.

(41) As regards its relations with connected borrowers, the Bank will always respect market terms. The Bank will also overhaul its Risk Management and Credit Policies. As one of the drivers of losses under the adverse scenario of the EBA

\(^{38}\) By making use for instance of the so-called "Fondo di Solidarieta" (Ministry Decree No. 83486 of 28 July 2014).

\(^{39}\) With a tolerance margin of […]% in 2018 and […]% in 2019 and 2020.
2016 stress test were losses linked to the sovereign debt portfolio (see also recital (12)), the Italian authorities have also provided the commitment that the Bank will cap the outstanding amount of Italian sovereign bonds in the accounting category "Available for Sale". The Bank will also be constrained in its proprietary trading activities.

(42) In addition, the Bank will implement a salary cap, until 31 December 2021, on total remuneration to any board member, manager and employee in line with the relevant rules set forth in the 2013 Banking Communication. The remuneration will be limited to ten times the average salary of the employees of the Bank in 2016.

(43) Table 3 below presents the main financial projections contained in the 2017 Restructuring Plan for the Bank:

Table 3: Financial projections base case scenario

<table>
<thead>
<tr>
<th>Key financial indicators EUR billion</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>3.75</td>
<td>[0-5]</td>
<td>4.27</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>-2.33</td>
<td>[0-5]</td>
<td>-2.16</td>
</tr>
<tr>
<td>of which Personnel cost</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>-1.45</td>
<td>[0-5]</td>
<td>-1.32</td>
</tr>
<tr>
<td>Loan provisioning and impairments</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>-0.77</td>
<td>[0-5]</td>
<td>-0.58</td>
</tr>
<tr>
<td>Other non-recurring expenses</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>[0-5]</td>
</tr>
<tr>
<td>Tax and DTAs</td>
<td>[0-5]</td>
<td>[0-5]</td>
<td>0.18</td>
<td>[0-5]</td>
<td>-0.14</td>
</tr>
<tr>
<td>Net profit</td>
<td>[-0-5]</td>
<td>[0-5]</td>
<td>0.57</td>
<td>[0-5]</td>
<td>1.22</td>
</tr>
<tr>
<td>Total assets</td>
<td>[100-150]</td>
<td>[100-150]</td>
<td>134.0</td>
<td>[100-150]</td>
<td>134.2</td>
</tr>
<tr>
<td>Total own funds</td>
<td>[10-20]</td>
<td>[5-10]</td>
<td>10.3</td>
<td>[10-20]</td>
<td>11.9</td>
</tr>
<tr>
<td>RWA</td>
<td>[80-90]</td>
<td>[70-80]</td>
<td>71.9</td>
<td>[70-80]</td>
<td>69.6</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>n.a.</td>
<td>[0-5]%</td>
<td>5.70%</td>
<td>[5-10]%</td>
<td>10.70%</td>
</tr>
<tr>
<td>Cost-income ratio (%)</td>
<td>[60-70]%</td>
<td>[60-70]%</td>
<td>62.0%</td>
<td>[50-60]%</td>
<td>50.6%</td>
</tr>
<tr>
<td>CET 1 ratio (%)</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>12.68%</td>
<td>[10-20]%</td>
<td>14.69%</td>
</tr>
<tr>
<td>Total capital ratio (%)</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
</tr>
<tr>
<td>Capital requirements and guidance41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CET1 ratio (%)</td>
<td>10.75%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
</tr>
<tr>
<td>Total capital ratio (%)</td>
<td>10.75%</td>
<td>12.94%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
</tr>
</tbody>
</table>

40 Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis 2013, OJ C 2016, 30.07/2013 pages 1-15 (“the 2013 Banking Communication”).

41 In years from 2018 to 2021 as per the SREP decision issued on 19 June 2017.
Comparison of the Bank's financials with the requirements of the new 2017 SREP decision (taking into account the effects of the restructuring plan)

On 19 June 2017, the ECB issued a SREP decision establishing the overall capital requirements for the Bank that take into account, among others, the findings stemming from the 2016 EU-wide stress test. The ECB requires the Bank to maintain, as from 1 January 2018, on a consolidated basis an overall capital requirement of 12.94% taking into account a minimum Pillar 1 capital requirement of 8% (Pillar 1) and, an additional Pillar 2 total capital requirement of 3% ("P2R" to be made out entirely of CET1 capital). In addition, according to Bank of Italy's Circular No. 285 on prudential regulations for banks that transposes the Capital Requirement Directive 2013/36/EU ("CRD IV")\(^42\), the Bank is required to maintain (fully in CET1) a Capital Conservation Buffer of 1.875% in 2018 (which becomes on a fully loaded basis 2.5% as from 2019) and an O-SII buffer\(^43\) of 0.0625% in 2018 (phase-in 0.125% in 2019, 0.1875% in 2020 and fully loaded 0.25% in 2021).\(^44\) Table 4 below summarizes the capital ratios that the Bank is expected to respect.

Table 4: Capital ratios that the Bank is expected to respect (capital requirements plus guidance) considering the SREP decision issued on 19 June 2017\(^45\)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillar 1 CET1</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Pillar 2 CET1 Requirement (P2R)</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td>1.875%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>O-SII Buffer</td>
<td>0.0625%</td>
<td>0.125%</td>
<td>0.1875%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Required CET1 ratio (%)</td>
<td>9.44%</td>
<td>10.13%</td>
<td>10.19%</td>
<td>10.25%</td>
</tr>
<tr>
<td>Pillar 1 AT1+T2</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Required total capital ratio</td>
<td>12.94%</td>
<td>13.63%</td>
<td>13.69%</td>
<td>13.75%</td>
</tr>
<tr>
<td>Pillar 2 Guidance (P2G)</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>CET1 ratio (requirement + guidance)</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
<td>[10-20]%</td>
</tr>
</tbody>
</table>

In the same SREP decision, the ECB requires the Bank to take action to address its non-performing exposures ("NPEs"). In this respect the ECB requires the Bank:

---


\(^{43}\) Buffers as defined in Article 128 of the CRD IV.

\(^{44}\) With the SREP decision the ECB also set a Pillar 2 Guidance ("P2G") equal to [0-5]%, which does not form part of the Overall Capital Requirements.

\(^{45}\) All the concepts are stipulated in the CRR and the CRD IV.
a) to align by year-end 2017 the carrying value of its bad loans portfolio to a level consistent with their disposal as outlined in the 2017 Restructuring Plan;

b) to take into account the quantitative and qualitative requirements of the findings of the on-site inspection performed by the ECB. According to the final on-site inspection report of 7 June 2017, the Bank was required in the SREP decision to implement the following actions:

i. to book in 2017 additional EUR 250 million of provisions relating to the credit files reviewed during the on-site inspection;

ii. to determine together with the auditors the inclusion of additional EUR [150-200] million of provisions relating to projections of the findings in the reviewed portfolios and to determine the period in which these losses will have to be booked.

According to the financial projections summarised in Table 3, the Bank would meet in the period 2018-2021 the future requirements set out in the 2017 SREP decision.

Adverse case scenario

In addition to the base case scenario of the plan, the Italian authorities provided the Commission with projections for an adverse case scenario which assumes a worsening of the economic environment until 2019 (approximately 1% lower annual GDP growth difference in 2019 versus the base case scenario) with a gradual improvement starting from 2020 and a higher spread between the 10-year Italian government bond as compared to German government bond (76 bps in 2019, improving in following years), without substantial changes in interest rate curve.

In this scenario, the Bank will implement additional cost cutting from 2019 as per the 2017 Commitments and assume higher loan loss provisions and a lower price on the bad loans / unlikely-to-pay loans disposals.

Under these additional stress factors, the Bank would record losses during the first four years of the plan and would return to profitability only in 2021 with net income of EUR [500 - 1 000] million while reaching a CET1 ratio of [10-15]%.

Exit by the State

Italy committed to sell its entire stake in the Bank before […] in an open, unconditional and non-discriminatory sales process and on market terms. By […] at the latest, Italy will submit to the Commission a detailed implementation plan.

2.3.2. Measures related to the Bank's NPEs problem

A cornerstone of the 2017 Restructuring Plan is the Bank's plan to hive off its bad loans, which will allow the Bank to book lower loan loss provisions in the future.
In the 2017 Restructuring Plan, the Bank foresees the disposal of its bad loans portfolio with a gross book value ("GBV") of EUR 28.6\textsuperscript{46} billion in the following manner:

(a) EUR 1.2 billion unsecured small exposures (less than EUR 150 000 per exposure) to be sold to private parties for an estimated price of around [...]% of their GBV. The Net Book Value ("NBV") of the portfolio is [...]% of the GBV, therefore the sale would imply an estimated loss of around EUR [...] million for the Bank;

(b) EUR 1.4 billion leasing exposures to be sold to private parties for an estimated price of around [...]% of their GBV. The NBV of the portfolio is [...]% of the GBV, therefore the sale would imply an estimated loss of around EUR [...] million for the Bank;

(c) EUR 26.1 billion main portfolio to be transferred to a newly created securitisation vehicle ("the bad loans transaction") for a price of 21% of their GBV. The NBV of the portfolio is 36 % of their GBV; therefore, the sale would imply a loss of EUR 3.9 billion for the Bank.\textsuperscript{47}

The securitisation vehicle referred to under recital (52)(c) will be financed as follows:

(a) EUR 3.3 billion senior notes to be sold on the market with a market-conform guarantee from the Italian Government (GACS\textsuperscript{48}) for the investment grade tranche;

(b) EUR 0.5 billion senior mezzanine notes to be underwritten by specialised investors;

(c) EUR 1.0 billion junior mezzanine notes to be underwritten by specialised investors;

(d) EUR 0.7 billion junior notes to be underwritten by specialised investors.

On 28 June 2017, Italy notified a signed term-sheet from the "Atlante 2" fund\textsuperscript{49}, for the sale of 95 %\textsuperscript{50} of the junior and junior mezzanine notes (total amount of EUR 1.63 billion) for a price equal to 21% of the GBV of the securitised loans.

Once the senior and senior mezzanine notes are sold to the market and by the end of the second half of 2018 at the latest, the Bank will proceed with the accounting de-recognition of the securitised loan portfolio.

In addition to the bad loans transaction, the 2017 Restructuring Plan provides for additional loan disposals to private parties during the restructuring period, as detailed below:

\textsuperscript{46} As of 31 December 2016.

\textsuperscript{47} Total losses on the disposal of bad loans are included in Table 3 under position "Other non-recurring expenses" in year 2017 and 2018.

\textsuperscript{48} Commission decision of 10 February 2016 in case SA.43390 (2016/N) - Italian securitisation scheme, OJ C 161, 19.04.2016, p.5 (the "GACS-decision").

\textsuperscript{49} Managed by Quaestio Capital Management SGR S.p.A.

\textsuperscript{50} According to the EBA Regulatory Technical Standards on the retention of net economic interest and other requirements relating to exposures to transferred credit risk (Articles 405, 406, 408 and 409) of Regulation (EU) No 575/2013, which allows investor institutions to assume exposure to a securitisation only if the originator has explicitly disclosed that it will retain, on an ongoing basis, a material net economic interest of no less than 5%.
(a) EUR [0-5] billion of unlikely-to-pay exposures in 2017, 2018 and 2019 with an estimated aggregate loss of EUR […] million;

(b) EUR [0-5] billion of newly emerged bad loans exposures in 2020 and 2021 with an estimated aggregate loss of EUR […] million.

(57) Partly as a result of those transactions, as illustrated in Table 3 above, the Bank's balance sheet size will decrease by EUR 19 billion between 2016 and 2021.

(58) In order to prevent similar loan problems in the future, the Bank will centralise its credit decision process and will create dedicated units for the management of high risk, unlikely-to-pay and bad loans. Another action point is the automation of the underwriting processes for small ticket loans. The Bank will also strengthen its early detection system of problem loans and will for instance set up a dedicated monitoring system. It will also create a dedicated business unit to manage non-performing exposures.

(59) As a result of those management actions, the Bank expects an improvement of its key asset quality indicators over the restructuring period. Its probability of default should remain stable at 1.2%-1.3% throughout the restructuring period for new business and decrease from 2.5% in 2016 to 2.0% in 2021 for existing exposures. Improvements in credit risk management in combination with the disposal of non-performing loans would reduce the gross NPE ratio from 34.5% in 2016 to 12.9% in 2021.

2.3.3. Burden-sharing

(60) The 2017 Restructuring Plan provides for burden-sharing of MPS's shareholders by means of dilution. In line with the formula in the Law-Decree, the subordinated debt instruments will be converted into new shares at a 15% discount to the Theoretical ex-rights price ("TERP"), or in case the TERP is negative, at 50% of the Bank's 30-day average share price determined according to the provisions of the Law-Decree52 (the "conversion price"). Moreover, the recapitalisation by the State will occur at a 25% discount to the conversion price of the newly issued shares further diluting shareholders. As a result, after the conversion of the subordinated debt instruments and the recapitalisation by the State, the existing shareholders will only own 2.5% of the total shares of MPS.

(61) The 2017 Restructuring Plan also provides for burden-sharing of MPS's subordinated debt holders. Italy commits that before any State aid is granted to the Bank, all outstanding Additional Tier 1 and Tier 2 instruments53 will be converted into shareholders' equity. The Bank also provided the Commission with a no-creditor-worse-off ("NCWO") valuation demonstrating that burden-sharing would not leave the subordinated debtholders worse off than in a ordinary insolvency proceeding scenario in absence of public support. After the

51 See footnote 10.
52 See article 18 paragraph 4 of the Law-Decree. If the listing of the stock is suspended for a total period exceeding 15 days during the relevant period, the value of the shares is the lower between the average share price in the last 30 trading days during which the stock was exchanged and the share price value calculated by an independent expert according to the criteria set in Article 18 of the Law-Decree. Note that the Italian authorities have provided a report from the independent expert dated 9 June 2017 supporting this valuation.
53 Burden-sharing applies also to the patrimonial rights as described in recital (17)iv.
burden-sharing is fully implemented without exceptions, the Bank will propose to the eligible investors the settlement referred to in recitals (29) and (30). Consequently, depending on the level of acceptance of the compensation by the eligible retail investors, the State will own between 53.9% and 70.6% of the total shares of MPS.

(62) The Bank will also do efforts itself to keep the aid limited to the minimum necessary.

(63) In terms of divestments, the Italian authorities commit to sell the merchant acquiring business, which would generate approximately EUR 500 million in capital. Italy also commits to sell or liquidate the Bank's non-core equity holdings listed in paragraph 18(a) of the 2017 Commitments with an aggregate carrying value of EUR 40 million as of 31 December 2016, and provided that […], and to sell participations listed in paragraph 18(b) of the 2017 Commitments, with an aggregate carrying value of approximately EUR 317 million as of 31 December 2016. In addition, Italy commits that the Bank will dispose all artworks from its art collection provided that their sale complies with the Italian National legislation […]. The Bank will also unwind the closed real estate fund Perimetro Gestione Proprietà Immobiliari (and any similar fund) by end […] and will dispose of at least 500 EUR million of real estate by 2021.

(64) Italy commits that the Bank will refrain during the restructuring period from making any payments on capital instruments existing on the date of the adoption of this decision, unless those payments stem from a legal obligation. Italy also commits that the Bank will not call or buy back those instruments without prior approval of the Commission. Coupons on capital instruments held by the State may be paid, unless such payments would trigger coupon payments to other investors that otherwise would not be mandatory. This commitment of non-payment of coupons during the restructuring period does not apply to newly issued instruments (i.e. issued after adoption of the Commission's present decision), in particular the Tier 2 subordinated bonds which the 2017 Restructuring Plan foresees to be issued in […].

(65) The Italian authorities have also committed that the Bank will strictly apply an acquisition ban as defined in the 2017 Commitments detailed in the Annex of this decision.

2.3.4. Measures to avoid undue distortions of competition

(66) In order to limit distortion of competition, the Bank plans to reduce its presence in Italy. The Bank will for instance reduce its branches by 600 units or 30% by the end of the restructuring period.

(67) Also outside Italy, the Bank will considerably reduce its presence as it will close its branches in New York, London and Hong Kong by […].

(68) In total, the Bank will reduce its balance sheet from approximately EUR 153 billion in 2016 to EUR 134 billion by 31 December 2021. Its RWA will […] by […]% by the end of 2021 (as compared to 2016), which, if added to restructuring efforts undertaken by the Bank since 2012, represents a reduction of 25%.

(69) The Bank will also deleverage its leasing activities from EUR 3.7 billion to EUR 2.6 billion by the end of 2021.
Finally, the Bank will also comply with a number of behavioural measures including an acquisition ban, a ban on advertising the State aid and a ban to implement aggressive commercial practices (according to the terms specified in the 2017 Commitments in the Annex).

2.3.5. Monitoring

The 2017 Commitments are presented in the Annex to the present decision. In order to monitor the implementation of the commitments, a Monitoring Trustee will be appointed. The Monitoring Trustee will be active until the end of the restructuring period.

3. Position of Italy

The Italian authorities accept that the liquidity support and the precautionary recapitalisation measures constitute State aid to the Bank but consider that it is compatible with the internal market on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union ("the TFEU"), as they are necessary to remedy a serious disturbance in the Italian economy.

The Italian authorities explain that following the shortfall in the adverse scenario of the 2016 stress test and the unsuccessful attempt of the Bank to raise private capital from the market, the bank submitted an application for a precautionary recapitalisation measure.

The Italian authorities argue that although the resort to the market was unsuccessful, the Bank has remained solvent and claim that the public support aimed at recapitalising the Bank would ensure that the capital shortfall under the adverse scenario of the 2016 stress test can be remedied avoiding that the situation exacerbates creating risks for financial stability.

The Italian authorities submit that the aid is proportionate and amounts to the minimum and that it has been determined according to the ECB's determination of the shortfall in the 2016 stress test adverse scenario and of incurred and likely losses in line with Article 32, paragraph 4 (d) of Directive 2014/59/EU on bank recovery and resolution ("BRRD") and Article 18, paragraph 4 (d) of the Single Resolution Mechanism Regulation ("the SRM Regulation").

Italy submits commitments, set out in the Annex to this decision. In order to ensure that the commitments will be implemented, a Monitoring Trustee will be appointed.

---

54 See Annex.
4. ASSESSMENT OF THE MEASURE

4.1. Existence of aid

(77) The Commission has to establish the existence of State aid within the meaning of Article 107(1) of the Treaty. As stated in Article 107(1) TFEU any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

(78) The qualification of a measure as State aid therefore presupposes that all the following conditions are met: it must be imputable to the State and financed by a Member State or through State resources, it must grant a selective advantage susceptible to favour certain undertakings or the production of certain goods and it must distort or threaten to distort competition and have the potential to affect trade between Member States.

4.1.1. Measure 1 - The liquidity support

(79) In recitals (19) and (20) of the Liquidity Decision, the Commission already found that Measure 1 fulfils all the State aid criteria laid down in Article 107(1) TFEU and therefore qualifies as State aid to the Bank. The Commission considers that that assessment remains valid for the purposes of the present decision.

4.1.2. Measure 2 - The precautionary recapitalisation

(80) The Italian State will implement Measure 2 using the legal basis of the Law-Decree. The financial resources to implement Measure 2 come directly from the State budget57. The Commission therefore concludes that Measure 2 entails the use of State resources and is imputable to the State.

(81) The Commission observes that regulatory capital is important in a regulated sector like the banking sector. As a result of Measure 2, the Bank ends up with higher capital, making it easier for the Bank to maintain or grow its RWA. As a result, the Bank is in a stronger competitive position than in a "no aid" scenario. A better capital position might also lead to a better credit rating and might reduce the Bank's cost of funding.

(82) The Commission also concludes that the measure is not market conform. The Bank indeed tried to raise capital privately but as mentioned in recital (16) this attempt failed. The Bank's decision to request recapitalisation aid was a direct consequence of the failed private transaction, as the Bank acknowledged in its public communication58. The Commission concludes that Measure 2 gives an advantage to the Bank as no private investor showed interest in investing a comparable amount and at terms similar to the State's. Also taking into account the market circumstances and the investment risk, a prudent private market

---

57 See Article 24 of the Law-Decree.

58 From the 26/12/2016 press release: The Bank informs that – after having acknowledged the impossibility of completing the EUR 5 billion capital strengthening transaction (the “Transaction”) [...] on 23 December the Bank presented the ECB with a request for extraordinary and temporary financial support for access to the “precautionary recapitalization” measure.
operator would not have made a similar investment. In this regard, the Commission also notes that Measure 1 – if considered as a pre-existing exposure – was already deemed State aid in full in the Liquidity Decision and is therefore not relevant in a private operator reasoning. The Commission hence considers that Measure 2 constitutes an advantage that the beneficiary could not have received from a market economy operator.

(83) The Commission notes that Measure 2 is selective in nature, as it is only granted to the Bank and not to other banks.

(84) Measure 2 provides the Bank with an advantage that other economic actors competing with the Bank do not have. Thanks to the measure, it is easier for the Bank to maintain or grow RWA and to preserve market share. As a result, the Bank could keep business that would otherwise have been available for other economic actors, which have to compete on their merits and cannot rely on recapitalisation aid. Therefore, Measure 2 distorts competition.

(85) Where a Member State grants aid to an undertaking, its internal activity may be maintained or increased as a result, so that the opportunities for undertakings established in other Member States to (further) penetrate the market are reduced. As there are a number of international banks active on the Italian market, the measure most definitely has an effect on Union-wide trade. Moreover, the Bank is also active in European banking outside Italy.

(86) The Commission therefore concludes that Measure 2 constitutes State aid within the meaning of Article 107(1) TFEU.

4.2. Legal basis for the compatibility assessment

(87) Article 107(3)(b) TFEU empowers the Commission to find that aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance. This has been successively detailed and developed in the six Crisis Communications59. The Commission confirmed that view by adopting the 2013 Banking Communication.

---

Given the size and market share of the Bank (as set out in recital (8)) and the fact that the general market and economic climate towards banks has still not fully normalised, the Commission considers it appropriate, as confirmed by the 2013 Banking Communication, to examine the two measures under Article 107(3)(b) TFEU. The Commission observes that also the Liquidity Decision was taken under Article 107 (3)(b) TFEU.

Measures 1 and 2 constitute restructuring aid to the Bank. The Commission assesses it on the basis of the 2017 Restructuring Plan with regard to the six Crisis Communications (in particular the Restructuring Communication and the 2011 Prolongation Communication) and the 2013 Banking Communication.

The Commission takes note of the fact that for the bad loan securitisation, the Bank intends to make use of the market-conform GACS-decision. However, the current decision does not address compliance with the GACS-decision.

4.3. **Compatibility with the Crisis Communications**

4.3.1. **Restoration of long-term viability**

As set out under the Restructuring Communication, the Member State needs to provide a comprehensive restructuring plan which demonstrates how long-term viability of the beneficiary will be restored without State aid within a reasonable period of time and within a maximum of five years. Long-term viability is achieved when a bank is able to compete in the marketplace for capital on its own merits in compliance with the relevant regulatory requirements. For a bank to do so, it must be able to cover all its costs and provide an appropriate ROE, taking into account the risk profile of the bank. The return to viability should mainly derive from internal measures and be based on a credible restructuring plan.

Point 10 of the Restructuring Communication requires that the proposed restructuring measures remedy the entity's weaknesses. In that regard, the 2017 Restructuring Plan adequately addresses the weaknesses of the Bank.

First, the securitisation of the bad loans described in recitals (51) to (55) is an adequate response to the Bank's high level of NPEs. It will allow the Bank to de-consolidate those bad loans from its balance sheet. The Bank's gross NPE ratio will decrease from 34.5% at the end of 2016 to [15-20]% in 2018. The Bank will have a sounder credit risk profile as a result of the de-consolidation, the commitments related to the credit risk management and the management of the existing assets remaining on the balance sheet to maximise their net present value for the Bank, as well as other measures enhancing the Bank's risk management framework. It will also help to reduce the need for additional impairments and provisions going forward, and positively impact the funding cost of the Bank (i.e. rerating effect). The Bank will be able to release its resources on the new production of loans to its clients as well as for the work-out of the new inflow of NPEs for the years to come. Improvements in credit risk management and additional selective disposals of unlikely-to-pay loans and bad loans over the restructuring period will allow the Bank to continue reducing further the gross NPE ratio to 12.9% in 2021.

Second, the 2017 Restructuring Plan foresees the Bank to continue to re-focus activities on its core competence and more conservative business of retail
banking. The Bank will also focus on the domestic market while divesting or winding down its international activities, some of which have drained both the Bank's capital and liquidity in the past.

(95) Third, regarding operational costs, the Bank will continue the rationalisation of its commercial network through a reduction in the number of branches and employees as well as through cost optimisation. Italy has committed that the Bank will reduce the number of branches to 1,432 and its headcount to 20,065 by the end of 2021 ([19,000 – 22,000] in the base case with run-off of foreign subsidiaries). This will contribute to improving the profitability of the Bank. The cost-income ratio is expected to be at 50.6% at the end of the restructuring period ([45-55]% in the base case with run-off of foreign subsidiaries), as compared to 61.2% in 2016. Furthermore, the 2017 Commitments include a safeguard in the form of additional cost cuts to be triggered in case the targeted profitability is not reached. At the end of the 2017 Restructuring Plan, the Bank will be able to cover all its costs and provide an appropriate ROE of 10.7% ([8-15]% in the base case with run-off of foreign subsidiaries), taking into account an adequate cost of risk in view of its new risk profile. The Commission also positively notes that the Bank committed to issue Tier 2 instruments in [...]. The Bank's financial projections also indicate that the Bank should be able to meet regulatory requirements throughout the period 2018-2021 as illustrated by the figures in Table 3.

(96) Fourth, the Commission notes positively that the Bank committed to reduce its exposure to Italian sovereign bonds to address the related risks identified in the 2016 stress test (as was explained in recital (12)).

(97) The Bank also provided projections in an adverse case scenario which demonstrate that also under such a scenario the Bank would be able to become profitable by the end of the restructuring period as consequence of the reduction of its cost base, while maintaining acceptable capital ratios throughout the entire restructuring period.

(98) Finally, the 2017 Restructuring Plan provides information on the future funding profile of the Bank. The plan factors in a progressive recovery of the deposits lost in 2016 by the end of the restructuring period and regaining access to the wholesale funding market while reducing its central bank reliance. Therefore, at the end of restructuring period, the Bank is expected to have a loan-to-deposit ratio of 87% and its reliance on central bank funding is expected to decrease to EUR [0-5] billion.

(99) The Commission also observes that the Bank has committed to only engage in connected lending at market terms. The Commission also notes that points 37 and 38 of the 2013 Banking Communication provide that there should be incentives for banks' managements to undertake far-reaching restructuring and that therefore, banks should apply strict executive remuneration policies. In that regard, the Commission takes positive note of the Bank's salary cap as described in recital (42). The Commission also notes that the Bank has replaced the former management with a new CEO and General Manager in post as from September 2016.

Conclusion

(100) On the basis of the above assessment, the Commission considers that the 2017 Restructuring Plan is apt to restore the Bank's long-term viability.
4.3.2. Own contribution and burden-sharing

(101) The Restructuring Communication supplemented by the 2011 Prolongation Communication and the 2013 Banking Communication\(^60\) indicates that an appropriate contribution by the beneficiary is necessary to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end, it provides:

i. that both the restructuring costs and the amount of aid should be limited and;

ii. that there should be a maximum burden-sharing by existing shareholders and subordinated creditors.

(102) First of all, when analysing the Bank’s capital ratios and comparing those with the required levels in Table 3, the Commission observes that the recapitalisation of EUR 5.4 billion is needed to allow the Bank to comply with the overall capital requirements and guidance imposed on it by the supervisor (with a small management buffer allowing it to withstand unexpected setbacks).

(103) Secondly, the Commission observes that there is sufficient burden-sharing by shareholders and also subordinated debt holders. Such contributions can take the form of either a conversion into CET1 or a write-down of the principal of the instruments. In any case, cash outflows from the beneficiary to the holders of such securities must be prevented to the extent legally possible.

(104) Regarding the burden-sharing of shareholders, due to the mechanism described in recitals (17)v and (60), the shares issued in the capital increase (those to be subscribed by the State and those attributed to the converted subordinated debtors of the bank) will represent the vast majority of the total shares of the Bank (97.5% of the total). As a consequence, the existing shareholders of the Bank will be deeply diluted by the capital increase as they will end up owning only 2.5% of the total shares of MPS. Hence the Commission considers that the burden-sharing by shareholders is sufficient. In particular, the objective of the requirements of Chapter II of the 2011 Prolongation Communication to ensure that the State subscribes new shares at a price which is sufficiently low, allowing for dilution and burden-sharing by existing shareholders (and sufficient remuneration on the shares subscribed), is achieved.

(105) Regarding burden-sharing by subordinated debt holders, Italy has committed that before any new State aid is granted to the Bank, the entire amount of the outstanding Additional Tier 1, Tier 2 instruments as well as any other subordinated instruments issued by the Bank will be converted in ordinary shares in order to ensure compliance with the requirements of 2013 Banking Communication. That commitment is aimed at ensuring that all existing subordinated debt holders would fully contribute to the restructuring costs of the Bank before the State steps in, thereby helping to minimise the amount of aid. The Commission also takes note of the conclusions of the NCWO valuation as summarised in recital (61).

(106) Such burden-sharing commitment is confirmed by the Law-Decree, under which the State intervention cannot be granted unless full conversion of Additional Tier 1, Tier 2 and other subordinated instruments is implemented. That means

---

\(^60\) See footnote 40.
that EUR 4.3 billion of new CET1 capital will be created through this conversion. Also, in line with the Law Decree and as described in recital (60), the State will subscribe to new shares at a 25% discount to the conversion price, allowing for further dilution and hence additional burden-sharing of the converted subordinated instruments, and a sufficient remuneration for the State on the shares subscribed.

(107) The Commission observes that after the full conversion of subordinated debt into equity, the Bank will propose the settlement agreement described in recital (18) to eligible retail investors, who have been missold. As a result of such agreement, if the take-up of the settlement reaches the maximum, EUR 1.5 billion in shares stemming from the mandatory conversion of subordinated debt into shares will be acquired by the State, with no impact on the total CET1 capital generated through burden-sharing, which will still amount to EUR 4.3 billion.

(108) The Commission also concludes that the acquisition ban helps to limit the aid amount to what is strictly necessary. As explained in point 23 of the Restructuring Communication, restructuring aid should indeed be limited to covering costs that are necessary for the restoration of viability. Banks should not be endowed with resources which could be used to finance activities not linked to the restructuring process, such as acquisitions.

(109) As explained in point 24 of the Restructuring Communication, banks should first use their own resources to finance restructuring for instance by selling assets. In this regard, the Commission takes positive note of the Bank's divestments referred to under recital (63).

Conclusion

(110) The Commission concludes that burden-sharing from holders of existing shares and subordinated debt is adequate, limiting the restructuring costs and amount of aid, and in line with the requirements of the 2013 Banking Communication. The Commission concludes that the 2017 Restructuring Plan contains sufficient burden-sharing measures.

4.3.3. Measures to limit distortions of competition

(111) Finally, section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should be tailored to address the distortions on the markets where the beneficiary bank operates post-restructuring. The nature and form of such measures depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the markets on which the beneficiary will operate. Furthermore, the Commission must take into account the extent of the beneficiary's own contribution and burden-sharing over the restructuring period.

(112) In addition to the liquidity support measure of EUR 15 billion, the Bank will receive a precautionary recapitalisation in an amount of up to EUR 5.4 billion which represents 8.2% of the Bank's RWA. The Commission notes that given

61 In this regard, the Commission also recalls that Italy provided information setting out the misselling context as described in footnote 34.
that the aid amount is significant, in spite of the fact that the remuneration of the measures is in line with the Commission's respective State aid guidelines, adequate measures to limit potential distortions of competition are necessary.

(113) The main structural measure that will limit distortions of competition is the downsizing of the Bank in terms of total assets, RWA, geographic footprint, branches and staff.

(114) After the bad loans disposal, the Bank will become smaller. As indicated in Table 3, its total balance sheet will shrink from EUR 153 billion on 31 December 2016 to EUR 134 billion by December 2021. The reduction is even more pronounced when compared to the level on 31 December 2012 of EUR 219 billion.

(115) In parallel, the Bank will also downsize in terms of branches (including three foreign ones) and headcount. It will also divest its subsidiaries, in Belgium, as already foreseen in the 2013 Decision, by [...]. If the Bank does not manage to sell those subsidiaries within the deadline, it shall wind them down. Overall, the Commission considers the reduction of the total balance sheet of the Bank by 12%, on top of the already achieved 30% over the period of 2012 to 2016, to be appropriate, as compared to the distortions of competition stemming from the amount of aid to be received.

(116) As described in recital (69) the Bank will also reduce its leasing activities.

(117) In addition, to those structural measures, Italy also committed to several behavioural constraints. The Commission welcomes a ban on advertising State support and a ban on aggressive commercial practices, thus preventing the Bank from using the aid for anti-competitive market conduct. It also welcomes an acquisition ban which – as set out in points 40 and 41 of the Restructuring Communication – ensures that the State aid will not be used to take over competitors, but will instead serve its intended purpose, namely to restore the Bank's viability.

Conclusion

(118) The Commission considers that there are sufficient safeguards to limit undue distortions of competition.

4.4. Monitoring

(119) In accordance with section 5 of the Restructuring Communication, under the 2017 Commitments full and proper implementation of all commitments will be continuously and thoroughly monitored by a Monitoring Trustee until the end of the restructuring period, namely 31 December 2021. The Monitoring Trustee will submit regular reports to allow the Commission to verify that the restructuring plan is being implemented properly. The 2013 Commitments already provide that a Monitoring Trustee, which has been appointed by the Bank with the approval of the Commission, monitors the commitments given by Italy. The Commission therefore finds that proper monitoring of the implementation of the 2017 Restructuring Plan is ensured.
5. **COMPLIANCE OF THE AID MEASURES WITH THE INTRINSICALLY LINKED PROVISIONS OF DIRECTIVE 2014/59/EU ON BANK RECOVERY AND RESOLUTION**

(120) The Commission cannot deem a State aid measure compatible if the measure or the method of its financing, breaches intrinsically linked provisions of Union legislation, namely the provisions of Directive 2014/59/EU on bank recovery and resolution ("BRRD"). In particular, the Commission needs to establish whether the aid measure can be granted outside resolution by virtue of Article 32(4)(d) BRRD ("precautionary recapitalisation"), or only after a resolution action has been triggered.

(121) The Commission notes that the BRRD was transposed into Italian law on 16 November 2015 with the adoption of legislative decrees 180/2015 and 181/2015.

(122) According to Article 32(4)(d) BRRD, an institution is deemed to be "failing or likely to fail" in case extraordinary public financial support is required. However, possible exemptions are laid down in Article 32(4)(d)(ii) and (iii).

(123) The exemption of Article 32(4)(d)(iii) allows for an injection of own funds or purchase of capital instruments which does not result in that institution being considered to be "failing or likely to fail" provided the following conditions are met:

i. The aid is required "in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability";

ii. The aid is granted "at prices and on terms that do not confer an advantage upon the institution";

iii. The aid "shall be confined to solvent institutions";

iv. The aid "shall be conditional on final approval under State aid framework";

v. The aid "shall be of a precautionary and temporary nature";

vi. The aid "shall be proportionate to remedy a serious disturbance in the economy of the Member State";

vii. The aid "shall not be used to offset losses that the institution has incurred or is likely to incur in the near future";

viii. The aid is "limited to injections necessary to address capital shortfall established in the national, Union or SSM-wide stress tests, asset quality reviews or equivalent exercises conducted by the European Central Bank, EBA or national authorities";

ix. The circumstances referred to in point (a), (b) or (c) of Article 32(4)(d) BRRD and the circumstances referred to in Article 59(3) BRRD are not met.

---


The exemption of Article 32(4)(d)(ii) allows for a State guarantee on newly issued liabilities which does not result in that institution being considered to be "failing or likely to fail" provided that the conditions referred to in the previous recital (with the exception of ii and viii) are met.

The Commission notes that Measure 1 and 2 constitute State aid and therefore qualify as extraordinary public financial support within the meaning of the BRRD.

The Commission considers that the conditions provided in Article 32(4)(d)(ii) and (iii) BRRD are met. The assessment of the measures' compatibility with the internal market under Article 107(3)(b) of the Treaty has already shown that the measures are granted to remedy a serious disturbance in the Italian economy and to preserve financial stability in the Italian banking sector.

The Commission notes that the Measure 2 does not confer an undue advantage to the Bank, i.e. an advantage incompatible with the internal market under State aid rules. That outcome is ensured by the compliance with the compatibility conditions for restructuring aid as explained in section 4.3 of this Decision, in particular the level of remuneration for the aid which is in line with the requirements under State aid rules, and the depth of the restructuring as reflected in the 2017 Restructuring Plan.

The aid measures are confined to a solvent institution. As explained in recital (5), the Commission received in that regard a letter dated 28 June 2017 from the ECB which confirmed that as of that day the bank was solvent, i.e. it fulfils the 4.5% Pillar 1 CET1 and 8% Pillar 1 Total capital requirement established in Article 92 of the CRR. The Commission also observes that the ECB has not declared the bank failing or likely to fail. Based on the available information, there are no elements which would give rise to serious doubts as to the ECB’s underlying analysis of the solvency criterion. Moreover, the Commission has no objective reason to believe that neither of the circumstances referred to in point (a), (b) or (c) of Article 32(4)(d) BRRD are met.

The Commission notes that the MEF will recapitalise the Bank only after the State aid decision is adopted and no funds will have been injected into the Bank before the State aid decision.

By the present State aid Decision the Commission finds that the 2017 Restructuring Plan is apt to restore the long-term viability of the Bank on a stand-alone basis, and that the aid measures are compatible.

As regards Measure 2, the aid to be injected into the Bank is of a precautionary and temporary nature as covering the capital shortfall identified by the ECB by raising capital will result in the creation of prudential buffers in the Bank. The capital injection will improve the resilience of the Bank's balance sheet and capacity to withstand potential adverse macroeconomic shocks. The temporary nature of the aid is ensured by the fact that the Italian authorities commit to divest all their shares in the Bank before […]. Therefore, the precautionary recapitalisation is of a temporary nature. Measure 1 is also of a temporary nature, since the guaranteed instruments have a maturity of up to three years.

In recital (41) of the Liquidity Decision, the Commission had already concluded that Measure 1 is appropriate, necessary and proportionate as rescue aid to remedy a serious disturbance of Italian economy. In addition Measure 1 is remunerated in a manner which allows the aid to be compatible as established in
recital (36) of the Liquidity Decision. As regards the assessment of Measure 1 and Measure 2 as restructuring aid, the Commission has already concluded in recital (110) that burden-sharing in the 2017 Restructuring Plan ensures the minimisation of the amount of aid, and in recital (118) that the 2017 Restructuring Plan contains sufficient safeguards to avoid undue distortions of competition. Hence the aid measures are proportionate to remedy the consequences of the serious disturbance in the Italian economy.

(133) Losses incurred by the Bank after the 2016 stress test (which had the date of 31 December 2015 as cut-off point), i.e. losses reported in 2016 and in 1Q 2017 were already booked by the Bank in its accounts and charged against its equity. As for likely losses, those were estimated at EUR 4.4 billion and include: (i) losses of the disposal of bad loans, leasing and small tickets (EUR 4.2 billion) resulting from the difference between these assets' book value and their estimated sales price, and (ii) results of the ECB's on-site inspection which are not overlapping with past losses or losses from the bad loans transaction and hence still have to be booked by the Bank (EUR 0.25 billion). At the same time, the Bank disposes of private means which encompass: (i) excess capital above the minimum capital requirement of 4.5% as of the last accounting period of 1Q 2017 (EUR 1.3 billion); (ii) certain proceeds to be received by the Bank from the sale of its merchant acquiring business (EUR 0.5 billion); and (iii) private capital generated from net burden-sharing, i.e. from the conversion of subordinated debt instruments into equity netted by the amount of compensation paid out by the Bank to missold retail investors (at least EUR 2.9 billion). Consequently, the whole amount of the EUR 4.4 billion of likely losses is fully covered by the private means available at the Bank. Therefore, the Commission concludes that the Measure 2 is not used to offset losses that the Bank has incurred or is likely to incure in the near future.

(134) Also, Measure 1 is precautionary in nature. The Bank's financial projections in the 2017 Restructuring Plan show that the Bank meets the supervisor's regulatory requirements throughout the period 2018-2021, which allows the Commission to conclude that Measure 1 is indeed a liquidity measure, which will not be used to offset incurred or likely losses.

(135) Measure 2 is limited to the injection necessary to cover the capital shortfall arising under the adverse scenario of the 2016 stress test, as identified by the ECB and disclosed on 23 December 2016 as described in recital (20).

(136) As regards the circumstances referred to in Article 59(3) BRRD, the Commission notes that all Additional Tier 1 and Tier 2 instruments held by the Bank are subject to conversion into ordinary shares and will fully contribute to covering capital needs of the Bank before State aid is injected.

(137) The Commission concludes that the conditions under which the aid measures (Measure 1 and Measure 2) are granted are in line with the exemption provided for in Article 32(4)(d) BRRD. Therefore, the aid measures do not trigger the "failing or likely to fail" criterion under the BRRD in relation to the Bank and can be implemented outside resolution.

---

6. CONCLUSION

(138) The Commission concludes that Measure 1 and Measure 2 constitute State aid within the meaning of Article 107(1) TFEU.

(139) The Commission finds that the measures fulfil the requirements of Article 107(3)(b) TFEU and are compatible with the internal market for reasons of financial stability.

(140) The Commission notes that Italy agrees to waive its rights deriving from Article 342 of the Treaty in conjunction with Article 3 of Regulation 1/195865 and to have this Decision adopted and notified in the English language.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully
For the Commission
Margrethe VESTAGER
Member of the Commission

---

65 Council Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).
Annex: List of commitments

COMMITMENTS OF THE REPUBLIC OF ITALY TO THE EUROPEAN COMMISSION

SA.47677 – BANCA MONTE DEI PASCHI DI SIENA SPA – PRECAUTIONARY RECAPITALISATION

INTRODUCTION

The Republic of Italy (“Italy”) shall ensure that the MPS Group (“the Bank”) implements the restructuring plan submitted on 28/06/2017.

Italy hereby provides the following Commitments (“the Commitments”) which are integral part of the said restructuring plan.

The Commitments shall take effect upon the date of adoption of the European Commission's (the "Commission") decision approving the restructuring plan (“Decision”).


Italy shall ensure that the MPS Group or its legal successor shall take the measures necessary to correctly and fully comply with the present Commitments until the end of the restructuring period (31/12/2021).

DEFINITIONS

For the purpose of the Commitments, the following terms shall mean:

1. **Bank**: the bank and all its subsidiaries. Therefore, it includes the entire MPS Group with all its subsidiaries and branches.

2. **Decision**: the decision of the Commission authorising the State aid measure and approving the restructuring plan for the MPS Group in case SA.47677.

3. **Effective Date**: the date of adoption of the Decision.

4. **Monitoring Trustee**: one or more natural or legal person(s), independent from the Bank who is approved by the Commission and appointed by the Bank, and who has the duty to monitor the Bank's compliance with the Commitments.

5. **Restructuring Plan**: the restructuring plan of the Bank approved by the Decision.

For the purpose of the Commitments, the singular of those terms shall include the plural (and vice versa), unless the Commitments provide otherwise.

RESTRUCTURING PERIOD

The restructuring period starts on the Effective Date and ends on 31/12/2021.

These Commitments shall apply throughout the restructuring period.
1) **Burden sharing:** Italy shall implement the conversion of all outstanding Additional Tier 1, Tier 2 instruments as well as any other subordinated instruments issued by the Bank, prior to the granting of State aid to the Bank, as identified in article 23 of Decreto Legge 23 December 2016, n. 237 converted by Law 17 February 2017, n. 15.

2) **Acquisition ban:** the Bank shall not acquire any stake in any undertaking, be it an asset or share transfer. The ban on acquisitions covers both undertakings which have the legal form of a company and any package of assets which forms a business

   - **Exemption requiring Commission's prior approval:** Notwithstanding that prohibition, the Bank may, after obtaining the Commission’s approval, acquire businesses and undertakings, if it is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.

   - **Exemption not requiring Commission's prior approval:** The Bank may acquire stakes in undertakings provided that the purchase price paid by the Bank for any acquisition is less than EUR [0-50] million and the cumulative purchase prices paid by the Bank for all such acquisitions starting with the Effective Date of the Commitments until the end of the restructuring period, is less than EUR [0-100] million.

   - **Activities not falling under the acquisition ban:** The acquisition ban shall not cover:
     1) acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms, including the conversion of existing debt to equity instruments, 2) acquisitions or establishment of special purpose vehicles or undertakings provided for by the Restructuring Plan. For clarification the restructuring of Perimetro Gestione Proprietà Immobiliari does not fall into the acquisition ban.

3) **Coupon ban on existing instruments:** the Bank shall refrain from making any payments on capital instruments in existence at the Effective Date, unless those payments stem from a legal obligation, and shall not call or buy back those instruments without prior approval of the Commission. Coupons on capital instruments held by the State may be paid, unless such payments would trigger coupon payments to other investors that otherwise would not be mandatory. This commitment of non-payment of coupons during the restructuring period does not apply to newly issued instruments (i.e. instruments issued after the Effective Date), in particular the Tier 2 subordinated bond to be issued in […] as detailed in the Decision. In case of doubt as to whether, for the purpose of the present Commitment, a legal obligation exists, the Bank shall submit the proposed coupon or dividend payment to the Commission for approval.

4) **Dividend ban:** the Bank shall not pay dividends. The payment of a dividend in kind is not covered by the present commitment. The Bank may pay dividends when both CET1 and Total Capital ratios exceed the relevant SREP guidance periodically provided by ECB by at least […] basis points.

5) **Advertising ban:** the Bank shall not use the granting of State Aid measures or the State's shareholding in the Bank or any advantages arising therefrom for advertising purposes to promote its products or its standing in the market.
6) **Sustainable commercial policy and ban on aggressive pricing strategies:** the Bank shall not implement any aggressive commercial strategy which would not take place in absence of State support. The Bank’s commercial policy shall be prudent, sound and oriented towards sustainability.

7) **Remuneration of the Bank's Employees And Managers:** the Bank shall apply strict executive remuneration policies. The total remuneration of any individual may not exceed 10 times the average salary of the employees of the Bank in 2016.

8) **Liability Management Exercises:** the Bank shall not undertake any Liability Management Exercise (including calls) unless it is implemented at conditions by which it occurs at a double digit discount in percentage points from nominal value and at no more than 10% above the market price. Any Liability Management Exercise (including debt to equity swaps and equity to debt swaps) will be timely submitted to the Commission services for approval. This commitment does not apply to transactions already included in the Restructuring Plan. Furthermore, this commitment does not apply to the cancellation prior to maturity of any bonds owned by the Bank as at the date of the Decision and not subsequently sold to third parties.

9) **Cost reduction measures.**

   a) **Number of branches in Italy:** the number of branches in Italy shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of branches</td>
<td>[1 750 – 2 000]</td>
<td>[1 500 – 1 750]</td>
<td>1,432</td>
<td>1,432</td>
<td>1,432</td>
</tr>
</tbody>
</table>

   b) **Number of employees:** the number of employees in the Bank (banking and non-banking activities) shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees¹</td>
<td>[23 000 – 25 000]</td>
<td>[22 000 – 24 000]</td>
<td>22,115</td>
<td>[20 000 – 22 000]</td>
<td>20,065</td>
</tr>
</tbody>
</table>

   c) **Cost-to-income ratio:** the cost to income ratio shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>C/I ratio²</td>
<td>[65-75]%</td>
<td>[60-70]%</td>
<td>62.0%</td>
<td>[50-60]%</td>
<td>50.6%</td>
</tr>
</tbody>
</table>

   d) **Total Operating Costs (Personnel Expenses, Administrative Costs, Amortization and Depreciation):** Total Operating Costs shall not exceed the following (with a tolerance margin of […]%)

¹ **Fruendo**: The number of employees in any year does not include any employees of MPS who were outsourced by MPS in 2013 in the Fruendo transaction and who MPS is/has been required to reinstate as employees of MPS as a result of ongoing labour litigations.

² **Fruendo**: The costs in any year do not include any extraordinary non-cash item deriving from the positive accrual of the servicing fee which is incurred following MPS being required to reinstate certain employees of MPS as a result of ongoing labour litigations.
e) Additional Cost Cutting

If in 2018, 2019 or 2020 the Net Margin, calculated as Total Revenues less Total Operating Costs (Personnel Expenses, Administrative Costs, Amortization and Depreciation), as projected in the Restructuring Plan (see following table) is not achieved, with a tolerance margin of [...]% in 2018 and [...]% in 2019 and 2020, additional cost reductions shall be implemented, unless the Return on Equity (ROE) is equal to the target provided for in the Restructuring Plan.

<table>
<thead>
<tr>
<th>EUR million</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Costs</td>
<td>[2 400 – 2 800]</td>
<td>[2 200 – 2 500]</td>
<td>2,326</td>
<td>[2 100 – 2 500]</td>
<td>2,160</td>
</tr>
</tbody>
</table>

The additional cost cutting commitment is not triggered if the targets in a), b), c) or d) are not reached in any year provided that in such year the Net Margin or ROE are complied with as set out in the previous paragraph.

The yearly additional cost reductions shall be equal to the lower between the difference of actual and projected Net Margin in the year in which the target is not achieved and EUR 100 million. Such a reduction shall be achieved through a cut of Total Operating Costs (Personnel Expenses, Other Administrative Expenses, Amortization and Depreciation), compared to the target referred in the Restructuring Plan (Base Case) submitted to the Commission, for all the years following that in which the Net Margin is not achieved. All the legal instruments needed to achieve the cost reduction should be used, including re-negotiation and rescission of contracts with third parties and stakeholders, if needed.

Compliance with the projected operational result will be assessed by the Monitoring Trustee at the moment of the approval of the end of the year results by the Board of Directors (in principle in the course of March). A detailed plan to implement any additional cost reductions will be submitted to the Commission within two months from the approval of the end of the year financial results by the Board of Directors. Within two weeks from its submission, the Commission will either accept the cost reduction plan or will send its observation, indicating the modification upon which the acceptance is conditional. Within four weeks from receiving the Commission's observations, an amended cost reduction plan will be submitted to the Commission.

The actions included in the cost cutting plan shall determine an annualized outcome in line with the adjustment required and will be fully implemented within 12 months from the approval of the plan, with the aim to produce pro rata accountable results already at the end of year t+1 (being t the year in which the breach is realized). Accounting wise, full cost cutting outcomes shall be fully measurable in t+2 full year results.

The Bank will therefore be required to reach new Total Cost targets in year t+1 and t+2 in accordance with what agreed upon in the plan for additional cost cutting accepted by
the Commission. Should for example the breach happen in 2019 and be equal to the maximum amount of EUR 100m, the new Total Operating Costs target for year end 2021 would be equal to EUR 2,060m (EUR 2,160 – EUR 100m), whereas an intermediate target shall be set for year-end 2020.

If the Net Margin targets in a given year are not achieved due to force majeure contingencies outside the bank's control (war, terrorism, natural disasters, significant crisis or uncertainty in the Italian financial system and markets, impacting liquidity or access to funding for Italian financial institutions generally, resulting from national or international monetary, political, financial or economic conditions or securities markets or in currency exchange rates or interest rates, where the average Italian BTP/German Bund spread is above 400 bps for at least 3 months), Italy shall present to the Commission a proposal containing a justification and remedy measures.

For the purpose of Commitment 9, in the case the Foreign Banks (Monte Paschi France, Banca Monte Paschi Belgio) should not be divested by […] and paragraph b) of Commitment 14 should apply (“Run Off”), all the reference figures and tables in Commitment 9 should be substituted, at all effects, with figures and tables in Annex to Commitment 9, incorporating figures from the Run Off, as stated in the “Restructuring Plan B – Foreign Banks Run Off” submitted to the Commission.

10) Balance Sheet Targets:

   a) The Bank shall bring its balance sheet below EUR 145 billion by the end of the restructuring period.

   b) The net loans to deposit ratio (calculated on the basis of balance sheet item 70 of assets and items 20, 30 and 50 of liabilities) shall not exceed the following:

<table>
<thead>
<tr>
<th>Loans to deposits ratio</th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[95-105]%</td>
<td>[90-100]%</td>
<td>91%</td>
<td>[80-90]%</td>
<td>87%</td>
</tr>
</tbody>
</table>

The growth rate of the gross loans shall not be higher than the growth rate of the market as provided in the projections on which the restructuring plan is based. However, if the Bank succeeds in recovering more than expected direct funding, the Bank may grow above market average provided that it matches its loans / deposit ratio target.

For the purpose of Commitment 10, in the case the Foreign Banks (Monte Paschi France, Banca Monte Paschi Belgio) should not be divested by […] and paragraph b) of Commitment 14 should apply (“Run Off”), all the reference figures and tables in Commitment 10 should be substituted, at all effects, with figures and tables in Annex to Commitment 10, incorporating figures from the Run Off, as stated in the “Restructuring Plan B – Foreign Banks Run Off” submitted to the Commission.

11) Sale of the State participation:

   a) Italy shall sell all shares in the Bank by […]. Italy has the discretion to decide what the appropriate structure and modalities of the sale transaction are (e.g. sale on the secondary market, a trade sale or IPO), as long as it eventually divests its entire stake in the Bank and that the sales process is open, unconditional and non-discriminatory, the sale takes place on market terms.
b) Italy shall submit by [...] at the latest a detailed plan for the implementation of the sale of the state participation. The plan shall include at least the outcome of a market sounding and the planned sale process articulated by milestones. Unless otherwise agreed the sale process should be launched at the latest by [...]..

12) Risk Management and Credit Policies:

a) The Credit Policy shall specify that all customers shall be treated fairly through non-discriminatory procedures other than those related to credit risk and ability to pay. The Credit Policy defines the thresholds above which the granting of loans must be approved by higher levels of management. Similar thresholds shall be defined regarding the restructuring of loans and the handling of claims and litigations. The Credit Policy are defined centrally at national level, and provide clear safeguards to ensure a consistent implementation of its instructions within the Bank.

b) The Bank shall fully incorporate the Credit Policy rules in their loan origination and loan refinancing workflow and disbursement systems.

c) The Commercial Policy shall require that the pricing of loans and mortgages to comply with strict guidelines. Those guidelines shall include the obligation to respect strictly the credit policy's standard tables of interest rate bands (ranges) depending on the maturity of the loan, the credit risk assessment of the customer, the expected recoverability of pledged collateral (including the time frame to a potential liquidation), the overall relationship with the Bank (e.g. level and stability of deposits, fee structure and other cross-sales activities) and the funding cost of the Bank. Specific loan asset classes are generated (e.g. commercial loan, mortgage, secured/unsecured, etc.) and their pricing framework is tabulated to an appropriate Commercial Policy table that shall be updated on a regular basis by the Commercial Committee. Any exception must be duly authorized by the Commercial Committee, or at lower level of authority when allowed by the Commercial Policy. Tailor-made transactions such as syndicated loans or project finance shall respect the same principles, with due account being taken of the fact that they may not fit in standardized commercial policy tables. The same reports produced for the Commercial Committee will be available to the Monitoring Trustee.

d) The Risk Management Department shall be responsible for the monitoring of credit risk (based on independent credit risk assessment, i.e. internal rating system) and for the independent controls on portfolio valuation. When assessing the portfolio quality, the Risk Management Department shall provide a monthly report on credit risk and activate the proper escalation mechanism in case thresholds on credit quality are breached. Regarding the independent controls on portfolio valuation, the Risk Management Department shall provide a yearly written report, with a file-by-file review on the basis of a predefined sample.

e) Granting loans\(^3\) to enable borrowers to purchase shares or instruments counting towards own funds of the Bank shall be prohibited, whoever those borrowers\(^4\) are.

---

\(^3\) For the purpose of that Commitment, the term "loans" shall be interpreted as any kind of financing, e.g. credit facility, guarantee, etc.

\(^4\) For clarification, all borrowers, including the Bank's private banking clients are covered by that Commitment.
This commitment applies to all subsidiaries of the Bank, either domestic or foreign.

f) The Credit Policy shall give clear instructions on the restructuring of loans. It clearly defines which loans are eligible, under which circumstances, and indicates the terms and conditions that can be proposed to eligible customers. The Bank shall ensure that all restructurings aim at enhancing its future recoveries, thus safeguarding the interest of the Bank. In no case the restructuring policy shall jeopardize the future profitability of the Bank, and any restructuring proposal should contain an outline of the rationale behind it. For that purpose, the Bank's Risk Management Department shall be responsible for developing and deploying adequate restructuring effectiveness reporting mechanisms, mainly based on sample controls reporting its findings at least on a quarterly basis to the Credit Committee and the Board Risk Committee, suggesting actionable improvements to the processes and policies involved and oversee and reporting on their implementation to the Credit Committee and the Board Risk Committee.

g) The Bank shall enact a claim and litigation policy aiming at maximizing recovery net of the cost for potential legal procedure and preventing any discrimination or preferential treatment in the management of litigations. The Bank shall ensure that all necessary actions are taken to maximize the recoveries for the Bank and protect its financial position in the long-term.

h) The Bank shall monitor credit risk through a well-developed set of alerts and reports, which enable the Risk Management Department to: (i) identify early signals of loan impairment and default events, through an independent analysis of the watch-list; (ii) assess recoverability of the loan portfolio (including but not limited to alternative repayment sources such as co-debtors and guarantors as well as collateral pledged or available but not pledged), through a coverage analysis; (iii) assess the overall exposure of the Bank to an individual customer or on a portfolio basis, monitoring the actual implementation of “Politiche Creditizie”; and (iv) propose corrective and improvement actions to the Board of Directors, based on explicit RAS Appetite and Tolerance levels defined by the Board itself, or to the appropriate escalation level accordingly to the Limit system defined by the CEO. The Monitoring Trustee shall be given access to that information.

i) The Bank shall manage the existing commercial assets in a way that maximises Net Present Value (NPV) of the assets in accordance with normal commercial practice and fiduciary duties. Specifically, if a client cannot respect the terms of his loan, the Bank shall only restructure the lending terms (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring leads to enhancing the present value of the loan (i.e. if the present value of the cash flows to be expected from the restructuring is higher than the present value of the cash flows which can be expected from liquidation). In exceptional and duly justified circumstances, judgmental elements relevant for the decision but not included in the NPV calculation should be properly documented and assessed.

j) As regards the Bank's mortgage assets, the obligations that apply to the commercial assets shall apply mutatis mutandis. The Bank, in particular, shall be allowed to restructure its mortgage assets via the following variations to the terms of existing mortgages i) a change of deal (e.g. by offering a new fixed rate); ii) transferring existing mortgages to new properties; and iii) transferring equity (e.g. adding a borrower to the mortgage or removing one. In exceptional and duly
justified circumstances, judgmental elements relevant for the decision but not included in the NPV calculation should be properly documented and assessed.

k) The bank shall price deposit contracted or renewed after the effective date (sight deposit, time deposit and certificates of deposit) as to align by 2021 the deposits rate to that of the banking system with a tolerance margin of [0-10] bps. In each year of the Restructuring Plan the Bank shall reduce its cost of deposits spread compared to that of the Italian banking system ([20-30] bps at 31/03/2017 based on ABI data), and it shall target a spread of [10-20] bps at end 2019 and of [10-20] bps at end 2020.

The bank shall not price credit or other loan business granted after the effective date below the market average of products with the same characteristic.

13) Provisions related to connected borrowers:

a) Within the Credit Policy, a specific section shall be devoted to the rules governing relations with connected borrowers. Connected borrowers include relevant employees (i.e. risk takers which are identified in the Bank’s Global Policy on related and connected parties in order to prevent conflict of interests and which are involved in the decision-making process of the Credit Policy), significant shareholders, directors or managers, as well as their spouses, children and siblings and any legal entity directly or indirectly controlled by relevant employees (as defined above), significant shareholders, directors or managers or their spouses, children and siblings. By extension, any public institution or government-controlled organization, any public company or government agency shall be considered as a connected borrower only for the purposes of the credit assessment and pricing policies. Political parties when receiving any loans or when their loans are subject to restructuring, shall also be treated as connected borrowers in the Credit Policy for the above purposes. Particular focus shall be on decisions regarding any restructuring and write downs of loans to relevant employees, directors, shareholders or managers and their relatives as well as policies followed in the appropriateness, valuation, registration of liens and foreclosure of loan collateral.

b) The credit assessment of the connected borrowers, as well as the pricing conditions and possible restructuring offered to them, shall not be more advantageous compared to conditions offered to similar but unconnected borrowers, in order to secure a level-playing field. If a comparable (similar but unconnected) borrower is not available, credit assessment as well as the pricing conditions and possible restructuring shall be performed/offered accordingly to Credit Policy (credit assessment and restructuring) and Commercial Policy (pricing conditions).

c) The restructuring of loans involving connected borrowers shall comply with the same requirements as for non-connected borrowers. However, it is expected that restructured loans of connected borrowers shall be reported separately, at least per loan asset class and connected borrower type.

14) Disposal of participations and businesses:

a) The Bank will divest at the very latest by […] the following participations and businesses.
i) Merchant acquiring business – by [...];
ii) Monte Paschi Banque – by [...];
iii) Banca Monte Paschi Belgio – [...].

b) If the Bank has not concluded a sales agreement for any of the participations mentioned in points ii) and iii) of the previous paragraph by the mentioned deadlines, the unsold subsidiary/subsidiaries shall not carry out activities other than those that are consistent with managing the work-out of loan book and all other assets with the view to orderly winding down the subsidiaries (including loan sales where appropriate to maximise recovery values and minimise capital losses). The unsold subsidiary/subsidiaries shall not develop any new activities and shall not enter new markets, with the exception of accepting new deposits from existing clients. The unsold subsidiary/subsidiaries shall conserve and use its banking licence only as long as necessary for the work-out of the loan portfolio and shall not use it to develop new activities.

c) The Bank will carry on a deleveraging of its leasing portfolio, which shall result in a decrease from EUR 3.7bn in 2016 to EUR 2.6bn by 31/12/2021.

15) **Closure of foreign branches:** the Bank shall close branches in New York, London and Hong Kong by [...]. The Bank shall take all the necessary steps to obtain the necessary regulatory approvals by the above mentioned deadline.

16) **Disposal of NPLs:** the Bank shall achieve de-recognition of EUR 26.1 billion GBV (value at 31/12/2016) bad loans portfolio within the timeframe of 30/06/2018 and as detailed in the Decision.

17) **Disposal of real estate:** without prejudice of what is set forth in the relevant terms and conditions the Bank shall unwind the closed real estate fund Perimetro Gestione Proprietà Immobiliari and any other existing closed real estate funds set up by the Bank by [...]. The Bank shall dispose of EUR 500 million of real estate properties by 31/12/2021.

18) **Disposal of non-core equity holdings:**
   c) The Bank shall do its best effort to sell the other minority stakes its holds during the restructuring period.

19) **Disposal of the art collection:** the Bank shall dispose all the artworks that form its art collection by the end of the restructuring period, provided that their sale complies
with the relevant provisions of Italian National Legislation […]. This commitment does not apply to the artworks under the “pertinenzialità” constraint or to any other provision or of the Italian National Legislation that restricts disposability.

20) **Separate management of Italy’s stake in State owned banks:** Italy shall ensure that each State-owned bank shall remain a separate economic unit with independent powers of decision within the meaning of the EC Merger Regulation and the Jurisdictional Notice. In particular, Italy commits that:

a) any confidential, commercially sensitive or personal information provided to government bodies and marked as such will be treated accordingly and not circulated to other banks and undertakings in which Italy has a stake;

b) Italy will manage and maintain its stake in the Bank separately from the management of its interests in any other bank in which it has a stake;

c) the exercise of any rights held by Italy and the management of Italy’s interests in any bank shall be on a commercial basis and shall not prevent, restrict, distort or significantly lessen nor impede effective competition. Any disposal of Italy’s shareholding must be conducted in a transparent, open and competitive process.

21) **Reduction of Italian sovereign bonds in the AFS category:** the outstanding nominal amount of Italian sovereign bonds held in the AFS balance sheet category will not exceed the following cap:

<table>
<thead>
<tr>
<th>Data in EUR billion</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian sovereign bonds in the AFS category</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
</tr>
</tbody>
</table>

22) **Financial markets / proprietary trading:**

a) Under no circumstances will the Bank carry out trading activities that will significantly increase the risk profile of the Bank. Specifically, the value at risk for market price changes of the overall trading portfolio (i.e. “trading book” as defined per article 4.1.86 of the Regulation (EU) no 575/2013 of the European parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms will not exceed Euro [15-25] million/daily and Euro [10-20] million/daily average, 99% confidence, where “daily average” means the daily average on any three-month rolling period. The monthly stop loss limit on proprietary trading is set at Euro [25-35] million.

b) The Bank's proprietary trading will be limited to liquid instruments. Liquid instruments are those with reliable quotes provided by a reasonable number of market participants (i.e. minimum 5) and that can be traded with small transaction costs (i.e. maximum bid / ask spread of […] % of notional).

c) A list of liquid instruments on which the Bank will be allowed to continue trading in the future under this commitment is set out in the Appendix B to this List of Commitments. The Bank may trade in those instruments provided that traded products are allowed only to the extent that their underlying reflects the aforementioned liquidity requirements under all circumstances. In addition, the Bank will not hold positions in instruments which are not in the scope of the Bank’s ordinary course of business or on derivatives having exotic underlying. Instruments traded will only feature a single layer of optionality (i.e. no
derivatives on derivatives (with the exception of swaptions) / structured products).

d) The Bank may ask for a revision of Value at Risk (VaR) and stop loss limit on proprietary trading in case of significant changes in market conditions. A change in market conditions is considered occurring when one of the conditions set below is met: (i) the value of the Eurostoxx 50 equity index changes by more than 10 per cent in a period of ten working days; (ii) the yield offered by the Buoni Ordinari del Tesoro with 6 months maturity changes by more than 100 basis points over a period of ten working days; (iii) the volatility of Euro interest rates, measured by the means of swaptions price on a 10 Fix for Variable Interest Rate Swap, increases by more than 10 per cent in a period of ten working days. In this case, the Monitoring Trustee will assess the Bank’s request and provide a comprehensive report that will be submitted for endorsement of Commission’s services.

23) Monitoring trustee: full and proper implementation of all commitments will be continuously and thoroughly monitored in detail by an independent (of the Republic and the Bank) Monitoring Trustee, that shall neither have nor become exposed to a conflict of interest and shall possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall not be subject to a conflict of interests throughout the exercise of his mandate. The Trustee shall be remunerated by the Bank in a way that does not impede the independent and effective fulfilment of its mandate and will be appointed by the Bank following endorsement of the trustee by the Commission (in line with a separate Agreement). The mandate will end when the restructuring period finishes.

24) Strengthening of the Bank’s capital position:
   a) The Bank shall issue by [...] a Tier 2 instrument with a total nominal value equal at least to EUR [...] billion and by [...] a Tier 2 instrument with a total nominal value equal at least to EUR [...] billion.
   
   b) The Bank shall sell all the senior mezzanine notes referred to the Decision to private parties. The sale process shall be launched no later than 1/1/2018 and completed by 30/6/2018, [...].

---

5 With the exception of the notes that have to be held by the Bank to comply with 5% risk retention regulatory requirement.
ANNEX TO COMMITMENT 9

Figures to be applied if the Foreign Banks (Monte Paschi France, Banca Monte Paschi Belgio) should not be divested by […]:

a) Number of branches in Italy: The number of branches in Italy shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of branches</td>
<td>[1,750 – 2,000]</td>
<td>[1,500 – 1,750]</td>
<td>1,432</td>
<td>1,432</td>
<td>1,432</td>
</tr>
</tbody>
</table>

b) Number of employees: The number of employees in the Bank (banking and non-banking activities) shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>[23,000 – 25,000]</td>
<td>[22,000 – 24,000]</td>
<td>[21,000 – 23,000]</td>
<td>[20,000 – 22,000]</td>
<td>[19,000 – 22,000]</td>
</tr>
</tbody>
</table>

c) Cost-to-income ratio: the cost to income ratio shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>C/I ratio</td>
<td>[60-70]%</td>
<td>[60-70]%</td>
<td>[55-65]%</td>
<td>[50-60]%</td>
<td>[45-55]%</td>
</tr>
</tbody>
</table>

d) Total Operating Costs (Personnel Expenses, Administrative Costs, Amortization and Depreciation): Total Operating Costs shall not exceed the following (with a tolerance margin of […]%)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Costs</td>
<td>[2,400 – 2,800]</td>
<td>[2,200 – 2,600]</td>
<td>[2,200 – 2,600]</td>
<td>[2,200 – 2,600]</td>
<td>[1,900 – 2,300]</td>
</tr>
</tbody>
</table>

e) Additional Cost Cutting

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Margin</td>
<td>[1,200 – 1,600]</td>
<td>[1,200 – 1,600]</td>
<td>[1,200 – 1,600]</td>
<td>[1,700 – 2,100]</td>
<td>[1,900 – 2,300]</td>
</tr>
</tbody>
</table>

ANNEX TO COMMITMENT 10

Figures to be applied if the Foreign Banks (Monte Paschi France, Banca Monte Paschi Belgio) should not be divested by […]:

a) The Bank shall bring its balance sheet below EUR 145 billion by the end of the restructuring period.

b) The net loans to deposit ratio (calculated on the basis of balance sheet item 70 of assets and items 20, 30 and 50 of liabilities) shall not exceed the following:

<table>
<thead>
<tr>
<th></th>
<th>31/12/2017</th>
<th>31/12/2018</th>
<th>31/12/2019</th>
<th>31/12/2020</th>
<th>31/12/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to</td>
<td>[95-105]%</td>
<td>[90-100]%</td>
<td>[85-95]%</td>
<td>[85-95]%</td>
<td>[80-90]%</td>
</tr>
</tbody>
</table>
ANNEX TO COMMITMENT 22
We hereby provide a list of liquid instruments on which the Bank is allowed to trade in the future, under the agreed commitment 22 (“Financial markets / proprietary trading”), provided that derivative instruments are allowed only to the extent that the concerned underlying reflects the liquidity requirements referred to in paragraph 22.1 and 22.2 of said commitment under all circumstances. No position will be allowed on products which are not used in the ordinary course of business.

Ordinary course of business includes: providing hedging products on FX and rates exposure for corporate clients having import/export business, hedging retail and institutional investment products distributed for Anima and Axa or other issuers through our retail network, providing liquidity on bonds/notes sold by the Bank to its client base or sold to the Bank by its clients in which case the Bank would close the resulting position very shortly, always within the limitation in terms of VaR, risk and liquidity provided in commitment 22.

**Interest rate/inflation:**

Products allowing linear exposure: futures, forwards, swaps

Products allowing convex/volatility exposure: swaptions, caps/floors, futures options

**FX:**

Products allowing linear exposure: futures, forwards, swaps

Products allowing convex/volatility exposure: plain vanilla and barrier options

**Equity and equity indexes:**

Products allowing linear exposure: cash equities, futures, forwards, swaps

Products allowing convex/volatility exposure: plain vanilla and barrier options, variance swaps

**Credit and credit indexes:**

Products allowing linear exposure: cash bonds, forwards, CDS on single names and CDS leading indices to be listed and updated with the agreement of the Trustee

Products allowing convex/volatility exposure: bond options, credit options on leading indices to be listed and updated with the agreement of the Trustee

**Commodities:**

Products allowing linear exposure: futures, forwards, swaps

Products allowing convex/volatility exposure: plain vanilla options