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BANCA MONTE DEI PASCHI DI SIENA S.P.A.
EXTRAORDINARY SHAREHOLDERS' MEETING
4 October 2020 (single call)
EXPLANATORY REPORT OF THE BOARD OF DIRECTORS
ON ITEMS 2 AND 3 ON THE AGENDA

Report on the proposed partial non-proportional demerger of Banca Monte dei Paschi di Siena S.p.A. in favour of AMCO – Asset Management Company S.p.A., in accordance with Articles 2501-*ter* and 2506-*bis* of the Italian Civil Code, with the granting of an asymmetric option to the shareholders of Banca Monte dei Paschi di Siena S.p.A. other than the Italian Ministry of Economy and Finance and the related and consequent amendments to the Articles of Association.

(drafted in accordance with Articles 2506-*ter* and 2501-*quinquies* of the Italian Civil Code and Article 125-*ter* of Legislative Decree no. 58 of 24 February 1998 and Articles 70 and 72 of the regulation adopted by Consob with resolution no. 11971 of 14 May 1999, as subsequently supplemented and amended, as well as in compliance with model 1 and model 3 of Annex 3A of the same regulation adopted by Consob)



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REPORT OF THE BOARD OF DIRECTORS IN ACCORDANCE WITH ARTICLES 2506-TER AND 2501-QUINQUIES OF THE ITALIAN CIVIL CODE AND IN ACCORDANCE WITH ARTICLES 70 AND 72 OF THE REGULATION ADOPTED BY CONSOB WITH RESOLUTION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED, AS WELL AS IN COMPLIANCE WITH MODEL 1 AND MODEL 3 OF ANNEX 3A TO THE SAME REGULATION ADOPTED BY CONSOB, ON ITEMS 2 AND 3 OF THE AGENDA: on the plan for the partial non-proportional demerger in accordance with Articles 2501-ter and 2506-bis of the Italian Civil Code of Banca Monte dei Paschi di Siena S.p.A. in favour of AMCO – Asset Management Company S.p.A. with the granting of an asymmetric option to the shareholders of Banca Monte dei Paschi di Siena S.p.A. other than the Italian Ministry of Economy and Finance and on the related and consequent amendments to the Articles of Association.

Dear Shareholders,

This report explains, from a legal and economic point of view, the plan for the partial non-proportional demerger of Banca Monte dei Paschi di Siena S.p.A. (“**MPS**”, the “**Bank**” or the “**Demerged Company**”) in favour of AMCO – Asset Management Company S.p.A. (“**AMCO**” or the “**Beneficiary Company**”), with the granting to shareholders of the Bank other than the Italian Ministry of Economy and Finance (the “**MPS Majority Shareholder**”) of an asymmetric option whereby they will be given the right not to be allocated AMCO shares and to maintain their shareholding in the Bank unchanged, increasing (in percentage terms), as better indicated below, their shareholding in the share capital of MPS.

More specifically, this report sets out the details of the demerger plan approved by the Boards of Directors of the Bank and of the Beneficiary Company on 29 June 2020 (the “**Demerger Plan**”), in compliance with the provisions of Articles 2506-ter and 2501-quinquies of the Italian Civil Code and Article 70, paragraph 2, of the regulation approved by Consob resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented (the “**Issuers’ Regulation**” or “**IR**”), as well as Model 1 of Annex 3A of such Issuers’ Regulation.

In addition, this report illustrates the proposals to amend Article 6 of the Bank’s Articles of Association relating to the structure of the share capital as a result of the Demerger (as defined below), which are submitted for approval to the Extraordinary Shareholders’ Meeting, in accordance with the provisions of Article 72, paragraph 1, of the Issuers’ Regulation, as well as with Model 3 of Annex 3A to such Issuers’ Regulation.

INTRODUCTION

The transaction described below consists in a partial non-proportional demerger (the “**Demerger**” or the “**Transaction**”), on the basis of which the Demerged Company will assign to the Beneficiary Company a portion of the Bank’s assets and liabilities consisting of certain financial asset and liability items (the Demerged Compendium, as defined in Paragraph 4 below). The shareholders of the Demerged Company will be allocated newly issued class B shares of the Beneficiary Company (the “**AMCO B Shares**”) in exchange for the cancellation of the Company’s shares to an extent that is not proportional to their shareholding in the Demerged Company on the effective date of the Demerger, according to the criteria described in this report (in this respect, please see Paragraph 7.2 below). MPS’ shareholders, other than the MPS Majority Shareholder, and including MPS as owner of its treasury shares (the “**MPS Minority Shareholders**”) will however have the right not to be allocated the aforesaid AMCO B Shares and to maintain their shareholding in MPS unchanged, which, as a result, would increase in percentage terms (the “**Asymmetric Option**”). In the latter case, the AMCO B Shares that are not allocated to the MPS Minority Shareholders will increase the AMCO B Shares due to the MPS Majority Shareholder, against: (i) the increase of the number of MPS Ordinary Shares (as defined below) owned by the MPS Majority Shareholder that will be cancelled and (ii) the ensuing increase in percentage terms of the shareholding of the MPS Minority Shareholding in the Bank (in this respect, please see Paragraph 3.3 below).

On 30 June 2020, the Demerged Company and the Beneficiary Company entered into an agreement containing representations and warranties in relation to the Demerged Compendium, as defined in Paragraph 4 below, and by which the parties intended to govern and regulate, among other things, the preparatory and instrumental activities for the implementation of the Demerger (the “**Framework Agreement**”).



1. COMPANIES PARTICIPATING IN THE DEMERGER

1.1 Demerged Company

1.1.1 Company information

Banca Monte dei Paschi di Siena S.p.A., a “*società per azioni*” (joint-stock company incorporated under Italian law) with registered office at Piazza Salimbeni 3, 53100 Siena, Italy, fully paid up share capital at the date of this report of EUR 10,328,618,260.14, tax code and registration number with the Arezzo-Siena Companies’ Register 00884060526, MPS VAT Grouping VAT number 01483500524.

The share capital of the Demerged Company is divided into 1,140,290,072 ordinary shares (the “**MPS Ordinary Shares**”), traded on the *Mercato Telematico Azionario* (Italian Equities Market) (MTA) organised and managed by Borsa Italiana S.p.A. (ISIN code: IT0005218752). Based on the information received from the Demerged Company in accordance with the applicable regulations on the transparency of the shareholding structure, the following parties have significant shareholdings in the Demerged Company’s share capital:

- (a) Italian Ministry of Economy and Finance: 68.247%; and
- (b) Assicurazioni Generali S.p.A. (through subsidiaries): 4.319%.

At the date of this report, the Demerged Company holds a total of 36,280,748 ordinary treasury shares (the “**Existing Treasury Shares**”), of which 21,511,753 are held directly by the Bank (representing 1.89% of the share capital) and 14,768,995 are held indirectly through the subsidiary MPS Capital Services Banca per le Imprese S.p.A. (“**MPS CS**”), representing a total of 3.18% of the share capital.

1.1.2 Corporate purpose

The corporate purpose of MPS is the collection of savings and the granting of credit in its various forms in Italy and abroad. In compliance with the regulations in force, the Bank may carry out all banking and financial transactions and services allowed, establish and manage supplementary pension schemes as well as carry out any other transaction which is instrumental for or connected with the pursuit of the corporate purpose. The Bank may make cash advances against the pledge of precious objects or commonly used articles.

1.1.3 Board of Directors

The Board of Directors of MPS currently in office, composed of 15 members, was appointed by the Shareholders’ Meeting of 18 May 2020 and will remain in office until the date of the Shareholders’ Meeting called to approve the financial statements for the year ended 31 December 2022. At the date of this report, the Board of Directors of MPS is composed of the following members:

Name	Office
Maria Patrizia Grieco (2)	Chairperson
Guido Bastianini	Chief Executive Officer and General Manager
Francesca Bettio (1)	Deputy Chairperson
Rita Laura D’Ecclesia (1)	Deputy Chairperson
Luca Bader (1)	Director
Alessandra Giuseppina Barzaghi (1)	Director



Marco Bassilichi ⁽²⁾	Director
Francesco Bochicchio ⁽¹⁾	Director
Rosella Castellano ⁽¹⁾	Director
Olga Cuccurullo	Director
Paola De Martini ⁽¹⁾	Director
Raffaele Di Raimo ⁽¹⁾	Director
Marco Giorgino ⁽¹⁾	Director
Nicola Maione ⁽¹⁾	Director
Roberto Rao ⁽¹⁾	Director

⁽¹⁾ Independent Director in accordance with Articles 147-ter and 148, paragraph 3 of the Italian Consolidated Law on Finance (as defined below), as well as Article 3 of the code of conduct for listed companies currently in force, drafted and approved by the Corporate Governance Committee (the “**Corporate Governance Code**”).

⁽²⁾ Independent Director in accordance with Articles 147-ter and 148, paragraph 3, of the Italian Consolidated Law on Finance (as defined below).

1.1.4 Committees of the Board of Directors

The committees set up within the MPS’ Board of Directors are the Nominations Committee, the Remuneration Committee, the Risk and Sustainability Committee and the Related Party Transactions Committee. More specifically:

- the Nominations Committee is composed of 5 independent directors: Nicola Maione (Chairperson), Luca Bader, Rosella Castellano, Marco Giorgino and Roberto Rao. The Committee assists the Board of Directors in the following processes: (i) director nominations, recommending candidates for the office of director in the case of co-optation; (ii) self-assessment of corporate bodies; (iii) verifying requirements of corporate officers; (iv) succession planning; (v) appointment of members to the Executive Committee (if established) and appointment of the Chief Executive Officer;
- the Remuneration Committee is composed of 5 directors, the majority of whom are independent: Raffaele Di Raimo (Chairperson), Luca Bader, Alessandra Giuseppina Barzaghi, Marco Bassilichi and Paola De Martini. The Committee is responsible for (i) submitting proposals to the Board of Directors for the remuneration of the Chief Executive Officer and other directors holding particular offices, as well as the General Manager; (ii) periodically evaluating the guidelines adopted for the remuneration of key management personnel, also formulating general recommendations on the subject; and (iii) monitoring the application of the above-mentioned decisions taken by the Board of Directors on remuneration;
- the Risk and Sustainability Committee is composed of 5 directors, the majority of whom are independent: Marco Giorgino (Chairperson), Rosella Castellano, Olga Cuccurullo, Rita Laura D’Ecclesia and Raffaele Di Raimo. The Committee has the task of supporting the Board of Directors with regard to: (i) governance and risk management and the internal control system; (ii) sustainability; and (iii) approval of periodic reports of a financial and non-financial nature;
- the Related Party Transactions Committee is composed of 5 independent directors: Roberto Rao (Chairperson), Alessandra Giuseppina Barzaghi, Francesca Bettio, Francesco Bochicchio and Paola De Martini. The Committee has the task of supporting the Board of Directors and the other relevant functions and/or corporate bodies in transactions with related parties, as well as in risk activities and conflicts of



interest with connected persons, in compliance with the provisions laid down by the Bank of Italy in force at the time.

1.1.5 Chief Financial Reporting Officer

Nicola Massimo Clarelli, Head of the Administration and Accounts Area, acts as the Chief Financial Reporting Officer of the Bank.

1.1.6 Board of Statutory Auditors

MPS' Board of Statutory Auditors, appointed by the Shareholders' Meeting of 18 May 2020, shall remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2022. At the date of this report, the Board of Auditors is composed of the following members:

Name	Office
Enrico Ciai	Chairperson
Luigi Soprano	Standing Auditor
Alessia Bastiani	Standing Auditor
Lorenzo Chieppa	Alternate Auditor
Piera Vitali	Alternate Auditor

1.2 Beneficiary Company

1.2.1 Company information

AMCO – Asset Management Company S.p.A., a “*società per azioni*” (a joint-stock company incorporated under Italian law) with registered office at Via Santa Brigada, 39, 80133 Naples, Italy, and general management at Via del Lauro 5-7, 20121 Milan, Italy, fully paid-up share capital of EUR 600,000,000.00, tax code, VAT number and registration number with the Naples Companies' Register 05828330638, Economic and Administrative Index no. 458737.

The share capital of the Beneficiary Company, divided into 600,000,000 ordinary shares without par value, is wholly owned by the Italian Ministry of Economy and Finance.

1.2.2 Corporate purpose

The corporate purpose of AMCO is the purchase and management of non-performing exposures and relationships originating from: (i) banks registered in the register referred to in Article 13 of Italian Legislative Decree no. 385 of 1 September 1993 (the “**TUB**”); (ii) companies belonging to banking groups registered in the register referred to in Article 64 of the TUB; and (iii) financial intermediaries registered in the register referred to in Article 106 of the TUB, even if they do not belong to a banking group (the “**Banks and Intermediaries**”).

Furthermore, AMCO may: (i) acquire shareholdings and other financial assets having as underlying receivables originated by the Banks and Intermediaries, as well as units of closed-end investment funds, reserved to professional investors; (ii) provide financing, directly or indirectly, to debtors assigned to AMCO or managed by AMCO itself, as well as to vehicles or collective investment undertakings having as underlying receivables originated by the Banks and Intermediaries; and (iii) carry out financial and operating leasing and rental activities.

The purpose of the Beneficiary Company is also the management and judicial and extra-judicial recovery on behalf of



third parties of non-performing exposures and relationships with the Banks and Intermediaries.

The Beneficiary Company may: (i) perform, with respect to the transferred debtors, trading services and activities on behalf of customers and execution of orders on behalf of customers, in each case limited to derivative financial instruments, as well as (ii) issue bonds in accordance with the applicable laws and regulations in force at the time.

AMCO may also carry out all management transactions that are necessary or instrumental to the achievement of the corporate purpose, in compliance with the applicable laws and regulations in force at the time.

1.2.3 Board of Directors

AMCO's Board of Directors currently in office, composed of 3 directors, was appointed by the Shareholders' Meeting of 20 April 2020 and will remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2022. At the date of this report, the AMCO Board of Directors is composed of the following members:

Name	Office
Stefano Cappiello	Chairman
Maria Natale	Chief Executive Officer and General Manager
Domenico Iannotta	Director

1.2.4 Chief Financial reporting officer

Silvia Guerrini acts as Chief Financial Reporting Officer of the Beneficiary Company.

1.2.5 Board of Statutory Auditors

AMCO's Board of Statutory Auditors, appointed by the Shareholders' Meeting of 2 August 2018, shall remain in office until the date of the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2020. At the date of this report, the Board of Statutory Auditors is composed of the following members:

Name	Office
Giampiero Riccardi	Chairman
Giuseppa Puglisi	Standing Auditor
Giovanni Battista Lo Prejato	Standing Auditor
Delia Guerrera	Alternate Auditor
Maurizio Accanno	Alternate Auditor

2. DESCRIPTION OF THE ACTIVITIES PERFORMED BY THE COMPANIES PARTICIPATING IN THE DEMERGER

2.1 Demerged Company

MPS operates, also through its subsidiaries, in the various segments of banking and financial activities, from traditional banking to special credit, asset management, bancassurance and investment banking. It performs direction,



coordination and control functions for the companies of the Monte dei Paschi di Siena Group, within the framework of the general guidelines defined by the Board of Directors of MPS, in compliance with the instructions issued by the Bank of Italy, and in the interest of the stability of the Monte dei Paschi di Siena Banking Group.

2.2 Beneficiary Company

AMCO is a full credit management company that exercises financial brokerage activities and one of the leading operators specialised in the management and recovery of non-performing exposures, particularly the “gone concern” loans (non-performing loans – NPL) and the “going concern” loans (unlikely to pay – UTP and past due – PD), through a management model aimed at standardising the financial situation of counterparties. As at 31 December 2019, AMCO managed a portfolio of EUR 23.8 billion of non-performing exposures.

3. EXPLANATION AND REASONS FOR THE DEMERGER

3.1 Reasons for the Demerger and related amendments to the Articles of Association, with particular regard to the management objectives of the companies participating in the Demerger and the plans formulated to achieve them

The Transaction is part of the wider de-risking project approved by the relevant Authorities in the context of the 2017-2021 Bank’s restructuring plan and launched by the Bank to divest its portfolio of non-performing exposures to allow for a benefit in the medium-term in terms of improved capital ratios and, as soon as the Demerger is finalised and effective, to reduce the Italian Ministry of Economic and Finance’s (“MEF”) shareholding in the Bank in compliance with the Bank’s commitments to the Directorate General for Competition of the European Commission (“DG Comp”).

Although the Transaction involves an initial reduction in the Bank’s capital ratios (due to the allocation to AMCO of the portion of share capital included in the Demerged Compendium and the consequent reduction in the Bank’s own funds), it is expected to have a positive impact on forecasted profitability, allowing the progressive realignment of its capital ratios, but, above all, it allows the de-risking process to be achieved through the de-recognition of the majority of the non-performing exposures that it still owns. Indeed, the Transaction represents an important opportunity for MPS to significantly reduce the group’s credit risk, aligning it to the best standards on the Italian market, while seizing the opportunity to provide actual prospects of a return to profitability.

Specifically, from a profit standpoint, the Transaction will allow, on the one hand, an improvement in the cost of the Bank’s funding, as a result of the potential improvement in the rating resulting from the reduced credit risk and, on the other hand, a reduction in provisions for loans due to the improved quality of the portfolio.

Lastly, in confirmation of the Bank’s interest in and opportunity to carry out the Transaction, with particular reference to its effects on the minimum requirement for own funds and eligible liabilities (MREL), the current funding plan ensures the Bank’s compliance with the MREL targets in 2022.

From the point of view of the Bank’s balance sheet position and the corresponding needs and strategies for improving the related capital ratios, MPS data as at 31 December 2019 has improved with respect to the targets set out in the 2017-2021 restructuring plan. However, given the current market context, the increasingly strict requirements of the European Central Bank (“ECB”) in terms of reducing the stock of non-performing exposures and the commitments undertaken in the restructuring plan, make it more appropriate than ever to significantly reduce the effect of non-performing exposures, with the aim of accelerating the de-risking process and thus increasing the MPS’ attractiveness on the market, both in terms of re-rating of the security and access to the capital market and, in the future, the divestiture of the Bank’s controlling interest held by the MEF.

In addition to the above, as a result of the de-risking, the Bank is not expected to deal with the impact on prudential adjustments in 2022 due to the application of calendar provisioning on the portfolio covered by the Demerger, which would, moreover, have increasingly significant impacts in subsequent years, especially in light of the recent worsening of the macroeconomic scenario.

It is expected that, once the Demerger has been completed, the Monte dei Paschi di Siena Group will be able to focus its management activities on its core business and, specifically, on the development and growth of its commercial banking, continuously focusing on operational efficiency, and benefiting, as already mentioned, from a lower cost of



funding and a reduction of provisions for receivables due to the improved quality of the portfolio. Consistently with MPS' strategy implemented in recent years, MPS plans to focus its commercial efforts on retail and small business customers, using a simple service model characterised by a high level of digitalisation, while monitoring credit quality thanks to credit risk management processes.

Proposals for amendments to the Bank's Articles of Association have been submitted for approval to the Extraordinary Shareholders' Meeting. Said amendments only affect Article 6 of the Articles of Association and are intended to reflect the effects of the Demerger on the share capital, consisting of reducing its total amount and the number of MPS Ordinary Shares into which it is divided. For further information on the proposed amendments to the Articles of Association, please refer to Chapter 12.1 of this Report.

3.2 Explanation of the Demerger

The Transaction consists in a partial non-proportional demerger of MPS in favour of AMCO. The Demerger will be implemented through the assignment to the Beneficiary Company of a portion of the assets and liabilities of the Demerged Company – as identified in Paragraph 4 – with the allocation to the shareholders of the Demerged Company of AMCO B Shares, in exchange for the cancellation of part of the shareholding respectively held in MPS, applying the Exchange Ratio referred to in Paragraph 7.2 below. More specifically, shareholders of the Demerged Company will be allocated the AMCO B Shares for an amount that is not proportional to their shareholding in the Demerged Company, according to the criteria described in this report (in this respect, please see Paragraphs 7 and 8 below).

More precisely, (i) the MPS Majority Shareholder shall be assigned a number of AMCO B Shares equal to approximately 90% of the AMCO B Shares to be issued and, therefore, more than proportional with respect to the shareholding held by the latter in the Demerged Company, while (ii) the MPS Minority Shareholders (including MPS as owner of treasury shares) shall be allocated a number of AMCO B Shares equal to approximately 10% of the total issuance and, therefore, less than proportional with respect to the shareholding that such shareholders hold in the Demerged Company (respectively, the “**MEF Distribution Ratio**” and the “**Minority Shareholders Distribution Ratio**” and, jointly, the “**Distribution Ratios**”), with the exception of the Asymmetric Option and the Right to Sell as well as the Right of Withdrawal (as defined below), referred to in Paragraphs 3.3, 9 and 10.

The AMCO B Shares shall be issued as part of a capital increase transaction aimed for this purpose through the issue of a maximum of 55,153,674 B Shares; the resolution for the capital increase shall be passed by the same Shareholders' Meeting called to resolve upon the Demerger Plan.

The AMCO B Shares that will be allocated to MPS shareholders will have the same rights as those of the ordinary shares of AMCO that are already issued, with the exception of the voting rights at the ordinary and extraordinary shareholders' meeting of AMCO shareholders. The AMCO B Shares, like AMCO ordinary shares that are already issued, are not and will not be traded on any regulated market or multilateral trading facility.

Considering that a Bank, namely, Banca Monte dei Paschi di Siena S.p.A., is a party to the Demerger, the authorisation procedure set forth by Article 57 of the TUB and detailed by the Bank of Italy Circular no. 229 of 21 April 1999 concerning the demerger transactions involving banks and, insofar as necessary, by Articles 56 and 61 of the TUB, has been applied. In addition, also the authorisation procedure for the reduction of own funds, in accordance with Articles 77 and 78 of Regulation (EU) no. 575/2013 (“**CRR**”), for the potential purchase of MPS shares for which the Right of Withdrawal or Right to Sell has been applied.

On 9 June 2020, the Court of Naples appointed Covino & Partners STP a r.l. – Roma as a joint expert (the “**Expert**”) in accordance with Article 2501-*sexies*, paragraph 4, of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, for the purpose of preparing the report on the fairness of the Exchange Ratio of the Demerger.

On 29 June 2020, the Demerger Plan, together with the annexes that form an integral part thereof, was approved by the Boards of Directors of MPS and AMCO. On 30 June 2020, it was filed with the registered offices of MPS and AMCO, in accordance with Article 2501-*quater*, paragraph 2, of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code. On 29 June 2020, the Expert finalised and delivered its report to the Boards of Directors of MPS and AMCO.

On 2 September 2020, the European Central Bank issued its authorisation. The contents of this measure are referred



to in Paragraph 3.4 below.

Therefore, on 3 September 2020, the companies participating in the Demerger filed and registered the Demerger Plan with the relevant Companies' Registers in accordance with the law, as set forth in Article 2501-*ter* of the Italian Civil Code.

In accordance with Article 2501-*septies* of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, the following documents are made available to MPS and AMCO shareholders at their relevant registered offices, on their websites and also in the manner described in Article 70 of the Issuers' Regulation, complying with the term of 30 days prior to the date of the relevant Shareholders' Meetings called to approve the Demerger: (i) the Demerger Plan, together with this report and the Expert's report on the fairness of the Exchange Ratio; (ii) the financial statements of MPS and AMCO relating to the last three financial years, together with the reports of the management body and the external auditors.

The Extraordinary Shareholders' Meeting of MPS called to approve the Demerger is convened for 4 October 2020, while the Extraordinary Shareholders' Meeting of AMCO will be held on a date close to that indicated above, which will be determined and communicated in due time.

The term of fifteen days within which MPS shareholders who are entitled to exercise the Right of Withdrawal, the Right to Sell or the Asymmetric Option (as illustrated in Paragraphs 3.3, 9 and 10 below) shall run as from the date on which the resolutions of the abovementioned Shareholders' Meetings are registered with the competent Companies' Registers.

3.3 Explanation of the Asymmetric Option

As indicated in the Introduction, MPS shareholders other than the MPS Majority Shareholder (including MPS as owner of treasury shares) shall be granted the Asymmetric Option, which, if exercised, will allow them not to be allocated AMCO B Shares, but to maintain their shareholding in MPS unchanged, which – as a result – would increase in percentage terms.

More precisely, as a result of exercising the Asymmetric Option: (i) MPS Minority Shareholders (including MPS as owner of treasury shares) would keep the same number of shares currently held in MPS; (ii) this would lead to an increase in the number of AMCO B Shares allocated to the MPS Majority Shareholder (for a number equal to those that would have been allocated to the MPS Minority Shareholders if they had not exercised the Asymmetric Option); and (iii) therefore, the relevant number of MPS Ordinary Shares held by the MPS Majority Shareholder determined on the basis of the Exchange Ratio in accordance with the provisions of Paragraph 7.2 below would be cancelled (for a number equal to those that would have been cancelled to the MPS Minority Shareholder if they had not exercised the Asymmetric Option). Consequently, the percentage of shareholding in the share capital of the Demerged Company held by the MPS Minority Shareholders who exercised the Asymmetric Option would be increased, without prejudice to their number of MPS Ordinary Shares.

It should be noted that the Asymmetric Option may be exercised by each MPS Minority Shareholder only concerning its entire shareholding in MPS and not only part of it. The Asymmetric Option may be exercised according to terms and conditions that will be notified by MPS in a subsequent press release. With regard to the MPS shares for which the Right of Withdrawal or the Right to Sell has been exercised and which have been placed with shareholders of the Demerged Company or third parties in the Offer Procedure (as defined below), such parties may exercise the Asymmetric Option, as an alternative to holding the aforementioned shares in the exchange transactions with AMCO B Shares, in accordance with the terms and conditions to be communicated in a subsequent press release.

The exercise of the Asymmetric Option is irrevocable.

It should be noted that those who have exercised the Asymmetric Option may not also exercise the Right of Withdrawal and/or the Right to Sell and that the Shareholders who have exercised the Right to Sell or the Right of Withdrawal (as respectively defined below) may not exercise the Asymmetric Option.

MPS will exercise the Asymmetric Option with regard to both the Existing Treasury Shares and the additional MPS Ordinary Shares that the latter may purchase as a result of the procedure for the exercise of the Withdrawal Right or the Right to Sell, insofar as they are not placed with shareholders or third parties (the “**Any Remaining Shares**”),



consequently retaining the same in the portfolio without being allocated the AMCO B Shares, it being understood that – limited to Any Remaining Shares – they will be subject to cancellation after the Demerger Effective Date (as defined below) in accordance with the provisions of the Article 2437-*quater*, paragraphs 6 and 7 of the Italian Civil Code.

3.4 Conditions Precedent

The effectiveness of the Demerger is subject to the fulfilment of the following conditions by 1 December 2020:

- a) the effectiveness of the MPS CS Demerger (as defined below) and the consequent transfer to MPS of the assets and liabilities that will be part of the Demerged Compendium (the “**Intra-group Demerger Condition Precedent**”);
- b) the provision of funding deriving from the MPS Financing (as described below) by the Financing Banks (as defined below), as well as the issuance of the letter of consent by the Financing Banks to the transfer of the MPS Financing to AMCO as a result of the Demerger, in accordance with the terms and conditions of the loan agreement, and the delivery of irrevocable instructions to release the cash collateral pledged by MPS to guarantee repayment of the MPS Financing, to be performed at the time in which the Demerger becomes effective (the “**Financing Condition Precedent**”);
- c) the circumstance that, at the end of the Offer Procedure (as defined below), the value of Any Remaining Shares (*i.e.*, the shares of MPS for which the Right of Withdrawal or the Right to Sell has been exercised and which have not been placed with shareholders or third parties and which must therefore be purchased by MPS) does not exceed a total of Euro 150 million (the “**Maximum Expenditure Condition Precedent**”).

The Intra-group Demerger Condition Precedent, the Financing Condition Precedent and the Maximum Expenditure Condition Precedent are jointly defined as the “**Conditions Precedent**”.

With reference to the Intra-group Demerger Condition Precedent, it should be noted that a portion of the assets and liabilities and legal relationships that will be part of the Demerged Compendium (as better described in Paragraph 4) – are currently owned by MPS CS, a wholly owned subsidiary of MPS. Such assets and liabilities and legal relationships will be included in the Demerged Compendium as a result of a partial proportional demerger of MPS CS in favour of MPS in accordance with Article 2505, paragraph 1, of the Italian Civil Code, as referred to in Article 2506-*ter*, paragraph 5, of the Italian Civil Code (the “**MPS CS Demerger**”) which will become effective before the Demerger. More specifically, on 29 June 2020, the Board of Directors of MPS and MPS CS approved the project relating to the MPS CS Demerger. The Shareholders’ Meeting of MPS that will express its opinion on the Demerger transaction will also be called to resolve upon the MPS CS Demerger.

With reference to the Financing Condition Precedent, it is expected that the Demerged Compendium will include liabilities arising from a bridge loan for an amount of EUR 3,179,187,010 (the “**MPS Loan**”). For further information, please refer to Paragraph 4 below.

Finally, with regard to the Maximum Expenditure Condition Precedent, it should be noted that it may be waived by the Demerged Company at its sole discretion.

It should also be noted that in the measure issued on 2 September 2020, the ECB authorised the Demerger but made this authorisation and therefore the completion of the Transaction, subject to the occurrence of following events:

- A. that the Demerged Company, prior to the Demerger Effective Date (as defined below), (i) issues, at market conditions, subordinated instruments for at least EUR 250 million, that are eligible for inclusion in the base Tier 2 capital for the full nominal amount in accordance with Article 63 of Regulation (EU) no. 575/2013 or (ii) provide the European Central Bank with adequate evidence of a binding commitment by one or more investors of adequate standing (including, where appropriate, any public body or affiliated entity) to subscribe to Tier 2 by 31 December 2020;
- B. that – at the Demerger Effective Date (as defined below) – a law-decree or legislative decree or ordinary law is in force (i) providing for the allocation of public funds required for the subscription of capital instruments issued at market conditions by any Italian company whose shareholding is publicly held (it being understood that capital instruments are subordinate instruments that are eligible as supplementary Tier 1 and Tier 2);



- (iii) under which MPS is eligible for recapitalisation and (iii) which allows the Italian Ministry of Economy and Finance to subscribe, within the limits of the public funds set aside, up to 70% of the amount of the capital instruments issued by MPS in order to re-establish regulatory compliance with the applicable overall capital requirements. It being understood that at least 30% of the relevant amount must be subscribed by private investors;
- C. that MPS will provide the ECB, prior to the Demerger Effective Date (as defined below), with at least three comfort letters issued by as many investment banks no later than 20 calendar days prior to the effective date of the Demerger, confirming that, according to their respective analyses and estimates, the Demerged Company would be reasonably able to obtain that private investors subscribe at least 30% of supplementary Tier 1 instruments potentially issued by MPS. It being understood that each investment bank will determine this amount in good faith according to the best professional standards and on the basis of all information available to it;
- D. that the Extraordinary Shareholders' Meeting of MPS approve the amendments to the Articles of Association that are necessary in order to implement the Demerger.

Therefore, the Demerger will only become effective following (i) the fulfilment of the Condition Precedents; (ii) the occurrence of the events indicated in points A. to D. above and (iii) the relevant verification by the Board of Directors.

In this regard, it should be noted that on 3 September 2020, MPS announced that it had placed a fixed-rate subordinated Tier 2 bond issue with a 10-year maturity (that can be redeemed early after 5 years from the issue, at the option of the issuer, subject to regulatory approval) aimed at institutional investors, for an amount of EUR 300 million.

3.5 The Framework Agreement

The demerger framework agreement, signed on 30 June 2020 between MPS and AMCO (the “**Framework Agreement**”) governs various aspects ancillary to the Demerger, including, specifically, the representations and warranties (and related indemnity obligations), the activities to be carried out for the Demerger to become effective, the related conditions precedent, as well as, in relation to the credits portfolio included in the Demerged Compendium, the commitments relating to the related transfer and litigation management.

The Framework Agreement expressly provides that the completion of the Demerger shall be subject to the fulfilment of the Conditions Precedent indicated in Paragraph 3.4 above.

With reference to the period between the signing date of the Framework Agreement and the Demerger Effective Date (as defined below), MPS and AMCO have undertaken (i) to provide full and timely information, providing any necessary clarification or document to the other party of any material facts, events or circumstances, namely, such as to have a significant impact on the valuations used to determine the Exchange Ratio, if they occur after the signing date; (ii) not to carry out any act or transaction that could appreciably affect the terms under the Demerger Plan or prejudice the performance of the obligations under the Framework Agreement.

MPS and AMCO have reciprocally undertaken indemnity commitments (also in relation to actual and potential tax liabilities, to which the joint and several tax liability regime under Article 173, paragraph 13, of the Italian Consolidated Income Tax Law (TUIR) applies) arising from third party claims with reference, as the case may be, to legal relationships, assets or liabilities to be transferred to AMCO or are not included in the demerged compendium. The Demerged Company has also undertaken to indemnify and hold the Beneficiary Company harmless from any current or potential tax liability, in relation to which the joint and several liability tax regime under Article 173, paragraph 13 of the TUIR shall apply.

As is customary in this type of transaction, the Framework Agreement contains a set of representations and warranties (“**R&Ws**”) made by MPS to AMCO, specifically with respect to the asset and liability components of the Demerged Compendium, providing for indemnities due in the event of breach.

The R&Ws cover receivables, contracts, guarantees (particularly voluntary mortgages over real estate) and financial instruments that will be covered by the demerger (including those currently owned by MPS CS, that will be covered by the demerger from MPS CS to MPS).



With regard to the indemnity provisions, MPS shall indemnify AMCO for damages suffered by the latter as a direct consequence of the untruthfulness of the R&Ws up to certain caps and in any case with the application of an allowance calculated on the “Individual Allocated Values”.

The Framework Agreement also regulates any changes in the demerged compendium that may arise between 31 December 2019 and the Demerger Effective Date (as defined below). More specifically, the Framework Agreement provides that in the case of any changes to the Demerged Compendium’ overall value represented by receivables, preference will be given to replacement with another equivalent receivable and, only if such replacement is impossible, will it be replaced by cash. To this end, MPS will submit to AMCO the receivable(s) offered as replacement, whose Individual Allocated Value (as defined in the Framework Agreement) must be equal to that of the receivable(s) to be replaced. These new receivables will be subject to the representations and warranties and the indemnity procedure provided for in the Framework Agreement.

In addition, both parties are entitled to withdraw if, for any reason whatsoever, the changes to be made to the Demerged Compendium affect the fairness of the Exchange Ratio or in any case have a material and unforeseen impact on one of the parties’ equity ratios.

Lastly, since the Demerged Compendium also includes the compendium assigned to MPS through the MPS CS Demerger, on 30 June 2020 an agreement was signed between MPS and MPS CS by virtue of which, among other things, the latter shall indemnify the Bank for any economic consequences that the latter may incur in the event of breach of the representations and warranties contained in the Framework Agreement concerning the receivables owned by MPS CS that will be transferred to MPS and, from the latter, to AMCO in the context of the Demerger.

3.6 The Demerger as a transaction between related parties

The Demerger qualifies as a “transaction of greater importance with a related party” within the meaning of the regulation on related party transactions approved by Consob with resolution no. 17221 of 12 March 2010 and subsequent amendments and additions (the “**RPT Regulation**”) and of the “*Group directive on the management of related parties, connected parties and banking obligations*” approved by the Board of Directors of the Bank and last updated on 19 December 2019, since MPS and AMCO are companies that are subject to the common control of the Italian Ministry of Economics and Finance.

MPS’ Related Parties Committee has been repeatedly involved with preliminary disclosure on the Transaction and subsequent updates – including the joint appointment by MPS and AMCO of the expert in accordance with Articles 2501-*sexies* and 2506-*ter* of the Italian Civil Code with regard to the report on the fairness of the Exchange Ratio of the Demerger – to carry out the activities within its remit and to issue a reasoned opinion on the Bank’s interest in carrying out the Transaction, as well as on the economic viability and substantial fairness of the related conditions. MPS’ Related Parties Committee has been assisted by the same independent financial advisors appointed by MPS’ Board of Directors.

On 29 June 2020, the Committee issued an unanimous favourable opinion on MPS’s interest in performing the Demerger and entering into the Framework Agreement, as well as on the economic viability and procedural and substantive fairness of the Transaction.

MPS drafted the information document required by Article 5 of the RPT Regulation, which was made public on 6 July 2020, *i.e.*, within seven days from the Board of Directors’ meeting that approved the Demerger Plan and the signing of the Framework Agreement.

4. DESCRIPTION OF THE ASSETS AND LIABILITIES COVERED BY THE DEMERGER

The following assets and liabilities (the “**Demerged Compendium**”) shall be assigned to the Beneficiary Company with the overall value existing on the Demerger Effective Date (as defined below). Below are the assets and liabilities forming part of the Demerged Compendium, as represented by the Demerged Company’s financial statements as at 31 December 2019, without prejudice to what is specified below in relation to the MPS Loan (as defined below):

Assets:

- non-performing exposures classified by MPS as non-performing loans for a net book value of EUR 2.313 million (gross book value of EUR 4.798 million);



- non-performing exposures classified by MPS as “unlikely to pay” for a net book value of EUR 1.843 million (gross book value of EUR 3.345 million);
- bonds and shares for a book value of EUR 5 million;
- deferred tax assets for a book value of EUR 104 million;
- derivative contracts for a book value of EUR 1 million.

In addition, in the context of the Demerger, the Beneficiary Company, as required by law (see Article 173, paragraph 4 of the TUIR), has been assigned subjective legal positions that are potentially capable of generating deferred tax assets of EUR 62 million (not recorded in the financial statements of the Demerged Company as at 31 December 2019).

The amounts of deferred tax assets shown above are determined based on the accounting and tax situation of the Demerged Company as at 31 December 2019. However, the subjective tax positions that will be effectively transferred to the Beneficiary Company will be determined (by law) on the basis of the Demerged Company’s result as at the Demerger Effective Date which, as a result of the business dynamics, will be physiologically, at least partially, changed with respect to those considered herein (and, as mentioned, as at 31 December 2019), with a consequent change in the amounts of deferred tax assets shown above. Moreover, at the time of preparation of this report, the Demerged Company filed two requests with the Italian Tax Agency to confirm that certain interpretations of the current regulations applied in determining the above amounts are correct. Therefore, the tax positions and the corresponding deferred tax assets (recorded and not recorded in the financial statements) could be subject to further changes depending on the answers to the abovementioned requests by the Italian Tax Authority.

Liabilities and net equity:

- Liabilities deriving from a bridge loan of EUR 3,179,187,010 (the “**MPS Loan**”);
- Derivative contracts for a book value of EUR 0.1 million;
- Net equity for a total of EUR 1,087 million, including an “other comprehensive income” reserve (“**OCI Reserve**”) negative for EUR 46.6 million in bonds and equities classified as “Financial assets assessed at fair value impacting on overall profitability”, thus with a net decrease in the net equity of the Demerged Company, which will be recorded for EUR 1,133.6 million as a share capital reduction.

As stated in Paragraph 3.4 above, part of the assets, liabilities and net equity that will be transferred with the Demerged Compendium are currently held by MPS CS and will be included in the Demerged Compendium as a result of the MPS CS Demerger, which will become effective as a result of the Demerger (*i.e.*, of the Intra-group Demerger Condition Precedent).

More specifically, the following assets and liabilities are currently owned by MPS CS as represented in MPS CS balance sheet as at 31 December 2019:

Assets:

- Non-performing exposures classified by MPS CS as non-performing loans for a net book value of EUR 362 million (gross book value of EUR 781 million);
- Non-performing exposures classified by MPS CS as “unlikely to pay” for a net book value of EUR 346 million (gross book value of EUR 561 million);
- Bonds and shares for a book value of EUR 2 million;
- Derivative contracts for a book value of EUR 0.3 million;
- Deferred tax assets for a total of EUR 14 million.

Liabilities and net equity:

- Liabilities arising from intra-group deposits for a book value of EUR 614 million;
- Derivative contracts for a book value of EUR 0.04 million;



- Net equity amounting to EUR 110 million, including a negative OCI Reserve of EUR 42.4 million, attributable to securities classified as “Financial assets assessed at fair value impacting on overall profitability”, which are part of the compendium covered by the MPS CS Demerger.

With regard to the MPS Financing, on 30 June 2020, JP Morgan Chase Bank, Milan Branch and UBS Europe SE (the “**Financing Banks**”) made a binding commitment to MPS to grant the MPS Financing in favour of the Demerged Company based on the terms and conditions agreed between the parties and summarised in a term sheet. In particular, the MPS Financing consists in a bank loan for a total amount of EUR 3,179,187,010, made available by the Financing Banks and consisting of the following facilities, for a total amount of EUR 3,179,187,010:

- *Facility A: bridge to secured financing* for EUR 1,329,187,010;
- *Facility B: bridge to BTP* for a total of EUR 850 million;
- *Facility C1: bridge to unsecured bond A* for EUR 500 million;
- *Facility C2: bridge to unsecured bond B* for EUR 500 million.

Such amounts granted under the MPS Financing shall be deposited into an escrow account, which will be pledged as collateral for the MPS Financing. The pledge shall be released to MPS as from the Demerger Effective Date (as defined below).

On the Demerger Effective Date (as defined below), *Facility A* will be replaced by secured financing which will have receivables from the Demerged Compendium as collateral, while *Facilities B, C1 and C2* will be financed by AMCO through the use of proceeds from unsecured bonds, to be placed on the market and the sale of the BTP portfolio held by AMCO itself.

The MPS Financing will be used for the Bank’s general needs.

The relevant contracts will be entered into during September and the funding will be granted by the Financing Banks before the date of the Shareholders’ Meeting of the Bank called to approve, among other things, the Demerger Project. As communicated to the market on 29 June 2020, the effectiveness and disbursement of the MPS Financing is subject to several conditions, including the approval of the bodies of the financing banks also with respect to the final contractual documentation and the absence of events having a material and prejudicial effect on the Bank or the Demerged Compendium. Upon disbursement, the MPS Financing will be secured by a cash or securities portfolio, at MPS discretion, within pre-determined parameters, which will be released upon the Demerger becoming effective.

As highlighted in Paragraph 3.4 above, the Demerger’s effectiveness is conditional upon (the “**Financing Condition Precedent**”): the disbursement of the funds deriving from the MPS Financing, as well as the issuance of the letter of consent by the Financing Banks to the transfer of the MPS Financing to AMCO as a result of the Demerger, under the law of England and Wales and in accordance with the terms and conditions of the loan agreement, and the delivery of irrevocable instructions for the release of cash collateral pledged by MPS to guarantee repayment of the MPS Financing, to be performed upon the Demerger becoming effective.

The detailed description of the assets and liabilities and the related legal relations forming the Demerged Compendium that will be assigned to the Beneficiary as a result of the Demerger is set out in [Annex 3](#) to the Demerger Plan, attached to this Report.

In relation to the above, individual statements of the financial position of the companies participating in the Demerger as at 31 December 2019 are also attached to the Demerger Plan, detailing in the appropriate column:

- as regards the Demerged Company, the assets and liabilities not included in the compendium and liabilities as at 31 December 2019, but which are expected to be included before the Demerger Effective Date (as defined below) ([Annex 4](#)): and
- as regards both the Demerged Company and the Beneficiary Company, the post-Demerger situation ([Annexes 5 and 6](#)).

Without prejudice to the foregoing with regard to the assets that will modify the Beneficiary Company and the Demerged Company’s financial position before the completion of the Demerger, it is understood that the Demerged



Compendium shall be assigned as existing on the Effective Date (as defined in Paragraph 15 below). Any changes to the composition of the Demerged Compendium deriving from the operations after 31 December 2019 will be settled between the Demerged Company and the Beneficiary Company through debit and credit items without resulting in any changes in the overall value of the Demerged Compendium. It is also understood that, in accordance with the agreements between the parties, in the event of any changes to the overall value of the Demerged Compendium due to the failure to transfer receivables, the non-transferable receivable shall be replaced by an equivalent receivable owned by the Demerged Company and, only if such replacement is impossible, the change in the Demerged Compendium will be settled in cash. Variations deriving from write-downs or revaluations of components of the Demerged Compendium will instead be booked as a decrease/increase of the net equity transferred on the Demerger Effective Date (as defined below), without having any ensuing impact on the Exchange Ratio (insofar as the assessments that contribute to determining it are based on forecasted data that take into account the information available and best estimates to date, also with reference to write-downs/revaluations) and without changing the number of MPS shares subject to cancellation, as they do not have a par value.

Any significant changes to the Demerged Compendium will be communicated to shareholders at the Shareholders' Meeting in accordance with Article 2501-*quinquies*, paragraph 3, of the Italian Civil Code.

For disclosure purposes only, please note that the transfer of the receivables included in the Demerged Compendium will be communicated by the Beneficiary Company in accordance with Article 58 of the TUB.

Please also note that the non-performing exposures and related ancillaries, financial instruments and contracts included in the Demerged Compendium will be allocated to a segregated pool of assets that will be created by AMCO prior to the execution of the Demerger deed according to Article 4-*bis*, paragraph 2 of Italian Decree Law no. 162 of 30 December 2019, converted into law by Italian Law no. 8 of 28 February 2020 and in accordance with Article 7, paragraph 1(a) and paragraph 2-*octies* of Italian Law no. 130 of 30 April 1999, as subsequently amended.

5. EFFECTS OF THE DEMERGER ON THE DEMERGED COMPANY AND THE BENEFICIARY COMPANY'S ASSETS

The Demerger shall take place at the book values at which the assets and liabilities transferred to the Beneficiary Company shall be recorded in the accounts of the Demerged Company on the Demerger Effective Date (as defined below), without prejudice to the above envisaged changes.

The changes to the composition of the Demerged Company's Net Equity resulting from the Demerger can be attributed to:

- decrease in the Share Capital of EUR 1,133.6 million (as at the date of the Demerger Plan and based on the reference financial position of the Demerged Company, under Article 2501-*quater* of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, consisting in the MPS financial statements for the 2019 financial year, hereinafter the "**Demerged Company Financial Position**");
- decrease in the "Valuation reserve" of EUR 46.6 million (as at the date of the Demerger Plan and based on the Demerged Company Financial Position);
- decrease in "Reserves" of approximately EUR 4.4 million, due to the estimate of ancillary costs directly resulting from the Demerger, net of the related tax effect;
- estimated "loss for the financial year" of EUR 4.2 million, relating to the additional costs resulting from the Demerger, other than ancillary charges.

Please also note the following changes in the composition of the Demerged Company's Net Equity resulting from the MPS Loan and the MPS CS Demerger:

- estimated "loss for the year" of EUR 36 million relating to commissions and consultancy costs for the MPS Financing;
- increase in the negative "Valuation reserve" of EUR 42.4 million relating to the securities of MPS CS included in the compendium of the MPS CS Demerger and increase of the same amount in the "Reserves" that is equal to the difference between the share capital of MPS CS, which will be reduced by EUR 152.4



million, and the amount of EUR 110 million for the adequate capital resources of the compendium covered by the MPS CS Demerger, the latter to be charged to the book value of MPS CS' controlling interest in MPS CS.

The equity effects on the Demerged Company's net equity at the date of this Demerger Plan are summarised below.

Net equity in EUR/000	Past data as at 31 December 2019	BMPS Financing	MPSCS Demerger to MPS	MPS Demerger to AMCO	Data as at 31 December 2019 post-Demerger
Capital:	10,328,618	-	-	(1,133,606)	9,195,012
a) ordinary shares	10,328,618	-	-	(1,133,606)	9,195,012
b) other shares	-	-	-	-	-
Issue share premium	-	-	-	-	-
Reserves	(1,361,990)	-	42,440	(4,364)	(1,323,914)
a) of profits	(1,486,867)	-	-	-	(1,486,867)
b) others	124.877	-	42.440	(4.364)	162.953
Valuation reserves	(28,399)	-	(42,440)	46,606	(24,233)
Capital instruments	-	-	-	-	-
Treasury shares	(185,958)	-	-	-	(185,958)
Profit (Loss) for the financial year	(1,174,539)	(35,970)	-	(4,246)	(1,214,755)
Total Net Equity	7,577,732	(35,970)	-	(1,095,610)	6,446,152

The changes to the composition of the Net Equity of the Beneficiary Company resulting from the Demerger (with respect to the reference Beneficiary Company's financial position, referred to in Article 2501-*quater* of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, consisting in the AMCO's financial statements for the 2019 financial year) can be attributed to:

- increase in Share Capital, equal to (at the date of the Demerger Plan and based on the Demerged Company Financial Position) EUR 55.2 million;
- increase in the Share Premium Reserves of EUR 201.6 million;
- increase in negative Valuation Reserves of EUR 46.6 million (as at the date of the Demerger Plan and based on the Demerged Company Financial Position);
- increase in Other Reserves of approximately EUR 876.9 million, as the difference between the capital resources of the compendium and the amount allocated to Share Capital and Valuation Reserves;
- estimated decrease of Other Reserves of approximately EUR 3.6 million, corresponding to the estimate of ancillary costs directly resulting from the Demerger;
- estimated loss of EUR 0.8 million, relating to the additional costs resulting from the Demerger, other than ancillary charges.

The following is a summary of the financial effects on the net equity of the Beneficiary at the date of this Demerger Plan

Amounts in thousands of EUR	AMCO 31.12.2019	Past data	BMPS Demerger to AMCO	AMCO data	post-demerger
NET EQUITY ITEMS					
110	Capital	600,000	55,154		655,154
120	Treasury shares	-	-		-



130	Capital instruments	-	-	-
140	Issuance of share premium	403,000	201,552	604,552
150	Reserves	779,011	873,287	1,652,298
160	Valuation reserves	(1,460)	(46,606)	(48,066)
170	Profit (loss) for the year	39,895	(787)	39,108
		1,820,447	1,082,600	2,903,047

6. ACTUAL VALUE OF NET EQUITY ASSIGNED TO THE BENEFICIARY COMPANY AND OF THAT REMAINING IN THE DEMERGED COMPANY

Since the Demerger is carried out seamlessly as to accounting values, as it takes place between entities subject to common control by the Italian Ministry of Economy and Finance, the Beneficiary Company records the Demerged Compendium, in its financial statements, at the accounting values of the Demerged Company. Taking into account the foregoing and the nature of the assets that make up the compendium – which do not include intangible assets – in accordance with Articles 2506-*ter*, paragraph 2, and solely for the purposes referred to in Article 2506-*quater*, last paragraph, of the Italian Civil Code, the values thus expressed have been measured on the basis of the applicable accounting principles and in light of the criteria accepted by the Supervisory Authority. Therefore, for the purposes of determining the joint and several liability between the Demerged Company and the Beneficiary Company, the net book value of the Demerged Compendium as at 31 December 2019 was taken as EUR 1,087 million. As regards the Demerged Company, the net book value of the post-demerger net equity as at 31 December 2019 equal EUR 6,446 million has been used.

7. ESTABLISHED EXCHANGE RATIO AND CRITERIA USED TO DETERMINE IT

For the purposes of identifying the relevant values to be given to each of the entities participating in the Demerger (MPS, AMCO and the Demerged Compendium), the Board of Directors of MPS and AMCO have resorted to financial advisors with proven professionalism and experience, specifically Lazard S.r.l. (for the Demerged Company) and Equita SIM S.p.A. (for the Beneficiary Company) to identify: (a) the number of AMCO B Shares to be allocated to the shareholders of the Demerged Company and (b) the number of MSP Ordinary Shares to be cancelled with respect to the shareholders of the Demerged Company.

7.1 Criteria followed in determining the Exchange Ratio and valuation difficulties

7.1.1 Valuation objectives and used criteria

The valuations of each of the entities involved in the Demerger, *i.e.*, MPS, AMCO and the Demerged Compendium, for the purpose of determining the Exchange Ratio referred to in Paragraph 7.2 below, were carried out according to principles and methods used in practice, including international practice, for transactions of a similar type and size.

These valuations were performed with a view of expressing a relevant estimate of the values of the entities involved, preserving the homogeneity of the criteria applied and the methodologies adopted, and should only be understood in relative terms and with limited reference to the Demerger.

The objective pursued was to define, through homogeneous methodologies and assumptions, comparable values of the entities involved in the Demerger to establish an Exchange Ratio. Therefore, under no circumstances are said valuations to be considered as possible indications of market price or of current or prospective value, in a different context from the one in question.

Finally, in line with corporate policy and the most widespread professional practice, the valuations are carried out in the hypothesis of managerial autonomy of the entities involved in the Transaction, in a “stand-alone perspective”, taking into account the individual corporate entities as separate and considering the respective current situations and future prospects independently, thus disregarding the effects of the Demerger on them, including any synergies or divestitures that may be achieved.

7.1.2 Valuation criteria and methods adopted: description and application

The basic principle of the demerger valuations, *i.e.*, the relative homogeneity of the valuation methods adopted, translates into the selection of those methods that respond to the same valuation logic and are more appropriate to the specific characteristics of the entities involved in the Transaction, to propose comparable values for the



determination of the exchange ratios.

It should be noted that to determine the number of MPS shares to be cancelled, the valuation of MPS was determined as the sum of the parties, *i.e.*, the sum of the estimated economic value attributed to MPS net of the Compendium (“**MPS net of the Compendium**”) and the estimated economic value attributed to the Demerged Compendium itself.

As part of a general review of the valuation methodologies provided for by corporate policy and used in best practice for similar transactions, and taking into account the limits and restrictions in this case, to express relative valuations of the three entities participating in the Demerger for the purposes of determining the Exchange Ratio, methodologies based on the discounting of forecasted future cash flows were used, namely:

- the Dividend Discount Model or DDM for the valuation analyses of MPS net of the Compendium and AMCO;
- the Discounted Free Cash Flow (DCF) method for the Demerged Compendium.

To preserve the principle of homogeneity of the valuation methodologies applied to the companies participating in the Transaction, methodologies based on market data, such as the market multiples method, the analysis of research analysts’ target prices and market quotations, since such methodologies – although commonly used by international practice – are not applicable to the Demerged Compendium, as it is not a listed company and there were no comparable companies listed on the market. These methodologies have therefore not been applied to MPS net of the Compendium and AMCO since, as already mentioned, in transactions such as the one under examination, priority is given to the homogeneity and comparability of the valuation criteria applied to the various entities involved.

The Dividend Discount Model

The Dividend Discount Model (or DDM), in its “Excess Capital” approach, is based on the assumption that the value of a financial company is based on the actual value of the future cash flows available, which are assumed to be equal to the flow of distributable dividends while maintaining a suitable equity structure, based on considerations relating to applicable regulations and economic nature, to support the forecasted future development, irrespective of the dividend policy actually planned or adopted.

According to this methodology, the total economic value of a company is the sum of the value of discounted future dividends and its terminal value, calculated according to the following formula:

$$V = \sum_{t=1} \frac{D}{(1 + Ke)^t} + \frac{TV}{(1 + Ke)^n}$$

where:

V = Economic value;

D = Maximum annual dividend that can be distributed maintaining an appropriate equity structure;

n = Number of years of projection;

Ke = Cost of capital (dividend discount rate);

TV = Terminal Value, which captures the value of the flows beyond the express forecast, according to the following formula:

$$TV = \frac{D_p (1+g)}{(Ke - g)}$$



where:

D_p = maximum annual dividend payable in perpetuity; g
= long-term growth rate.

The cost of own capital K_e expresses the specific risk associated with the estimated companies. It is used in nominal terms, consistently with the discounted dividend flows. The K_e has been quantified according to the Capital Asset Pricing Model (“CAPM”) approach. In estimating the rate, account has been taken of: (i) the return on risk-free investments and (ii) the premium for the specific risk of the investment in the capital of the estimated companies, expressed by multiplying the “market risk premium” by the beta coefficient specific to each company.

where:

$$K_e = R_f + (\beta * (ERP))$$

R_f = return on risk-free investments;

β = beta coefficient of each company;

ERP = risk premium for this type of equity investments.

For the purposes of the valuation, the time horizon used for the analytical determination of the dividend flows was the 2019-2025 period for AMCO and the 2019-2024 period for MPS net of the Compendium; beyond these periods, the value of the companies was calculated through the terminal value.

The calculation of the potentially distributable dividend flows in the analytical forecasting period was performed using, for the purposes of identifying a minimum level of capitalisation deemed appropriate to support the future development of the two companies, a CET 1 minimum ratio of 10% for AMCO and 13% for MPS net of the Compendium.

Please note that a sensitivity analysis has been performed on the results obtained with the application of DDM. This analysis is aimed at verifying the sensitivity of the results to changes in the main parameters of the estimate (cost of equity capital and g -factor) within reasonable intervals.

The Discounted Free Cash flow

The Discounted Free Cash Flow or DCF method, in its “Equity Side” approach, determines the value of a business or economic activity based on its ability to generate cash flows.

This methodology is based on the assumption that the value of an enterprise is based on the actual value of future cash flows generated. Its economic value is therefore the sum of (i) the forecasted discounted cash flows and (ii) a terminal value.

According to this methodology, the total value of an enterprise is equal to the sum of the value of discounted future cash flows, calculated according to the following formula:

$$V = \sum_{t=1}^n \frac{FCFE}{(1 + K_e)^t} + \frac{TV}{(1 + K_e)^n}$$

Where:

V = Economic value;

FC = Annual cash flow that can be distributed to shareholders;

n = Number of years of projection;



Ke = Cost of capital (cash flow discount rate);

TV = Terminal Value that captures the value of the flows beyond the explicit forecast period, according to the following formula:

$$TV = \frac{FC_p(1 + g)}{(Ke - g)}$$

Where:

FC_p = annual cash flow in perpetuity;

g = long-term growth rate.

The cost of own capital **Ke** reflects the return expected by the investor, taking into account the relative risk of the investment. Consistently with the approach used in the application of the DDM methodology, the cost of capital has been quantified by applying the CAPM model already described with reference to said methodology.

For the purposes of the valuation, the 2020-2039 period was taken as the time horizon for the analytical determination of cash flows. Since the entity to which the DCF methodology was applied – the Compendium – has by its nature a defined life that ends at the end of the workout of the receivables included in the perimeter, it was deemed appropriate to assume that the terminal value was zero.

Please note that, as already described in paragraph 4 above, the liabilities included in the Demerged Compendium on the Demerger Effective Date (as defined below) will be financed, as they are by their nature limited in time. As the cost of the financing is not known to date, it was necessary to use a cost of debt for the Demerged Compendium in line with the indications received from the lending banks.

Also in this case, a sensitivity analysis has been performed on the results obtained with the application of the DCF, to verify the sensitivity of the results to the main estimate parameters (cost of capital and cost of the liabilities of the Demerged Compendium) within reasonable ranges.

7.1.3 Main focus points in performing the valuation process

The valuations reached by the MPS' Board of Directors on 29 June 2020, and described in the following paragraphs, must be considered in the light of certain limits and valuation difficulties which, in the case in point, may be summarised as follows:

- Forecast data: the forecast data used is by its nature uncertain and subjective and depends on the actual realisation of the assumptions used in formulating such forecasts;
- Market volatility: the significant market volatility recorded in recent months makes it necessary to use appropriate market average parameters for the estimate of some valuation parameters (e.g., for the estimate of the risk-free rate to be applied the cost of equity);
- Applied methodologies: to preserve the homogeneity of the valuation methodologies, methodologies as much homogeneous as possible have been applied to the entities involved in the Demerger, i.e., methodologies based on the discounting of forecasted future flows. However, as already pointed out, the exact same methodology could not be applied to all the entities subject to valuation, since the Dividend Discount Model Excess Capital (DDM) methodology, commonly used in international practice for the valuation of banks and financial intermediaries, is not applicable to the Demerged Compendium while the Discounted Free Cash Flow (DCF) methodology is not applicable to MPS and it would be only partially applicable to AMCO;
- MPS treasury shares: MPS holds about 36 million treasury shares (of which 21,511,753 are held directly and 14,768,995 are held indirectly through the subsidiary MPS CS) and the economic and financial projections used for the valuation analyses include a valuation hypothesis for these shares, which is therefore reflected



in the valuation analyses, also in line with the provisions of Paragraph 7.2 below.

7.1.4 Reference date of the valuation analysis and documentation used

For valuation purposes, the financial statements at 31 December 2019 of the entities participating in the Demerger were used and said date was used as the reference valuation date. Given the valuation criteria adopted, as described below, the valuations are based on economic and market conditions as at 25 June 2020. For the purposes of the valuations, it has also been assumed that, for each of the entities participating in the Demerger, in the period between the financial statements used and 29 June 2020, when MPS' Board of Directors approved the Demerger Plan, no events have occurred, with the exception of the ordinary course of business – including write-downs made by MPS on the credit portfolio forming the assets of the Demerged Compendium – such as to materially change the economic, financial and asset situation.

In preparing the assessments, public information and data prepared or otherwise provided by MPS and AMCO was used. In particular, the following documents were used:

- MPS' consolidated financial statements as at 31.12.2019;
- AMCO's consolidated financial statements as at 31.12.2019;
- Forecast consolidated MPS net of the Compendium' financial, asset and supervisory data for the 2020E-2024E years approved by MPS' Board of Directors on 29 June 2020;
- Information provided by MPS in relation to extraordinary items relating to the projected income statement 2024E;
- Forecast consolidated AMCO's financial, asset and supervisory data for the years 2020E-2025E, approved by AMCO Board of Directors on 29 June 2020;
- Financial-asset forecasts for the Demerged Compendium for the 2020E-2039E years, approved by MPS Board of Directors on 29 June 2020;
- Draft commitment letter from JP Morgan and UBS relating to the Financing and related term sheet and estimate, provided by JP Morgan and UBS, of the financial terms and conditions relating to AMCO's refinancing;
- Details of the tax assets included in the Compendium and their use, provided by MPS.

In addition, publicly available data and information was used, more specifically data and information collected through Borsa Italiana, Consob, FactSet, Bloomberg and Mergermarket.

7.1.5 Results of the evaluative analysis

Based on the above considerations and assumptions, as well as the analyses carried out according to the above described criteria, a range of the Exchange Ratio, as defined below, between 0.3669x – 0.4537x was established. This range, depending on the Distribution Ratios, translates into the following ranges relating to the AMCO B Shares to be issued and MPS Ordinary Shares to be cancelled (without prejudice to the right to exercise the Asymmetric Option by the MPS Minority Shareholders):

- AMCO B Shares issued to MPS Majority Shareholder for every 1 MPS Ordinary Share held before the Demerger Effective Date (as defined below): 0.0607x – 0.0700x;
- AMCO B Shares issued in favour of each of the MPS Minority Shareholders for each 1 Ordinary MPS Share held before the Demerger Effective Date (as defined below): 0.0145x – 0.0167x;
- MPS Ordinary Shares to be cancelled in respect of MPS Majority Shareholder for each 1 MPS Ordinary Share held before the Demerger Effective Date (as defined below) – 0.1543x – 0.1655x;
- MPS Ordinary Shares cancelled in respect of each MPS Minority Shareholder for each 1 MPS Ordinary Share held before the Demerger Effective Date (as defined below): 0.0369x – 0.0395x.



7.2 Exchange Ratio

In light of the above considerations and the range of the Exchange Ratio shown above, the MPS Board of Directors has determined that, in exchange for the Demerged Compendium, a maximum total of 55,153,674 AMCO B Shares will be issued against the cancellation of a maximum of 137,884,185 MPS Ordinary Shares. The exchange ratio thus results in 0.4000 AMCO B Shares to be allocated for each MPS Ordinary Share that will be cancelled, as better specified and according to the distribution between the MPS Majority Shareholder and MPS Minority Shareholders of MPS described below (the “**Exchange Ratio**”).

The Expert has been tasked with assessing the fairness of the Exchange Ratio in accordance with Article 2501-*sexies* of the Italian Civil Code. With respect to this assessment, reference is made to the explanations provided in the independent expert’s report according to Article 2501-*sexies* of the Italian Civil Code published on MPS’ website on 4 September 2020.

As previously specified, the Demerger shall be implemented – in accordance with Article 2506-*bis*, paragraph 4, of the Italian Civil Code – by allocating to the Demerged Company’s shareholders AMCO B Shares for an amount that is not proportional to their shareholdings in the Demerged Company, specifically:

- i. 49,650,138 AMCO B Shares, corresponding to approximately 90% of the total number of AMCO B Shares to be issued, shall be allocated to the MPS Majority Shareholder, against the cancellation of 124,125,345 of their MPS Ordinary Shares, corresponding to approximately 90% of the total number of the MPS Ordinary Shares to be cancelled (the “**MEF Distribution Ratio**”); while
- ii. 5,503,536 AMCO B Shares, corresponding to approximately 10% of the total number of AMCO B Shares to be issued, shall be allocated to MPS Minority Shareholders (including MPS as owner of its treasury shares), against the cancellation of their 13,758,840 MPS Ordinary Shares, corresponding to approximately 10% of the total number of MPS Ordinary Shares to be cancelled, this shall all be in proportion to their respective shareholdings in MPS and without prejudice to the right to exercise the Asymmetric Option, as defined below (the “**Shareholders Distribution Ratio**” and, together with the MEF Distribution Ratio, the “**Distribution Ratios**”).

Therefore, depending on the Exchange Ratio and Distribution Ratios:

(A) AMCO B Shares will be allocated as follows (without prejudice to the right to exercise the Asymmetric Option, as defined below, by the MPS Minority Shareholders):

- 0.0638 AMCO B Shares to the MPS Majority Shareholder for every 1 MPS Ordinary Share held before the Demerger Effective Date (as defined below);
- 0.0152 AMCO B Shares to each of the MPS Minority Shareholders (including MPS as owner of its treasury shares) for each 1 MPS Ordinary Share held before the Demerger Effective Date (as defined below);

(B) MPS Ordinary Shares will be cancelled as follows (without prejudice to the right to exercise the Asymmetric Option, as defined below, by MPS Minority Shareholders):

- 0.1595 MPS Ordinary Shares will be cancelled for every 1 MPS Ordinary Share held by the MPS Majority Shareholder before the Demerger Effective Date (as defined below); and
- 0.0380 MPS Ordinary Shares will be cancelled for every 1 MPS Ordinary Share held by each MPS Minority Shareholder (including MPS as owner of its treasury shares) before the Demerger Effective Date (as defined below).

This is without prejudice to any increases and corresponding decreases of the AMCO B Shares to be allocated and of the MPS Ordinary Shares to be cancelled, respectively, to the MPS Majority Shareholder and to MPS Minority Shareholders, as well as to MPS, within the context of the exercising the Asymmetric Option.

7.3 Treasury shares

The Existing Treasury Shares and Any Remaining Shares will entitle their holders to participate in the exchange transactions, it being understood that, as indicated in Paragraph 3.3 above, in relation to all the aforementioned shares, MPS will exercise the Asymmetric Option. However, it is understood that with regard to the shares covered by the



Right of Sale (or by the exercise of the Right of Withdrawal) that have not been sold following the Offer Procedure (as defined below), since MPS has no available reserves or distributable profits, MPS will proceed in accordance with Article 2437-*quater*, paragraphs 6 and 7 of the Italian Civil Code, and, therefore, such shares will be purchased by MPS and subsequently cancelled and an extraordinary shareholders' meeting must be called to reduce the share capital by the corresponding amount.

7.4 Incomplete number of shares

There is no provision for cash adjustments. Where necessary, a service shall be made available to MPS members, through authorised intermediaries, to enable them to round to the unit immediately below or above the number of AMCO shares to which they are entitled and/or the number of MPS shares to be cancelled in application of the Exchange Ratio and the distribution ratio, without incurring any charges, stamp duty or commission. Alternatively, different methods may be used to ensure the overall balancing of the transaction. In addition, all the activities necessary to ensure the overall balancing of the exchange transaction will also be carried out.

8. CRITERIA FOR THE ALLOCATION OF SHARES

8.1 Method of allocation of AMCO B Shares

AMCO B Shares issued in service of the Demerger shall be allocated to MPS current shareholders on the basis of the Exchange Ratio and in application of the Distribution Ratios provided for in Paragraph 7.2 above.

The allocation of the AMCO B Shares to MPS shareholders will take place, in dematerialised form and through authorised intermediaries, as from the Demerger Effective Date (as defined below), at a time and in a manner that will be disclosed to the market through the publication of a notice on the Demerged Company's website, www.grupbomps.it, as well as on the Beneficiary Company's website and in at least one daily national newspaper, as well as on the authorised storage mechanism called "eMarket STORAGE", www.emarketstorage.com

No charge will be levied on MPS shareholders for exchange transactions.

For information regarding the procedure of remainders, please see Paragraph 7.4 above.

9. RIGHT TO SELL

9.1 Right to Sell

Since the demerger involves the allocation of AMCO B Shares to MPS shareholders in an amount that is not proportional to their shareholdings in the Demerged Company, MPS shareholders who do not participate in the approval of the Demerger shall have the right to have all their MPS Ordinary Shares purchased in accordance with Article 2506-*bis*, paragraph 4 of the Italian Civil Code (the "Right to Sell").

The Right to Sell relates to all (and not part of) the MPS Ordinary Shares held by the shareholders of the Demerged Company who exercise the Right to Sell. The unit price of the MPS Ordinary Share shall be determined by the MPS' Board of Directors by applying the criteria provided for in Article 2437-*ter*, paragraph 3, of the Italian Civil Code, represented by the average of the closing prices of the MPS Ordinary Share in the six months preceding the publication of the notice of call of the extraordinary shareholders' meeting of MPS called to approve the Demerger (the "Liquidation Value").

The Liquidation Value shall be made available to the shareholders of MPS and to the market by means of a press release made available on the Demerged Company's website, www.grupbomps.it, through the publication of a notice in at least one daily national newspaper, within the term provided for by Article 2537-*ter*, paragraph 4 of the Italian Civil Code.

The procedure for exercising the Right to Sell is the same as that set forth by Article 2437-*bis* of the Italian Civil Code for the exercise of the Right of Withdrawal (as better described in Paragraph 10 below).

The Demerged Company will then purchase Any Remaining Shares, *i.e.*, the shares resulting from the sale or withdrawal procedure which have not been placed with shareholders or third parties. As specified above, such shares shall give their holders the right to participate in the above exchange transactions, applicable to any MPS Minority Shareholder and, in relation to the same, MPS will exercise the Asymmetric Option, with the effect that MPS will not receive any AMCO B Shares and shall retain title to Any Remaining Shares.



However, as MPS has no available reserves or distributable profits, Any Remaining Shares will be cancelled after the Demerger Effective Date (as defined below), subject to a resolution of the Extraordinary Shareholders' Meeting of the Demerged Company, in accordance with Article 2437-*quater*, paragraphs 6 and 7 of the Italian Civil Code.

10. ASSESSMENT AS TO THE EXISTENCE OF THE RIGHT OF WITHDRAWAL

10.1 Right of Withdrawal

Shareholders entitled to exercise the Right of Sale are also entitled to exercise the right of withdrawal under Articles 2437, first paragraph, letters a) and g), and 2437-*quinquies* of the Italian Civil Code (the “**Right of Withdrawal**”) for all (and not part of) the MPS Ordinary Shares held, at the same price provided for the abovementioned Right to Sell (*i.e.*, against the Settlement Value): insofar as (i): the corporate purpose of AMCO, the Beneficiary Company of the Demerger, allows a significantly different activity from that permitted by MPS' corporate purpose; (ii) the AMCO B Shares will not bear any voting rights at AMCO's ordinary and extraordinary shareholders' meetings; and (iii) such shares are not and will not be traded on any regulated market or multilateral trading facility.

The terms and conditions for the exercise of the Right of Withdrawal and the Right to Sell shall be those provided for by the applicable law; further details on the terms and conditions for the exercise of the Right of Withdrawal and the Right of Sale shall be made available to the shareholders of MPS, also in accordance with Article 84 of the Issuers' Regulations by the date of registration with the Companies' Register of the shareholders' resolution approving the Demerger Plan.

As mentioned above, the procedures for the exercise of the Right of Withdrawal and the Right to Sell will be carried out jointly, in the belief that this will allow the best protection of shareholders' rights to be achieved, taking into account that in this way shareholders will be guaranteed the possibility to exercise their option and pre-emption rights, fully complying with the equity of treatment principle.

In accordance with Article 2437-*bis* of the Italian Civil Code, entitled parties may exercise the Right of Withdrawal or Right to Sell, for all, and not part of, the shares held, by sending a letter by registered letter with return receipt, addressed to the registered office of MPS, at Piazza Salimbeni 3, 53100 Siena, Italy, within 15 days from registration with the Companies' Register of the resolution of the Shareholders' Meeting that may approve the Demerger Plan.

Notification of the registration will be published in accordance with the applicable legal and regulatory provisions. Without prejudice to the provisions of Article 127-*bis* of the TUF, the notice by the person exercising the Right of Withdrawal shall contain the indications referred to in Article 2437-*bis*, paragraph 1, of the Italian Civil Code and must be accompanied by a specific communication, made by an independent intermediary, certifying the ownership of the shares subject to withdrawal from the date of the Shareholders' Meeting, whose resolution legitimised the exercise of the Right of Withdrawal, seamlessly until the date of actual exercise of the Right of Withdrawal, and the absence of pledge or other restriction over the shares in relation to which the Right of Withdrawal has been exercised. Further details on the exercise of the Right of Withdrawal and the Right to Sell will be provided to shareholders in accordance with applicable laws and regulations.

The effectiveness of the Right of Withdrawal and the Right to Sell, if any, will be subject to the effectiveness of the Demerger and therefore the related settlement, and is subject to the fulfilment of the Conditions Precedent (including the Maximum Expenditure Condition Precedent) and, therefore, to the completion of the Demerger.

Should one or more shareholders of MPS exercise the Right of Withdrawal or the Right to Sell, the liquidation procedure shall be carried out in accordance with Article 2437-*quater* of the Italian Civil Code. The terms for the exercise of the Right to Sell/Right of Withdrawal and the option and pre-emption right, which shall be addressed to all MPS shareholders in accordance with such provision, will be made available in the manner provided for by the applicable regulations, specifying that the relevant notice will be published in at least one national daily newspaper, as well as on the authorised storage mechanism called “*eMarket STORAGE*”, www.emarketstorage.com

It should be noted that the offer procedure for the shares for which the Right of Withdrawal or the Right of Sale has been exercised (the “**Offer Procedure**”) will in any case be conducted and will be concluded before the signing of the Demerger deed (and even pending the abovementioned condition to the Right of Withdrawal and the Right to Sell), so as to allow the persons who have (conditionally) purchased shares of the Demerged Company within the context of in this Offer Procedure to participate – in the event of fulfilment of the Conditions Precedent – in any exchange



transactions of the aforesaid shares for AMCO B Shares according to the abovementioned ratios, applicable to any MPS Minority Shareholder (including MPS) or, alternatively, to exercise the Asymmetric Option.

In any case, in accordance with the provisions of Article 2437-*bis*, paragraph 2 of the Italian Civil Code, the shares for which the Right of Withdrawal (or the Right of Sale) will be exercised will no longer be available until the outcome of the settlement procedure of such shares (and, therefore, may not be transferred by the respective holders); accordingly, no investment may be monetised during that period.

As previously stated, the Demerged Company will then purchase Any Remaining Shares, *i.e.*, the shares resulting from the sale or withdrawal procedure which have not been placed with shareholders or third parties as part of the Offer Procedure. As specified above, such shares shall entitle their holders to participate in the exchange transactions according to the above ratios applicable to any Minority Shareholder of MPS and, in relation thereto, MPS shall exercise the Asymmetric Option, with the effect that MPS will not receive AMCO B Shares and will retain ownership of Any Remaining Shares.

However, as MPS has no available reserves or distributable profits, Any Remaining Shares will be cancelled after the Demerger Effective Date (as defined below), subject to a resolution to reduce the share capital, which will be taken by the Extraordinary Shareholders' Meeting of the Demerged Company in accordance with Article 2437-*bis*, paragraphs 6 and 7 of the Italian Civil Code.

11. COMPOSITION OF THE SHARE CAPITAL FOLLOWING THE TRANSACTION

11.1 Composition of the share capital following the Demerger

Taking into account the Exchange Ratio and Distribution Ratios, as well as the fact that the MPS Minority Shareholders (including MPS) may exercise the Asymmetric Option, two possible scenarios representing the composition of the share capital of MPS and AMCO following the effectiveness of the Demerger are illustrated below.

In the first scenario it is assumed that: (i) no MPS Minority Shareholder exercises the Right of Withdrawal or the Right to Sell or, if exercised, all MPS shares are acquired by shareholders or third parties (other than MPS); and (ii) no MPS Minority Shareholder exercises the Asymmetric Option.

In the second scenario it is assumed that: (i) no MPS Minority Shareholder exercises the Right of Withdrawal or the Right to Sell or, if exercised, all the MPS shares are acquired by shareholders or third parties (other than MPS); and (ii) all MPS Minority Shareholders exercise the Asymmetry Option.

The reported percentages were calculated on the assumption that, between the date of this report and the date of the Demerger deed, there will be no changes to the current shareholding structure of MPS and AMCO.

Scenario 1 – (i) No exercise of the Right of Withdrawal or Right to Sell or, if one or more minority shareholders exercise such rights, all MPS shares subject to the Right of Withdrawal or Right to Sell are acquired by shareholders or third parties (other than MPS); and (ii) no exercise of the Asymmetric Option.

MPS share capital

Shareholder	% of share capital	% of share capital (net of treasury shares)
Ministry of Economics and Finance	65.3%	67.6%
Own shares	3.5%	n/a
Floating	31.3%	32.4%

AMCO share capital



Shareholder	% of share capital	% of share capital (net of treasury shares)
Ministry of Economics and Finance	99.2%	n/a
(former) MPS Minority Shareholder	0.8%	n/a



Scenario 2 – (i) No exercise of the Right of Withdrawal or Right to Sell or, in the event of exercise of such rights by one or more minority shareholders, all MPS shares subject to the Right of Withdrawal or Right to Sell are acquired by shareholders or third parties (other than MPS); and (ii) exercise by all MPS Minority Shareholders of the Asymmetric Option.

MPS share capital

Shareholder	% of share capital	% of share capital (net of treasury shares)
Ministry of Economics and Finance	65.9%	66.3%
Treasury shares	3.6%	n/a
Floating	32.5%	33.7%

AMCO share capital

Shareholder	% of share capital	% of share capital (net of own shares)
Ministry of Economics and Finance	100%	n/a
(former) MPS Minority Shareholder	0.0%	n/a

12. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE BANK AND OF AMCO

12.1 Amendments to the Bank's Articles of Association

As a result of the Demerger, the Articles of Association of the Demerged Company will be subject to limited amendments relating exclusively to Article 6, concerning:

- (i) the share capital, which will be reduced by EUR 1,133.6 million, equal to the amount of the net share capital included in the Demerged Compendium on the Date of the Demerger Plan of EUR 1,087 million, which includes a negative valuation reserve of EUR 46.6 million; and
- (ii) the number of shares into which it will be divided as a result of the cancellation of shares of the Demerged Company in applying the Exchange Ratio.

This is without prejudice to any further capital reductions for cancellation of treasury shares.

The following is the current text of Article 6 of the Bank's Articles of Association compared with the applicable text of the Bank's Articles of Association following the Demerger, also in accordance with Model 3 of Annex 3A to the Issuers' Regulations. It should be noted that the share capital and the number of MPS Ordinary Shares into which the share capital of the Bank will be divided into following the Demerge will be set out in the Articles of Association by the Directors following the determination of the amount of the shareholders' equity included in the Demerged Compendium on the Demerger Effective Date (as defined below) and the number of MPS Ordinary Shares which will be cancelled in application of the Exchange Ratio (taking also into account the number of MPS Ordinary Shares for which the Asymmetric Option will be exercised).



Current text of the Articles of Association	Text of the Articles of Association following the Demerger
Article 6	Article 6
<p>1. The Company's fully paid up capital is EUR 10,328,618,260.14 (ten billion, three hundred and twenty-eight million, six hundred and eighteen thousand, two hundred and sixty point fourteen)</p> <p>2. It is represented by 1,140,290,072 (one billion, one hundred and forty million, two hundred and ninety thousand and seventy-two) ordinary shares with no par value. All shares are issued in dematerialised form.</p> <p>The procedures for the circulation and capacity of shares are governed by law.</p> <p>The right of withdrawal does not apply to shareholders who have not contributed to the approval of the resolutions concerning the introduction or restrictions on the circulation of shares.</p> <p>3. The shares are registered and indivisible. Each share gives its holder the right to one vote.</p>	<p>1. The Company's fully paid up share capital is EUR 9,195,012,196.85 10,328,618,260.14 (ten billion, three hundred and twenty-eight million, six hundred and eighteen thousand, two hundred and sixty point fourteen) (nine billion, one hundred and ninety-five million, twelve thousand, one hundred and ninety-six point eight -five)</p> <p>2. It is represented by [•] ([•]) 1,140,290,072 (one billion, one hundred and forty million, two hundred and ninety thousand and seventy-two) ordinary shares with no par value. All shares are issued in dematerialised form.</p> <p>The procedures for the circulation capacity of shares are governed by law.</p> <p>The right of withdrawal does not apply to shareholders who have not contributed to the approval of the resolutions concerning introduction or restrictions on the circulation of shares.</p> <p>3. Unchanged.</p>

The complete text of the Demerged Company's Articles of Association, including the amendments resulting from the Demerger illustrated above, is attached to the Demerger Plan as Annex 1 (Demerged Company' Articles of Association).

For the sake of completeness, it should be noted that the abovementioned amendments were also considered as a condition precedent included in the authorisation measure issued by the ECB on 2 September 2020.

12.2 Amendments to AMCO's Articles of Association

As a result of the Demerger, the Beneficiary Company's Articles of Association will undergo changes relating, among other things, to the share capital (with an increase up to a maximum of EUR 55,153,674) and the number of shares representing it, as well as the introduction of the AMCO B Share class. Further changes will be made to AMCO's Articles of Association, which are not connected with the Demerger and which, therefore, will be the subject of a separate proposal to the Shareholders' Meeting of the Beneficiary Company.

The full text of the Beneficiary Company's Articles of Association, with the amendments listed above – including those not resulting from the Demerger – is attached to the Demerger Plan under Annex 2 (Beneficiary Company's Articles of Association).

13. EFFECTS OF DEMERGER ON ANY SHAREHOLDERS' AGREEMENTS

As at the date of this report, no shareholders' agreements have been notified to the Bank in accordance with Article 122 of the TUF and, therefore, there is no effect on the shareholders' agreements arising from the performance of the Demerger and the exercise of the Asymmetric Option. There are also no shareholders' agreements concerning the shares of the Beneficiary Company, the share capital of which is fully owned by the Italian Ministry of Economy and Finance.



14. RIGHTS ATTACHED TO THE AMCO B SHARES THAT WILL BE GRANTED TO THE SHAREHOLDERS OF THE DEMERGED COMPANY

As indicated in Paragraph 3.2 above, the newly issued AMCO B Shares, which will be allocated to the MPS Minority Shareholders, will have the same rights as the AMCO ordinary shares already issued, with the exception of the right to vote at AMCO's ordinary and extraordinary shareholders' meeting. AMCO B Shares, like AMCO ordinary shares already issued, are not and will not be traded on any regulated market or MTF.

14.1 Date from which AMCO B Shares will participate in the profits

AMCO B Shares shall enjoy the rights granted from the same date as the ordinary shares into which the Beneficiary Company's share capital is currently divided.

15. START OF THE EFFECTS OF THE DEMERGER

Subject to the fulfilment of the Conditions Precedent, as provided for in Article 2506-*quater* of the Italian Civil Code, the Demerger shall have statutory effects (towards third parties) from the latest of the following dates: (i) the date of the last of the required registrations of the Demerger deed with the competent Companies' Register, and (ii) 1 December 2020 (the "**Demerger Effective Date**").

For the purposes of recording the transactions of the Demerged Company in the financial statements of the Beneficiary Company, in accordance with the provisions of Article 2506-*quater* of the Italian Civil Code, as well as for tax and accounting purposes, the effects of the Demerger shall start as from the Demerger Effective Date.

16. TAX CONSEQUENCES OF THE DEMERGER FOR THE DEMERGED COMPANY AND FOR THE BENEFICIARY COMPANY

For the purposes of direct taxes, as a result of the provisions of Article 173, paragraph 1 of the TUIR, the Demerger is a tax-neutral transaction, and therefore it is not a prerequisite either for the realisation or for the distribution of capital gains or losses.

As far as indirect taxes are concerned, the Demerger is subject to registration tax for the amount of EUR 200 and is excluded from the application of VAT according to Article 2, paragraph 3, letter f) of Presidential Decree No. 633/1972.



17. PROPOSED RESOLUTION ON ITEM 2 ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

Dear Shareholders,

In light of the above, we invite you to approve the following proposal:

“The Extraordinary Shareholders' Meeting, having regard to the proposals made by the Board of Directors and, specifically,

- *having regard to the Demerger Plan drafted in accordance with Articles 2505 and 2506-bis of the Italian Civil Code and the relevant annexes;*
- *having regard to the demerger plan relating to the MPS CS Demerger drawn up in accordance with Articles 2505 and 2506-bis of the Italian Civil Code, and the relevant annexes;*
- *having acknowledged the explanatory report of the Board of Directors drafted in accordance with Articles 2506-ter and 2501-quinquies of the Italian Civil Code and Article 70 of the Regulation adopted by Consob with resolution no. 11971 of 14 May 1999 and in compliance with Model No. 1 of Annex 3A to such Regulation;*
- *having acknowledged the report on the fairness of the exchange ratio drawn up according to Article 2501-sexies of the Italian Civil Code by Covino & Partners STP a r.l. as independent expert appointed by the Court of Naples on 9 June 2020;*
- *having acknowledged that the authorisations required in connection with the demerger have been obtained from the competent Supervisory Authorities (including the authorisation under Article 57 of Italian Legislative Decree no. 385 of 1 September 1993, as subsequently amended) and the conditions to which such authorisations are subject, specifically:*
 1. *that the Demerged Company, prior to the Demerger Effective Date (i) issues, at market conditions, subordinated instruments for at least EUR 250 million, that are eligible for inclusion in the base Tier 2 capital for the full nominal amount according to Article 63 of Regulation (EU) no. 575/2013 or (ii) provide the European Central Bank with adequate evidence of a binding commitment by one or more investors of adequate standing (including, where appropriate, any public body or affiliated entity) to subscribe to Tier 2 by 31 December 2020;*
 2. *that – at the Demerger Effective Date – a law-decree or legislative decree or ordinary law is in force (i) providing for the allocation of public funds required for the subscription of capital instruments issued at market conditions by any Italian company whose shareholding is publicly held (it being understood that capital instruments are subordinate instruments that are eligible as supplementary Tier 1 and Tier 2); (ii) under which MPS is eligible for recapitalisation and (iii) which allows the Italian Ministry of Economy and Finance to subscribe, within the limits of the public funds set aside, up to 70% of the amount of the capital instruments issued by MPS in order to re-establish regulatory compliance with the applicable overall capital requirements. It being understood that at least 30% of the relevant amount must be subscribed by private investors;*
 3. *that MPS will provide the ECB, prior to the Demerger Effective Date with at least three comfort letters issued by as many investment banks no later than 20 calendar days prior to the completion date of the Demerger, confirming that, according to their respective analyses and estimates, the Demerged Company would be reasonably able to obtain that private investors subscribe at least 30% of supplementary Tier 1 instruments potentially issued by MPS. It being understood that each investment bank will determine this amount in good faith according to the best professional standards and on the basis of all information available to it;*
 4. *that the Extraordinary Shareholders' Meeting of MPS approve the amendments to the Articles of Association that are necessary in order to implement the Demerger.*
- *having acknowledged the fact that it will be the task of the Board of Directors to verify the fulfilment of all the conditions precedent of the Demerger (including the verification of the existence of all the events and circumstances to which the authorisations issued by the Supervisory Authority are subject);*
- *having acknowledged everything else contained in the Information Document on the demerger transaction, drawn up in accordance with Article 70, paragraph 6, of the Issuers' Regulations;*
- *having acknowledged that, in accordance with Article 2501 et seq. of the Italian Civil Code. (as referred to in Article 2506-ter of the Italian Civil Code) and Article 70 of the Issuers' Regulations, all of the filing and information formalities required*



by law and regulations have been complied with, particularly:

- (i) the registration of the Demerger Plan on 3 September 2020 in the Arezzo-Siena Companies' Register and on 3 September 2020 in the Naples Companies' Register;
 - (ii) the filing of the deeds prescribed by Article 2501-septies of the Italian Civil Code with the registered office of Banca Monte dei Paschi di Siena S.p.A. and AMCO-Asset Management Company S.p.A. in accordance with the law;
 - (iii) the documents referred to therein have been made available to the public within the terms and in the manner prescribed by Article 70 of the Issuers' Regulations, including the Information Document regulated therein;
- taking into account today's Shareholders' Meeting's approval of the merger project relating to the MPS MC Demerger;

RESOLVED

1. to approve the partial non-proportional demerger plan (as attached to these minutes under Annex "[•]") of Banca Monte dei Paschi di Siena S.p.A. in favour of AMCO – Asset Management Company S.p.A. with the granting of an asymmetric option to the shareholders of Banca Monte dei Paschi di Siena S.p.A. ("MPS") other than the Italian Ministry of Economy and Finance, with the relevant annexes (the "AMCO Project");
2. having acknowledged that, as a result of the demerger referred to in item 1) above, there will be a reduction in the share capital of MPS of EUR 1,133.6 million, to approve the reduction in the share capital of MPS of EUR 1,133,606,063.29 and consequently to cancel, taking into account the rounding off resulting from the application of the Exchange Ratio, a maximum of 137,884,185 outstanding shares, it being understood that the number of outstanding shares will be finalised only on the Demerger Effective Date;
3. to grant the Chairperson and the Chief Executive Officer, jointly and severally and with the power of individual sign documents, as well as the power to sub-delegate and appoint attorneys for individual deeds and categories of deeds, with the most extensive powers to:
 - implement the abovementioned resolution, and specifically (i) to determine the exact number of shares subject to cancellation in application of the Exchange Ratio; (ii) to execute the demerger deed, all with the faculty to finalise every clause and modality of the aforesaid deed in compliance with the AMCO Project, and (iii) to carry out all the activities and certifications necessary, or even only appropriate, following the approval of the resolution to reduce the share capital of MPS and to cancel the shares referred to in point 2) above, conferring the broadest powers to carry out the relevant and consequential fulfilments;
 - execute any supplementary and/or amending agreements to the demerger deed, finalising all clauses and means; consent to the transfer of the ownership of the demerged compendium described in the AMCO Project, as well as to carry out any fulfilment, publication, notice, filing and communication necessary or useful of the purposes of fully implementing the above resolutions, including any changes, registrations (trascrizioni), annotations, amendments or rectifications to registrations in public registers and in any other competent office, exempting public offices from any liability;
 - provide in general for all that is required, necessary, useful or even only appropriate for the complete implementation of the abovementioned obligations, including the implementation and performance of all further activities envisaged by the Demerger Plan, including those relating to the right of withdrawal, the right to sell and the asymmetric option as envisaged by the Demerger Plan;
 - provide in general all that is required, necessary, useful or even only appropriate to achieve the effectiveness of the Demerger, once the Board of Directors has verified that all the conditions under which such effectiveness is achieved have been fulfilled (including the existence of all events and circumstances to which the authorisations issued by the Supervisory Authority are subject);
 - make any deletions and additions in to these minutes that may be requested by the competent authorities also for the publications provided for by law and make the necessary or appropriate non-substantial changes.?"



18. PROPOSED RESOLUTION ON ITEM 3 ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

Dear Shareholders,

In light of the above, we invite you to approve the following proposal:

“The Extraordinary Shareholders’ Meeting, having regard to the proposals made by the Board of Directors and, specifically,

- *having acknowledged the explanatory report of the Board of Directors drafted in accordance Article 72 of the Issuers’ Regulation and in compliance with Model No. 3 of Annex 3A to such Issuer’s Regulation;*
- *having acknowledged the approval of the Demerger Plan and as a result of such approval,*

RESOLVED

1. *to amend paragraphs 1 and 2 of Article 6 of the Bank’s Articles of Association, as proposed by the Board of Directors and indicated in the explanatory report made available to the public in accordance with Article 72 of the Issuers’ Regulations, with the following new text of the aforesaid paragraphs 1 and 2:*

“1. The Company’s fully paid up share capital is EUR 9,195,012,196.85 (nine billion, one hundred and ninety-five million, twelve thousand, one hundred and ninety-six point eight -five).

2. It is represented by [•] [(•)] ordinary shares with no par value. All shares are issued in dematerialised form”.

granting the power to the Chairperson and the Chief Executive Officer, jointly and severally, to proceed with the exact determination of the number of shares into which the share capital will be divided at the outcome of the reduction resulting from the Demerger;

2. *to grant the Chairman and the Chief Executive Officer, severally and individually, with the power to sub-delegate and appoint special attorneys for individual deeds and categories of deeds, the widest powers to take all necessary steps to implement the above resolution and to carry out the consequent and inherent legislative and regulatory requirements, including, in particular, the fulfilment of all formalities necessary for the same and the text of the updated Articles of Association to be filed and entered in the Companies’ Register.”*

Siena, 4 September 2020

For the Board of Directors
Ms Maria Patrizia Grieco
Chairperson of the Board of Directors