MPS CAPITAL SERVICES
GRUPPOMONTEPASCHI

REGULATORY INFORMATION DOCUMENT
of the 2014/65/EU Directive "MiFID II"

In compliance with art. 27 of the Intermediaries Regulation, as subsequently amended and supplemented, this pre-contractual document provides the information required by art. 45, and ff, of the Delegated Regulation, and is intended for the Clients or potential Clients of MPS Capital Services Banca per le Imprese S.p.A. (the "**Bank**")[1].

Such information is promptly provided to the Client or potential Client in order to allow them to reasonably understand the nature of the investment services and the specific types of financial instruments and associated risks, in order to help the Client make informed investment decisions.

The document consists of the following sections:

Section I - Information on the investment company and its services

1.1. General information;
1.2. Methods of communication
1.3. Information on the conflict of interest management policy
1.4. Information on the investment services offered by the Bank;
1.5. Documentation provided to the investor in support of the activity carried out
1.6. Information on the incentives received by the Bank
1.7. information on the order reception, routing and execution strategy
1.8. Information on indemnification or guarantee systems

Section II - Information on risks and financial instruments

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SECTION I - INFORMATION ON THE INVESTMENT COMPANY AND ITS SERVICES

1.1 General information

Name, registered office and address of the Bank and related contacts
MPS CAPITAL SERVICES BANCA PER LE IMPRESE SPA is an authorized intermediary incorporated as a joint-stock company governed by and operating under Italian law, with registered office in via L. Pancaldo 4, 50127 Florence, registered in the Register of Companies of Florence with no. 00816350482 (also tax code). VAT Group MPS. VAT number 01483500524.
LEI Code: V3Z6EZ8Z6KSBJBFBIC58.

The Bank belongs to the "Monte dei Paschi di Siena" banking group and is managed and coordinated by the parent company "Banca Monte dei Paschi di Siena Spa", in compliance with the provisions of Legislative Decree no. 385/93 and articles 2497 and ff. of the Civil Code.
The Bank has been authorized to exercise banking activities by the Bank of Italy ("Competent Authority") pursuant to articles 10 and 14 of Legislative Decree no. 385/93 and is registered in the Bank of Italy's Register of Banks of the with no. 4770.
The Bank also is authorized to provide the investment services and activities described in art. 1, paragraph 5, a) to f), of Legislative Decree no. 58 of 24 February 1998, as well as ancillary services, and is also supervised by the European Central Bank (ECB) and by Consob.

The contact address of the Competent Authority is:

[1] *EU Directive 2014/65/EU ("Mifid 2"), Delegated Regulation EU 2017/565 ("Delegated Regulation"), Delegated Regulation EU 2017/653 and CONSOB Regulation on Intermediaries n. 16190*

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All the detailed information on the Bank and the related services provided is published and always accessible in our website at the following link www.mpscapitalservices.it/trasparenza

The Bank shall provide, in due time before the provision of investment or ancillary services to Clients or potential Clients, the following additional general information, where relevant:

a) methods of communication to be used between the Bank and the Client, even, if applicable, for the forwarding and reception of orders;
b) when the Bank operates through a related agent, a declaration specifying the Member State where that agent is registered;
c) the nature, frequency and timing of the reports on the provision of the service the Bank is providing to the Client, in compliance with art. 25, paragraph 6, of MiFID II.

1.2 Methods of communication

The Client will communicate with and receive documents and other information from the Bank in Italian language, subject to the possible use of English terms to indicate technical parameters and references. Furthermore, the Client, if applicable, may sign agreements relevant to financial instruments by using documentation in English language that is used by professional operators (e.g. standard agreements made available by the *International Swaps and Derivatives Association*, also simply called ISDA).

1.3 Information on the Conflict of Interest Management Policy

Summarized information on the "Conflicts of interest policy" is provided in Annex A to this document. Upon the Client's request, more details about the Conflict of Interest Management Policy must be sent to the Client on a durable medium or through a website (when not constituting a durable medium).

1.4 Information on the investment services offered by the Bank

The Bank is authorized to provide all the investment services and perform all the investment activities, as well as ancillary services, described in art. 1 of Legislative Decree no. 58 of 24 February 1998, and subsequent amendments.

Financial instrument trading service (execution, reception and routing of orders, dealing on own account)

The order processing service consists in receiving orders from the Clients concerning financial instruments and processing said orders in any Trading Venue to which the Bank has direct access.
The Trading Service (execution of orders on behalf of Clients by dealing on own account) consists in the Bank purchasing or selling financial instruments the Client is willing to buy or sell on a principal basis.
The order reception and routing service consists in receiving Clients' orders on financial instruments and routing them to intermediaries or brokers qualified for dealing on their own account and executing orders on behalf of Clients.

Placement and distribution services

The Bank places and distributes both products and financial instruments of its own issue and issued by third parties based on agreements executed with such third parties._In the provision of the Placement and Distribution services, the Bank shall comply with the instructions given by the tenderer or by the entity that created or organized the underwriting syndicate, i.e. by the entity with which an agreement has been signed for the placement or distribution of financial instruments and/or products, in order to ensure that the tendering procedures complies with the applicable legislation and any instructions given.

Investment Advice Service

The Investment Advice Service provided by the Bank is provided on a non-independent basis pursuant to art. 4, paragraph 4, of MiFID II, which allows the Bank to receive, provided that certain conditions are met, incentives downgraded by third parties.
The Advice Service offered by the Bank to its clients: a) mainly includes a large number of financial instruments / products and b) includes financial instruments / products of both the Bank and third parties, including entities with whom the Bank has or may have equity interests or control / contract relationships (e.g. joint-ventures, partnerships or other types of collaboration or legal / economic relationship).
A pre-requirement for the provision of the Advice Service is the profiling of the Client by the Bank, which will consist in the Client filling a questionnaire through which the Bank will collect information on their financial expertise, financial situation (including the capacity to bear losses) and investment objectives (including risk tolerance) of the Client. The Bank shall profile its Clients based on the information so acquired, as well as by reviewing its own information assets

concerning the experience and capacity of the Client to bear losses.
Before providing the Advice Service, the Bank shall check the suitability of the Client based on information collected as described above. Therefore, in the event that it is impossible to obtain said information or if the information collected is incomplete, the Bank will not be able to provide the Advice Service.
In the provision of trading services not combined with the Advice Service relating to investments, the Bank shall perform a suitability check, always based on the Client's information.

The Bank shall provide its non-independent Advice Service as described below:

- Basic Advice: the Bank shall provide personalized recommendations aimed to perform one or more investment transactions or may also provide personalized recommendations aimed to perform one or more investment transactions and one or more contextual disinvestment transactions related to one another. The Bank shall provide the Client a proposal containing the advice on a durable medium, including a Declaration of Suitability.

The Bank provides the Advice Service with the diligence and professionalism required by the applicable legislation, but does not guarantee a specific result in terms of financial returns. The indications prepared within the framework of the Advice Service are suggestions and recommendations. However, accepting the Advice Service does not imply the obligation for the Client to follow said advice and the Client shall remain free to make their own fully independent investment / disinvestment decisions at their own risk.

The Bank also offers Clients the opportunity to sign pre-contractual documentation, investment services agreements and the related forms, as well as to receive copies of said documents on a durable non-paper medium at a specified e-mail address or other electronic address.

At any time the Client may ask the Bank to provide a (blank) copy of the contractual forms relating to the investment services described above in order to have sight of the rules, terms and conditions that govern the services of his concern.

1.5 Documentation provided to the investor in support of the activity carried out

In connection with the Services provided, the Bank shall send the Client the periodic compulsory documentation and statements in compliance with the applicable statutory provisions.
Upon receiving an order, the Bank shall issue a form containing, in addition to the identification data of the order, the costs associated with the transaction (service and financial instrument/product), the outcome of the assessment of the suitability of situations where there may be conflicts of interest.
For each recommendation given, the Bank shall issue a consulting proposal containing the outcome of the suitability assessment, a description of any conflict of interest, and the applicable costs (including third party incentives).
At the end of each calendar year, the Bank shall send its Clients a final report containing details of all the costs (including any incentive received) charged to the Client.

1.6. Information on the incentives received by the Bank

For the services contemplated in this Agreement, the Bank shall notify and inform Clients about any incentive received, i.e. fees, commissions and/or non-monetary benefits, from persons/entities other than the Client and/or persons acting on their behalf with the purpose of increasing the quality of the service provided to the Client, without prejudice to the fulfilment of the obligation to act honestly, fairly and professionally. These incentives are described first in the documentation provided to Clients and then in periodic reporting.

The subsection above does not include payments or benefits that allow for the provision of investment services or that are required for that purpose, and which cannot be in conflict with the duty of the intermediary to act honestly, fairly and professionally to serve the best interests of Clients.
The incentives, fees and commissions received from a third party or from any party acting on their behalf relating to the provision of the portfolio management service shall be fully transferred to the Client. Minor non-monetary benefits, as identified in Intermediaries Regulation, are not considered as are admissible.

1.7 Information on the order reception, routing and execution strategy of the Bank

Annex B to this Regulatory Information Document contains information on the strategy for the reception, routing and execution of orders on behalf of clients adopted by the Bank, in compliance with the applicable legislation.

1.8 Information on indemnification or guarantee systems

The Bank is a member of the Interbank Deposit Protection Fund referred to in Legislative Decree no. 659 of 4 December 1996. The Fund is a private-law mandatory consortium, recognized by the Bank of Italy, the activities of which are regulated by the Bylaws and Fund Operating Regulations (the "Fund's Regulations"). The purpose of the Fund is to warrant the depositors of the Banks that are members of the Consortium, which agree to provide the necessary financial resources for the achievement of the purposes of the Fund. The maximum limit of coverage per depositor is Euro 100.000.

The Bank is a member of the Interbank Deposit Protection Fund referred to in art. 62 of Legislative Decree no. 415 of 23 July 1996. The Fund indemnifies investors, within the limits of the amount and under the conditions laid down in the Fund's Regulations, for credits consisting of financial instruments and/or money connected with investment transactions, against intermediaries that are members of the Fund, as defined in the aforesaid Regulations and arising from the provision of the main investment services.

SECTION II
INFORMATION ON RISKS AND FINANCIAL INSTRUMENTS

A - GENERAL INFORMATION ON THE NATURE AND RISKS OF FINANCIAL PRODUCTS

Before making an investment in financial products, investors should seek information from the Bank on the nature and risks of the contemplated transactions. Investors should perform only the transactions of which they have fully understood the nature and degree of exposure involved.

The following information is provided to basically inform Clients on the nature, characteristics and risks of the main types of financial products (not of individual products) in order to help them make informed investment decisions. In consideration of their complex characteristics, financial products can be grouped into different categories. Financial products differ from one another in nature (e.g. share, bond, derivative), in the nature of the issuer (public or private), in the presence or absence of a rating of the issuer, in their currency of denomination (e.g. euro, dollar, sterling), in their marketability in regulated markets or other trading venues, in their form of yield (dividends, coupons, etc.), in how their interests are paid (fixed rate, variable rate, or combinations thereof). The information provided in this document is neither exhaustive nor complete. Therefore, we recommend investors to seek information on the specific risk factors of each financial product by carefully reading the information sheets or documentation relating to the offer, which is made available by the relevant issuers or tenderers.

In addition, as regards certain types of financial products (i.e. PRIIPs[2] and UCIs), retail Clients shall, in due time before processing transactions relating to individual financial instruments or products, carefully read another specific information document provided to them, which contains significant information (i.e. KID[3] - KIID[4]).

In order to assess the risk arising from an investment in financial products, the following points should be considered:

1) **the price variability of the financial product and the individual types of risk;;**
2) **the liquidity of the product;**
3) **the other general risk factors.**

1) Price variability

The price of each financial instrument depends on a number of circumstances and may vary more or less markedly based on its nature.

1.2) Specific and generic risks

For both equity and debt securities, risk can be ideally divided into two components: specific risk and generic (or systematic) risk. Specific risk depends on the characteristics of the issuer and can be substantially reduced by investors spreading their investment over securities issued by different issuers (portfolio diversification), whereas systematic risk represents the portion of the variability in the price of a security which depends on the fluctuations o the market and cannot be eliminated through diversification. Systematic risk on equity securities traded in an organised market stems from the variations in the market as a whole, which can be identified with the movements in the market index. Systematic risk on debt securities stems from fluctuations of market interest rates, which have repercussions on the prices (and therefore the yields) of securities when their residual life is longer. The residual life of a security at a given date is the length of time that must elapse from that date until its redemption.

[2] **PRIIPs (Packaged Retail and Insurance-based Investment Products)**: retail preassembled investment and insurance products described in Regulation UE1286/2014, as supplemented by the Delegated Regulation (EU) 2017/653.
[3] **KID (Key Information Document)**: a document containing all of the key information to be provided by the creator of a PRIIP or the entity that provides consulting on PRIIPs or sells PRIIPs to retail investors, concerning the characteristics and operation of a PRIIP.
[4] **KIID (Key Investor Information Document):** a document containing key information for investors regarding the characteristics and operation of undertakings for collective investment in transferable securities ((UCITS) within the scope of Directive 2009/65/EC (UCITS IV).

1.3) Market risk

Market risk is the risk that the market value of the instruments held is reduced due to changes in market conditions (share prices, interest rates, credit spreads, exchange rates and their volatility). It can be subdivided into different categories, each of which contributes to determine the investment price trend, namely:

- **Price risk**: a price change risk regarding a financial instrument whose value is reflected in the market price. Strictly speaking, there is a price risk when other risk factors affecting the price of an instrument cannot be precisely identified.
In general, the price of any financial instrument varies - i.e. it increases or decreases - over a given period of time. These price changes depend on multiple factors, mainly general economic trends, the issuer's perspectives, and interest rates trends. The amplitude of changes in the price of a security over a given period of time can be measured with a statistical index known as volatility. The greater the volatility of a security, the higher its speculative potential in terms of profit opportunity and risk of loss. Normally, shares, as a whole, are more volatile than bonds. The most volatile financial instruments are derivatives. An appropriate diversification of the portfolio helps reduce the risk arising from adverse price changes induced by specific factors associated with the issuer.

- **Interest rate risk** or **Rate risk:** This risk is typically associated with bonds and all securities, including derivatives, which are generally sensitive to changes in interest rates. I a portfolio contains a bond, the price of the instrument at maturity corresponds to the redemption value, which generally coincides with the nominal value. Before maturity, rising interest rates usually imply reductions in the price of bonds. This risk is all the greater the more distant is the date of maturity of the financial instrument. The interest rate may be the underlying asset of certain financial derivatives.

- **Exchange risk:** the value of the investment in financial instruments denominated in a currency other than the euro is linked not only to changes in the price of the instrument itself, but also to changes in the exchange rate between the issue currency and the euro (“exchange risk”). The result of the investment may therefore differ considerably from the result that can be inferred from the financial instrument price trends. Please note that exchange ratios with the currencies of many countries, particularly of developing countries, are highly volatile; however, exchange rates trends still considerably influence the overall result of the investment.

- **Volatility risk** (of prices, interest rates, exchanges): this risk is typically associated with investments in derivatives in derivatives (or with a derivative component) and appears when the market price of the instruments is influenced or sensitive to changes in the expected (non historical) volatility of other market variables, such as interest rates, exchange rates, share prices. This risk is typically associated with options or warrants.

1.4) Issuer’s risk and Credit risk

For investments in financial instruments, it is essential to assess the soundness of the issuers and their economic perspectives, taking into account the specific characteristics of their business sectors.
Equity securities reflect, at any time, an average of the expectations of market participants about the earning perspectives of the issuing companies.
As to **debt securities,** the risk that the issuing companies or financial institutions are not capable to pay interest or repay principal is reflected in the magnitude of the interests provided to investors by said bonds. The greater the perceived risk of the issuer, the greater the interest rate the issuer will have to pay the investor. In order to assess the suitability of the interest rate paid by a security, one must consider the interest rates paid by the issuers whose risk is considered to be the lowest, and particularly the reference offered by government bonds, with reference to the emission with the same maturity date.

The **Issuer risk** also refers to the possibility that the issuer of the financial instrument is not capable to meet its commitments (both intended as principal and interest, or dividends and value of the instrument). In order to assess whether the issuer is capable to fulfill its commitments, one should carefully analyze financial data, which may provide useful indications, as well as follow the perspectives of the reference market. In such a context, we should note that rating agencies appreciate the economic conditions of the issuers, including in perspective, and transform the result of their analyses into issuer reliability indices according to predetermined scales. Several companies, including those listed in regulated markets, are not classified by rating agencies; they are called “unrated” companies, although they are not necessarily less safe than others.

The **Credit risk** represents the possibility that an unexpected change in the creditworthiness of a counterparty generates a corresponding unexpected change in the price of the financial instrument traded and held by the investor.

- The **Credit spread risk** is defined as the yield differential between the bonds issued by issuers with a different creditworthiness or the spread is higher when creditworthiness is low and lower when creditworthiness is good.

- The **Issuer's insolvency risk of the** reflects the possibility that the issuer may not be capable to meet its future financial commitments (payment of coupons, repayment of principal) at the established dates.

- The **Sovereign risk** represents the possibility that the sovereign issuer is not capable to meet its future financial commitments (payment of coupons, repayment of principal) at the established dates.

- The **Subordination risk** characterizes the subordinated bonds that, in the event of insolvency or liquidation of the issuer, may generate greater losses with respect to ordinary bonds.

1.5 Bail-in risk

Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms' crisis ("BRRD" or "Directive") was published in the Official Journal of the European Union on 12 June 2014. On 2 July 2015, the Italian Parliament approved the delegation law to the Government for the transposition of the Directive, after which, starting from 1 January 2016, senior creditors may be called to contribute to the resolution of banks' crises (known as the "bail-in procedure") by writing off or even zeroing the nominal value, as well as converting bonds into equity securities. The Legislative Decrees with which Directive BRRD was transposed in Italy were approved by the European Parliament and published in the Official Journal no. 267 of 16 November 2015.

In the event of a crisis of issuers under the BRRD, investors in financial instruments and products issued by these issuers might be exposed to the risk of a write off, zeroing or conversion into equity securities of their investments, even in the absence of a formal declaration of insolvency of the issuer. In addition to that, the authorities will be empowered to change the maturity dates of liabilities, interest payable and/or the date from which said amounts become payable, even by suspending the payment of interests.

In the application of the "bail-in" instrument (reduction, zeroing, conversion into principal), the Authorities will be able to apply the following hierarchy (each subsequent class may be concerned only in case of insufficiency of the global depreciation resulting from the measures applied to previous classes): (I) shares and equity instruments; (ii) subordinated securities; (iii) debt securities and other senior financial instruments and other eligible liabilities (e.g. deposits of enterprises other than micro-enterprises and SMEs for the portion exceeding the amount of Euro 100.000); (iv) deposits for the portion exceeding the amount of Euro 100.000 of natural persons, micro-enterprises, small and medium-sized enterprises. Effective from 1 January 2019, the bail-in instrument will be applicable to the deposits of enterprises other than micro-enterprises and SMEs for the portion exceeding the amount of Euro 100.000 only after it has been applied to bonds and other senior financial instruments.
The bail-in option may be applied both individually and in combination with the other resolution instruments contemplated by the legislation, such as (i) transfer of assets to a third party, (ii) transfer of assets and liabilities to a bank ("bridge institution") incorporated and managed by the Authorities, (iii) transfer of "critical" assets and liabilities to a special purpose vehicle ("bad bank"), totally or partially owned by the resolution fund or by public authorities, for the management of assets with the purpose of maximizing their value through the sale or liquidation of the SPV. These last resolution instruments may, therefore, result in a subjective novation of the legal relationship between issuer and creditor (with replacement of the original debtor, i.e. the issuing Bank, with a new legal entity) without the need for a prior consent of the latter, and the transfer of the assets and liabilities of the original debtor, with the consequent possible redefinition of the credit risk for the subscriber.

1.6) Effect of the diversification of investments. Undertakings for Collective Investment (UCIs)

As already mentioned earlier, the specific risk of a particular financial instrument can be eliminated with diversification, i.e. by dividing the investment into multiple financial instruments. However, diversification may be expensive and difficult to implement for an investor with limited funds. Investors may achieve a high degree of diversification at low cost by investing their assets in shares of collective investment undertakings (common funds and investment companies with variable capital - SICAV). These organizations invest the assets paid by investors in the different types of securities contemplated by the regulations or investment programs adopted.
As regards, for example, open common funds, investors may enter or exit the investment by purchasing or selling the shares of the fund based on their theoretical value (increased or reduced of any applicable commission), the value of which is obtained by dividing the value of the entire managed portfolio of the fund, calculated at market prices, by the number of outstanding shares.
It should be pointed out that **investing in these types of financial instruments may still be risky** because of the characteristics of the financial instruments used (e.g. funds investing only in securities issued by companies operating in a specific sector or in securities issued by companies based in certain Countries) or due to an insufficient diversification of investments.

2) Liquidity risk

A financial product is considered to be "liquid" when it can be transformed into cash: (I) immediately or within a reasonable time lapse, without obstacles or limitations to disinvestment, and (ii) at significant price conditions, i.e. such as to directly or indirectly reflect a plurality of buying and selling interests.

Usually, if a product is not negotiated in trading venues, i.e. there are only a few exchanges on it, the product can be considered to be scarcely liquid or non-liquid.
The liquidity risk mainly depends on the characteristics of the trading venue where the product is dealt with. In general, products traded in regulated markets or in multilateral trading facilities are more liquid than those not traded in these trading venues, because the demand and supply of securities coming from a large number of players is addressed to said venues and contributes to form more reliable prices, they they are the result of many exchanges (or exchange proposals).
Other types of financial products are liquid not because there is a trading venue, but because the entity that establishes and manages them will convert the product into liquidity at prices defined in an objective manner, without penalties and with a predetermined timing. This is the case, for example, of open investment funds.
We should therefore consider that the mobilisation / disinvestment of products that have none of the aforesaid characteristics may entail for the investor a difficulty to settle the product within a reasonable time lapse and/or the possibility to settle it at a price that does not reflect the real value of the product itself, or in general of the penalties in economic terms.

3) The other general risk factors

3.1) Commissions and other charges

Before starting any operation, the investor must obtain detailed information about all the commissions, fees and other charges that will be due to the broker. Said information shall be specified in the brokerage agreement. The investor must always consider that these charges will be subtracted from the gains that will be possibly obtained with the transactions performed and will be added to losses.

3.3) Transactions performed in markets located in different jurisdictions

The transactions performed in foreign markets, including transactions in financial instruments that are also dealt with in national markets, may expose investors to additional risks. These markets might be regulated so as to offer reduced guarantees and protections for investors. Before performing any transaction on these markets, investors should inquire about the rules applying to the contemplated transactions. Furthermore, in these cases, it will be impossible for the supervisory authority to ensure compliance with the standards in force in the jurisdictions where the transactions are performed. Investors should therefore enquire about the regulations in force in these markets and about any action that should be undertaken relating to said transactions.

3.4) Electronic trading support systems

Most trading systems are supported by computerized systems for order routing procedures and for crossing, recording and clearing transactions. As for all automated procedures, these systems may temporarily stop or have malfunctions. The investor’s right to be compensated for any loss arising directly or indirectly from the events described above could be reduced by the disclaimers of the suppliers of the systems or markets. Investors should ask the Bank which limitations of liability apply in connection with the transactions to be performed.

3.5) Information on risks associated with Title Transfer Collateral Agreements ("TTCAs")
Title Transfer Collateral Agreements ("TTCAs") are a type of agreement, regulated by Legislative Decree 170/2004 (as supplemented and amended), that has the purpose of transferring between the parties the ownership of cash and financial instruments ("financial assets") in order to ensure the fulfilment of financial obligations (i.e. obligations, even conditional or future, to pay money or deliver financial instruments).
The financial assets that are eventually transferred by the Client to the Bank by virtue of a TTCA will pass into the hands of the latter, which will therefore be entitled to use them at their own discretion (including the sale/transfer to third parties for any reason) and the Client’s rights on those financial assets are replaced by an (unsecured) contractual obligation to obtain a refund for an equivalent amount.
The Bank will apply no measure aimed to protect the financial instruments and funds of Clients to the financial assets received by the Clients by virtue of a TTCA. In addition, the regulations laid down for "deposits", including the rules governing the creation and operation of the Interbank Fund or the Protection of Deposits referred to in Legislative Decree no. 659 of 4 December 1996 (as recalled in point 1.8 of Section I) shall not apply to cash and to the financial Instruments received by the Bank under a TTCA.
As a consequence of the loss of the right of ownership of the financial instruments transferred to the Bank under a TTCA, the Client:

(i) may no longer be able to exercise the administrative rights related to said instruments. Even in the event that, in connection with the exercise of said rights, the Bank had agreed to comply with the instructions given by the Client, the Bank might not be able to comply with the commitments undertaken (if it is no longer itself the owner of the financial instruments concerned and is not capable to promptly obtain equivalent financial instruments);
(ii) will no longer be entitled to receive dividends, coupons or other payments, interests or rights (including rights or ownership accrued or offered at any time) deriving from the ownership of said financial instruments; but the conditions of the related TTCA may entitle the Client to receive a payment that represents said dividend, coupon or other payment (a "manufactured payment"). However, should the

Client receive or have a right to receive a “manufactured payment”, the taxation of that payment may differ from the taxation applicable to the dividend, coupon or other payment that would have been directly received by the Client as owner of the financial instrument.

In addition, should the Bank cease to be the owners of the financial instruments received under a TTCA and not be capable of promptly obtaining equivalent financial instruments to give the Client at the requested time: (a) the Client may not be capable of fulfilling their delivery obligations (concerning the same financial instruments) to third parties; (b) a counterparty, a market or another entity may initiate a buy-in process regarding the relevant financial instruments; and (c) the Client may not be able to exercise rights or undertake any other action in connection with said financial instruments.
As regards the financial instruments received under a TTCA, without prejudice to any other agreement, the Bank is not required to inform the Client about events or corporate actions which might involve said financial instruments.
The transfer of the financial assets to the Bank as collateral and the return to the Client of an equivalent value may imply tax consequences that differ from those that would apply to the Client if they had maintained their ownership of said financial assets.

In the event of an insolvency or bankrupt of the Bank, the claim of the Client (delivery of equivalent financial instruments and/or return of cash) might not be warranted and the fulfilment of the Client’s claim shall be regulated by the terms of the relevant agreement and applicable law. Therefore, the Client may neither receive equivalent financial assets nor recover their entire value (subject to the option of redeeming the corresponding receivable by offsetting and/or enforcing close-out netting clauses).
If the Bank is required to enforce a measure or a resolution instrument pursuant to Legislative Decree no. 180, the provisions laid down in point 1.5 of this Section (“Bail-in risk") shall also apply to the TTCA signed between the Client and the Bank, as well as to the related Client's receivable.

B - TYPES OF FINANCIAL INSTRUMENTS AND PRODUCTS

This section describes the main types of financial instruments and products that may be traded by customers (for commercial reasons, the Bank reserves the right to change the list and prevent its customers from trading them based on their classification):

- Shares or securities representing risk capital
- Debt securities
- Stocks and shares of collective investment undertakings (common funds and SICAV)
- Insurance investment products
- Derivative financial instruments

1) Shares or securities representing risk capital

The most common unit that represents capital is the share; therefore, by purchasing shares, one becomes a member of a company and takes part in the economic risk of the business. The value of shares may vary, even significantly and suddenly, in connection with the activities and results of individual issuers and depending on the conditions of the market and the economy in general. Investing in equity securities entitles a person or entity receive a dividend on the profits that may have been earned during a given period. However, the general shareholders’ meeting may determine that no dividend be distributed. If the issuer goes bankrupt, it is almost impossible for the holders of equity securities to have all or part of their investment returned. According to the Italian legislation, each type of share has specific rights: **ordinary shares** give the holder administrative, equity and mixed rights, including the right to take pa in ordinary and extraordinary general meetings, the right to receive dividends and a portion of the liquidation if the company is wound up. **Preferred shares**, **savings shares** and **dividend-right shares** give the holder different rights than ordinary shares. **Savings shares** do not include the right to vote during the meeting, but give priority in the distribution of the dividend compared to ordinary shares. Preferred shares confer a priority right over ordinary shareholders in the distribution of profits or in the allocation of assets if the company is liquidated. Shares may be registered or bearer shares. The main risks associated with this type of instruments are the price risk and the issuer’s insolvency risk. If securities are denominated in currencies other than the euro, the instrument is also exposed to the exchange risk. In case of issuers regulated by the BRRD, there is a bail-in risk.

2) Debt securities

Debt securities constitute a debt for the issuer and a credit for those who buy them. Debt securities are issued by companies mainly for collection purposes. In fact, their issuers receive resources to be repaid at a given preset maturity date (as a single payment or as a progressive repayment at different dates) or, in special cases (early repayment or repurchase on the market), at a (fixed or variable) repayment price. Usually, the holders of the financial instrument are also recognized a (fixed, variable, or mixed) nominal interest rate, which is paid with different methods (coupons or zero coupons). Debt securities may be, for example, government bonds, supranational bonds, corporate and bank bonds (e.g. structured bonds, convertible bonds, subordinated bonds, etc...).

2.1 Government bonds

Government bonds are financial instruments issued by national governments, including those of Emerging Countries, both in euro and in other currencies. Upon maturity, the holder is repaid their nominal value and a coupon yield or a yield determined as the difference between the nominal value (or selling price) and the issue price (or purchase price).

Italian government bonds are issued by the Ministry of the Economy and Finance (MEF) to finance the State's requirements. The main types of government bonds in Italy at present are:

Buoni ordinari del tesoro (BOT, *Treasury Bills*): fixed-rate, zero coupon securities of a duration not exceeding 12 months.
Certificati di credito del tesoro (CCT, *Treasury Credit Certificates*): variable-rate securities, with coupons indexed to the yield of BOTs, of a usual duration of 7 years.
Certificato di Credito del Tesoro indicizzato all'Euribor (CCTeu, *Euribor-indexed Treasury Credit Certificates*): variable-rate securities, with coupons indexed to the Euribor rate, of a usual duration of 7 years.
Certificati del tesoro zero coupon (CTZ, *Zero Coupon Treasury Certificates*): fixed-rate, zero coupon securities of a duration not exceeding 24 months.
Buoni del tesoro poliennali (BTP, *Multi-year Treasury Bills*): fixed nominal-rate securities, payable with six-monthly coupons, whose duration usually varies from a minimum of 3 years to a maximum of 30 years. Multi-year treasury bills may also be indexed to inflation (known as "BTPi"), which are variable-rate securities that protect the investor against price level increases. In fact, both the principal repaid at maturity and the coupons paid every 6 months are revalued based on the inflation of the Euro Area countries (Eurostat index). Their duration typically varies from 5 to 30 years.
The main risks associated with this type of instruments are the interest rate risk, the credit spread risk and the issuer's insolvency risk, i.e. the sovereign risk, since these are public debt securities (for a detailed description of risks, please see previous paragraph on general risks).

2.2 Supranational Bonds

Supranational bonds are issued by international institutions and entities (e.g. European Investment Bank), which cannot be identified with a single country since they refer to a plurality of sovereign states. Usually these financial instruments are issued with collection purposes, to finance government or private projects in different countries. Securities may be denominated in strong currencies (euro, US dollar, pound sterling, etc.) or in currencies of emerging countries.

The main risks associated with this type of instruments are the interest rate risk, the credit spread risk, the issuer's insolvency risk, the exchange rate risk (if denominated in foreign currency), even though the credit risk, strictly speaking, for these instruments can be limited (for a detailed description of risks, please see previous paragraphs on general risks).

2.3 Corporate and Banking Bonds

Corporate Bonds are debt securities issued by private companies, essentially banks and industrial companies, generally characterized by a greater yield with respect to government securities of similar duration. This category includes a wide range of bonds: from the simplest fixed-rate bonds (which pay a yield calculated based on a constant interest rate for the entire duration of the loan) and variable-rate bonds (which pay yields calculated based on an interest rate that may vary during the term of the loan), to index-linked bonds (whose yield and/or redemption value depend on the performance of a reference parameter), convertible bonds (which can be converted into shares), and bonds characterized by a greater risk, known as "structured" and subordinated bonds. Bonds may be distinguished into:

a) **Senior bonds:** if the issuer cannot pay interests or repay the principal, the bearer of the bonds may be satisfied similarly to the other unsecured and privileged creditors of the issuer. In their turn, senior bonds may be subdivided into:

- ***ordinary*** bonds "called "plain vanilla"), which confer the right to receive interests, according to preset procedures, and, upon maturity, the repayment of principal equalling the nominal value; they do not incorporate any derivative component;

- ***Structural bonds*:** more complex and less easily understandable financial instruments. In particular, their "structure" is based on the combination of two elements: a) an ordinary bond component, which may or may not include the payment of periodic coupons and which ensures the return of the nominal value of the security; b) a derivative agreement, where the remuneration of the investor depends on the results achieved by one or more financial or real parameters, ***such as,*** for example, indices or combinations of stock market indices, shares, common funds, exchange rates or raw materials;

- **Convertible bonds**: financial instruments that can be converted, at the investor's discretion, and in predetermined periods, into shares (known as "compendium shares") of the company that issued the same bonds or of a third-party company. As a result of the conversion, the investor shall cease to be a creditor of the entity that issued the bonds and acquire the equity and administrative rights of the shareholders of the company that issued the compendium shares.

b) **Subordinated bonds**: financial instruments where the payment of coupons and the repayment of capital, in case of financial difficulties for the issuer, depend on the satisfaction of the other non-subordinated (or lower-tier subordinated) creditors. This is exactly the reason why subordinated bonds should yield more than a non-subordinated bond of the same issuer with similar characteristics. It is important to bear in mind that a security may be characterized by various levels of subordination, which correspond to different risk levels. The main types of outstanding subordinated bonds issued by banks can be classified based on their degree of subordination, which can be represented as follows in descending order:
It starts goes from the lowest levels of the so-called **Lower Tier 2** bonds, which differ from ordinary bonds in that the latter enjoys a priority if the issuer is liquidated. Coupons (which may be fixed or variable) are always paid at the preset date and are blocked only in the event of insolvency, without prejudice to any further restrictive measure adopted by bank supervisory authorities.
Their maturity is between 5 and 10 years. At the same level of subordination, there are also **Tier 3** bonds, characterized by a shorter maturity compared to the previous type (less than 5 years).
At the next level we find the so-called **Upper Tier 2** bonds, which are riskier than the previous in so far as they provide for the possibility for the issuer to stop payment of the coupons in case of insufficient profits or suspension in the payments of dividends on ordinary shares. However, blocked coupons are cumulated and paid when the conditions that led to the suspension of the payment cease to exist, without prejudice to any further restrictive measure adopted by bank supervisory authorities.
Finally, we have **Tier 1**, the riskiest bonds: they have no maturity, even though the issuer can obtain earlier redemption at a preset period of time after the issuing (10 years). Here risk is high for the subscriber, because the payment of coupons can be cancelled (and not only suspended). Furthermore, in case of losses that may compromise the financial soundness of the issuer, the capital to be repaid is proportionally reduced by these losses.

The main risks associated with this type of instruments are the interest rate risk, the credit spread risk, the issuer's insolvency risk, the exchange rate risk (if denominated in a foreign currency), for which we refer the reader to the previous paragraphs on general risks. The price risk is to be added to the case of convertible bonds.
For bank bonds there is also a bail-in risk (see § 1.5), which becomes particularly high in connection with the "degrees of subordination" specified for each security in case of "subordinated bonds" implying a subordination risk.
The investor must also be aware that, even for bail-in purposes, the degrees of subordination and credit hierarchies may be modified over time by primary and secondary prudential guidelines; therefore, the risk profile associated with bank bonds and each type of subordinated bond should be interpreted and assessed in the light of the applicable legal framework in force at the time of each individual transaction, taking into account any new types of bonds and the levels of subordination introduced from time to time by the relevant legislation.
After the introduction of the bail-in regulations (in force since 1 January 2016) and their consequences for the holders of subordinated bonds in a bankrupt bank, investing in these instruments should be evaluated with even more attention and prudence, in consideration of one's risk propensity.

2.4 Asset Backed Securities ("ABS")

Asset Backed Securities are bonds issued by a corporate vehicle ("SPV") in case of securitization transactions. They pay the holder a number of coupons at preset maturity dates, for an amount determined based on fixed or variable interest rates. The holder of said securities accepts the risk of a partial non-repayment of the invested capital if the amount of the receivables assigned for securitization is not partially or fully collected. The main risks associated with this type of instruments are the interest rate risk, the credit spread risk, the issuer's insolvency risk, the exchange rate risk (if denominated in a foreign currency), for which we refer the reader to the previous paragraphs on general risks. For ABS, the issuer is a SPV capable of repaying the financial instruments issued only to the extent of the solvency of the underlying securitized credit portfolio.

2.5 Covered Bonds

Covered bonds are bank securities guaranteed by assets that, in the event of the issuer's insolvency, will be used for the fulfilment of the rights of bondholders on a priority basis. The structure of the product and its financial scheme envisage the transfer by a bank to a vehicle company of high credit quality assets (e.g. mortgage loans) and the require a bank, which may even differ from the transferor, to issue debt securities guaranteed by the SPV by using the assets purchased and used to create separated equity.
The risks associated with this type of instruments are the interest rate risk, the credit spread risk and the issuer's insolvency risk. For these securities
the credit risk is mitigated by the fact that the guarantee of the securitized credit portfolio operates in conjunction with that of the issuer (for a detailed
description of risks, see the general section on risks).

2.6 Stocks and/or shares of undertakings for collective investment ("UCIs")

This category includes those bodies that play carry out the function of investing savings in a collective form. All the subscribers enjoy profits and bear losses to the same extent, or better, proportionally to the amount they contributed to the fund, i.e. the number of shares held. In fact, the funds are divided into many units, called shares, which are subscribed by the savers and grant equal rights. The sum of the shares subscribed by savers identifies the extent of their participation in the fund.
The investment is protected with the qualification of the fund as legally separated equity, separated both from the assets of the management company and from the assets of individual members; therefore, the creditors of the management company cannot attack the fund to repay their debts (and consequently cannot affect the rights of members).
Management is performed by individuals who perform this task as a profession under a mandate for the management of the fund according to predefined investment criteria. The savings of each investor converge into a large-size equity (the fund), which allows for a diversification of investments that would be difficult to obtain directly from individual investors.
It is an instrument designed to increase the value of equity, but which does not always guarantee a yield.
Those who invest in funds may even not obtain the refund of the entire capital paid in. Even funds characterized by conservative risk profiles and by extremely cautious investment policies may suffer losses.
Therefore, investors should be aware that, even though the funds allow for a distribution of risk, subscribing shares of funds means to invest in assets that are necessarily characterized by - sometimes unpredictable - value fluctuations.
The legislation laid down various types of UCIs which may be found in the market, with a first distinction criterion being their structure, which distinguishes open funds from closed funds and SICAV funds.
The structure of **open-end funds** allows investors to subscribe shares or request their repayment at any time. In fact, their assets are not fixed in a predetermined amount, but can vary continuously by increasing in case of new subscriptions or decreasing when repayments are made (as well as increasing or decreasing based on the changes in the value of the securities in the portfolio).
Closed-end funds, instead, have default assets, which may not vary as a result of new subscriptions and repayments and is therefore divided into a predetermined number of shares. Share can therefore be subscribed, subject to availability, only during the bid stage, which takes place before starting actual operation, and repayment normally occurs only upon maturity. In some cases, they can be purchased or sold on the stock exchange if admitted to listing.
The different structure is associated with the different investment policies. Closed-end funds are used for investments with a little liquidity and with a long term (real estate, receivables, non-listed companies). For these reasons, the management of the fund should rely on the stability of the fund's equity for given time periods, not being influenced by the possibility of continuous repayments. Open-end funds, instead, generally invest in shares, bonds and other listed instruments that may be traded in the market at any time. For this reason, open-end funds do not need a particularly stable equity, since any liquidity requirements can be addressed by selling the securities in the portfolio.

Then there are **common investment funds** and **SICAVs**: even though they have the same economic function (i.e. the collective management of the sums entrusted by savers), the substantial difference between them is that, while the common fund is an asset in itself, created with the money of subscribers and managed by a specific type of company (savings management companies or SGR), SICAVs are actual companies whose subscribers acquire the status of members with the relevant rights (e.g. voting right). In practice, they both perform at the same economic function.

A last criterion, based on compliance with the Community legislation, allows for the identification of the so-called **"harmonized funds"**. These are open-ended funds and SICAVs created in European Union countries that invest primarily in listed financial instruments (shares, bonds, etc.). The term "harmonized" stems from the fact that follow common rules and criteria, laid down at European Community level (Directive no. 2009/65/EC - UCITS IV) and transposed into national legislation with the aim to protect the interests of savers, substantially by limiting the risk that can be taken and by requiring a number of checks. In the framework drawn by EU regulations, harmonized funds must have similar characteristics 'regardless of their country of origin, so that they can be easily marketed in the countries of the Union. The reality, sometimes, has different shades, since Member States might have transposed the provisions of the directive not in perfectly identical manners.

Hedge funds are common investment funds where equities are invested in different assets, including riskier ones, than those laid down for open-end funds, in derogation from bans and prudential rules for the mitigation and splitting of risk established by the Bank of Italy. Even hedge funds can be distinguished into open- and close-end funds. Shares in hedge funds may be subscribed at any time, while repayment can be done on a monthly basis (quarterly in some cases). Hedge funds may not be offered to the general public.
Hedge funds are CIUs that fall within the scope of Directive 2011/61/EU. The regulations laid down in that directive concerns the management of non-UCITS CIUs, which include hedge funds, funds of hedge funds, real estate investment funds, private equity funds and other types of institutional funds.

2.8 Exchange Traded Funds (ETFs)

These are a type of common investment funds or SICAVs (also called "listed index-linked funds"), whose shares are traded throughout the day in at least one seat Trading Venue where at least one market maker takes action to ensure

that the price of its stocks or shares in trading venue does not deviate significantly from the respective net asset value, nor, if applicable, from the indicative value calculated in real time ("indicative net asset value"). Similar to the simple shares, their investment objective is to replicate their benchmark through a totally passive management. It shows the typical characteristics of a fund and a share. The buyer of an ETF is exposed to the typical risks of common investment funds and to the risk that the reference currency of the underlying index differs from the trading currency (euro); so that the yield could differ from the yield of the benchmark as a result of the depreciation/revaluation of that currency against the euro.
This category of ETFs come together with **structured funds**, whose shares are traded on the Stock Exchange as simple shares and whose investment objective, which is characterized by a totally passive management, aims to: (a) protect the value of the portfolio while taking part in any increase in the reference index; b) participate more than proportionally in the trends of an index; (c) participate in an inversely proportional manner to the movements of the reference market; (d) implement more complex investment strategies**.** Structured ETFs differ from traditional ETFs in that they use derivative financial instruments to allow the investor to replicate benchmark index trends with a leverage effect (ETF with financial leverage) or allow protection against excessive reductions in the reference market (ETF with partial protection of the capital). The use of derivative financial instruments agreed with a credit institution exposes the investor to the risk that the credit institution is unable to honour its commitments under these instruments. Structured ETFs may be characterized by the presence of a **"leverage effect"**.

2.9 Insurance investment products
The main financial products issued by insurance companies are:

- **Index-linked insurance policies**: These are insurance agreements where the amount of the capital insured is linked to the changes in the value of a stock index or another reference value. Therefore, the capital that can be recognized based on this agreement is affected by the fluctuations of the index or reference security, which may be affected by negative economic cycles, particularly if the term of the agreements is short. These products can offer guaranteed returned (e.g. the refund of at least the amount of the premiums invested or a minimum capital at maturity, or the payment of coupons during the term of the agreement) both if the insured is living or dead.

- **Unit-linked insurance policies**: These are insurance agreements where the amount of the capital insured is linked to the changes in the value of the shares of internal investment funds (specially created by the insurance company) or of external funds (CIUs) where the premiums paid are invested after deducting charges, the cost of life insurance, any ancillary coverage and management fees. Unit-linked policies subdivide internal funds into various classes, as a function of the investment risk. The contracting party may be allowed to choose the type of investment to which capital should be hooked and subsequently transfer the sums earned from one fund to another (switch), possibly paying a commission. These products may also include minimum return guarantees. They may also contemplate the payment of a single premium or periodic premiums.
If no minimum return guarantees is offered by the insurance companies, once should pay attention to the financial risks implied in the agreement and to risks - and therefore the contracting party.
Taking said risks may result in lower performances with respect to the premiums paid.

- **Financial capitalization products**: These contracts consist in the payment of single recurrent premiums that can be supplemented with additional optional payments, to create a capital that can be revaluated depending on the yield of the separate management of the insurance company to which the contract is connected.
In this type of policies, the risk of the investment is borne by the company and the insured is entitled to a minimum capital, which may possibly be revaluated at a guaranteed rate specified in the contract. This annual rate may vary each year within the limits specified by the applicable. In any case, the capital accrued at the contract expiry date may not be lower than the sum of the premiums paid, after deducting any redemption. These contracts may have a predetermined duration, with the possibility of being tacitly renewed for additional years.

- Traditional revaluable Life insurance policies: these are life insurance contracts whose performance is connected with the yield of a separate management of the insurance company. The premium invested in separate management is revalued on an annual basis as a function of the yields of said separately managed investments, thus implying certain results for the contracting client. This type of policy entails no risk of losing the capital invested if the insurance company gives a minimum return guarantee.
In this type of contracts, as long as the contracting party is alive, amounts are periodically paid which correspond to the revaluations recognized under the contract and, at the contract expiry date, an amount is paid equal to the premium paid, plus additional payments, after deducting any partial redemptions and the contract costs.
In case of death, during the term of the contract, the beneficiaries designated by the contracting party in the policy will receive the capital, revaluated at the date of death.
- **Composite policies:** These are insurance contracts that allow the insured to invest simultaneously a portion of the capital in a traditional separate management that guarantees the principal and a minimum yield, and another portion in unit-linked insurance funds that entitle the insured to yields based on financial market trends. These products combine a traditional life insurance policy with a unit-linked policy, which is an investment product with a high financial content.

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2.10 Derivative financial instruments

Derivatives are financial instruments whose value derives from trends in the value of an asset; this means that their value is determined by the occurrence, in the future, of a given event can be objectively observed. The asset or the event can be of any kind or nature and constitute the so-called "underlying" of the derivative. The value of derivatives varies with the varying value of the underlying, based on a ratio, which is specific for each derivative, represented by a mathematical formula. In most cases, this is a very complex formula that requires high-level mathematical and financial knowledge.
Derivatives are characterized by a very high-risk profile, which is very difficult to be appreciated by the investor due to its complexity. This requires the investor to perform transactions with these instruments only after fully understanding their nature and the degree of exposure to risk involved.
Investors should consider that the complexity of these instruments may facilitate the execution of inadequate transactions. Just consider that, in general, the trading of financial derivatives is not recommended to many investors. Once the risk of this operation has been assessed, the investor and the intermediary will check whether the investment is adequate for the investor, particularly by focusing on their financial situation, investment objectives and expertise in the specific field.

Obligations associated with the system of margins

In order to minimize the risk that those who have signed a derivative agreement will not deliver the money or the underlying asset on maturity, particularly with certain products traded in regulated markets, a clearing house system has been established that requires intermediaries to pay (or collect), on behalf of clients, when necessary, amounts proportional to the equivalent entity of the derivative. These sums are called "margins" and comprise initial margins, daily variation margins, additional intraday margins, and closure margins.
Initial margins are those to be paid by the investor at the time of a purchase or sale of futures or a sale of options on a special account as a guarantee of the positive outcome of the transaction. This margin is returned when the position is closed. The initial margin is usually a percentage of the total value of the contract, which may be amended at any time depending on the volatility of the market.
Daily variation margins are the amounts credited (or debited) to the intermediaries by the Clearing House at the end of each trading session and correspond to the positive (or negative) difference between the contract price of the previous day and the closing price officially registered in the market.
Additional intraday margins are those that may be requested by the Clearing House if, during the trading session, there have been sharp fluctuations in quotations with respect to the closure of the previous day. They are calculated on the basis of investor's overall exposure, after deducting any margins already paid up to that time. These margins must be paid exclusively in cash, within a short simultaneously established term. The Clearing House may suspend negotiations during the request period.
The purpose of margins on delivery (which only apply to derivatives that result in the physical delivery of the underlying) is to provide a guarantee against the risk of changes in the price of securities to be delivered between the last trading day of the contract and the date of delivery of the underlying. These margins are:
- applied to positions that have remained open at the end of the last trading day and that, by contract, require the physical delivery of the underlying asset;
- released after the fulfilment of the delivery/collection obligations during liquidation.

The leverage effect

A leverage effect is when a high amount of money can be invested by using only a little capital (initial margin). There is a leverage effect in derivative financial instruments, where connection with an underlying asset allows the investor to use a portion of the amount required to buy/sell the underlying asset.

More specifically, for futures contracts, the leverage is determined by the ratio between the total value of the contract and the margin paid. The smaller the initial margin with respect to the countervalue of the future, the greater will be the leverage effect. Depending on how the underlying asset behaves, this effect may generate profits or losses for the client that are definitely proportional to the variation in the price of the underlying asset. The margin paid initially, as well as the additional payments made to maintain the so-called open position, may consequently be completely lost. As regards futures, if market movements are not favourable or the investor, the latter may be required to contribute additional funds with a short notice in order to keep his position open in said futures. If the investor does not make the additional payments required within the time notified term, the position may be liquidated at a loss and the investor becomes the debtor of any other liability produced.

The main objectives associated with the trading of derivative financial instruments are the following:

- Hedging, to protect the value of a position from unwanted changes in market prices. The use of the derivative allows the investor to reduce the risk of adverse market trends by balancing the gains and losses of the position to be hedged with the gains and losses of the derivative market;

- Speculation, which means strategies aimed to make a profit based on the expected price trends of the underlying asset;

- Arbitrage, which is when a momentary misalignment between the price trend of the derivative and the underlying (which must coincide at the expiration of the contract) is wisely used to sell overvalued instruments and purchase undervalued instruments to obtain a profit without risk.

Some risk features of the most popular financial derivatives are described below.

Derivative financial instruments consisting of "Contracts"

Derivative financial instruments consisting of Contracts include exchange-traded derivatives and derivatives traded outside a regulated market called Over the Counter Derivatives (briefly "OTC Derivatives")

Exchange-traded derivatives are financial products that consist in contracts with characteristics designed and defined in a standardized manner by the management company of the market where they are negotiated. These standardized characteristics regard the underlying asset, duration, minimum trading size, payment methods, etc. In Italy, the regulated market of derivatives is called IDEM. The instruments traded in this market are futures contracts and option contracts having indices and individual shares as underlying assets. The IDEM is organised and managed by Borsa Italiana S.p.A.

OTC derivatives are traded outside regulated markets, directly between parties. It can therefore be difficult or impossible to liquidate a position or
appreciate the actual value and assess the actual risk exposure. For this reason, transactions with OTC derivatives require
higher risk levels to be accepted, which are more difficult to measure. In these transactions, the bank generally plays the role of counterparty of the investor. The parties may freely establish all the characteristics of the instrument. Before performing this type of transactions, the investor should obtain all the relevant information on the transactions, on the applicable rules, on any related commitment, on the guarantees required and on the consequent risks.

Forward and futures contracts

Forward and futures contracts are the two main types of forward derivatives that imply an agreement between two parties for the delivery of a certain amount of an underlying asset at a price ("delivery price") and at a specified date ("maturity date").
More specifically, forward contracts require a buyer to buy a specified underlying (either a commodity or a financial asset) at a future date. In this case, the buyer will have a long position in the underlying and the seller will have a short position.
The essential difference between a forward contract and a future contract is that the forward contract is an OTC derivative. This means that forward contracts are not generally standardized and imply a risk that one of the two counterparties will not fulfil the contractual commitments.

Futures are derivative contracts negotiated in regulated markets, by which buyer and seller agree to exchange a certain amount of a given financial asset or commodity (the "underlying asset") at a predetermined price, with the payment deferred to a given future date. It is a symmetrical contract, since both the contracting parties are required to pay at maturity. The player who buys a future (and thus agrees to buy the underlying at maturity) has a long position, while the player who sells the future has a short position.

In addition to the risk factors already described, the investor must also assess the financial leverage factor. The amount of the initial margin is reduced (a few percentage points) compared to the value of the contract, which means that is produces the so-called "leverage effect", as described above.

Special conditions of illiquidity of the market, as well as the application of certain rules in certain markets (such as suspensions resulting from abnormal price movements), may increase the risk of losses and make it impossible to carry out transactions or pay or neutralize positions. In case of positions deriving from the sale of options, the risk of loss may be increased. It should be added that the relationships normally existing between the price of the underlying asset and the derivative instrument may not hold on when, for example, a futures contract underlying an option contract is affected by price limits, while the option is not. The absence of a price of the underlying could make it difficult to express an opinion on the significance of the value of the derivative contract.

Options

Options transactions imply high risk levels. Investors willing to trade options must first understand the operation of the types of contract to be negotiated (put and call).

Purchasing an option

The purchase of an option is a highly volatile investment, which involves a high probability that the option has no value at maturity. In this case, the investor will have lost the entire amount used for the purchase of the premium, plus commissions. After buying an option, an investor may either maintain the position until maturity or perform an opposite transaction, or else, for "American" type options, exercise it before maturity. Exercising the option may require either the payment of a margin in cash or the purchase or delivery of the underlying. If the option is related to futures contracts, exercising it will determine the acceptance of a position in futures and the related obligations concerning the adjustment of warranty margins. An investor who is about to buy an option relating to an asset with a market price very distant from the price at which it would be convenient to exercise the option ("deep out of the money") should consider that the profitability of the transaction is a very remote chance.

Selling an option

Selling an option generally requires the investor to take up a much higher risk than that implied by its purchase. In fact, even though the premium received for the option sold were fixed, the losses that may be produced for the seller of the option would be potentially unlimited. If the market price of the underlying moves in an unfavourable manner, the seller of the option will be obliged to adjust guarantee margins in order to maintain his position. If the option sold is of the "American" type, the seller may be required to adjust the transaction in cash or to buy or deliver the underlying at any time. If the option sold regards futures contracts, the seller will take a position in futures and assume the related obligations concerning adjustments of the warranty margins.
The exposure of the seller to risk could be reduced by holding a position in the underlying (securities, indices or other) corresponding to that for which the option was sold.

Additional risk factors of futures and options transactions

In addition to the general risks factors described above, the investor should consider the following additional risks.

Contract terms and conditions

Investors should obtain information from their brokers about the terms and conditions of the derivative contracts they are willing to trade with a special focus on the conditions according to which the investor may be required to compulsorily deliver or receive the underlying of the futures contract and, as regards options, on maturity dates and exercise methods. In certain special circumstances, contract terms and conditions could be amended with a decision of the market supervisory authority or of the clearing house to incorporate the effects of any changes affecting the underlying assets.

Suspension or restriction of exchanges and of the relationship between prices

Special conditions of illiquidity of the market, as well as the application of certain rules in certain markets (such as suspensions resulting from abnormal price movements), may increase the risk of losses and make it impossible to carry out transactions or pay or neutralize positions. In case of positions deriving from the sale of options, the risk of loss may be increased.

It should be added that the relationships normally existing between the price of the underlying asset and the derivative instrument may not hold on when, for example, a futures contract underlying an option contract is affected by price limits, while the option is not. The absence of a price of the underlying could make it difficult to express an opinion on the significance of the value of the derivative contract.

The gains and losses related to contracts denominated in currencies other than the reference for the investor (typically the euro) may be affected by changes in the exchange rates.

<u>Swap contracts</u>

Swaps involve a high degree of risk. There is no secondary market and no a standard form for these contracts. At most, standardized contract forms may exist, whose details are usually adapted on a case by case basis. For these reasons, the investor might not be able to terminate the contract before the agreed expiry date, unless with very high costs. Upon signing the contract, the value of a swap is usually zero, but it can rapidly pass to a negative (or positive) value depending on the trends of the parameter to which it is connected. Before signing a contract, the investor should be sure he fully understood how and how quickly changes in the reference parameter are reflected on the determination of the spreads he will have to pay or he will receive. In certain situations, the investor may be called by the broker to pay guarantee margins even before the margin settlement date. In these contracts, it is particularly important for the counterparty to have a sound financial position, because, in the event that a favourable margin is generated by the contract for the investor, this will be actually received only if the counterparty is solvent. If the contract is signed with a third party, the investor should seek information on the soundness of that counterparty and make sure that the broker shall be liable in case of insolvency of the counterparty. If the contract is signed with a foreign counterparty, the risks of a correct execution of the contract may increase depending on the regulations applicable in the case at issue.

Financial derivative instruments qualified as "transferable securities" negotiable in the capital market

This category includes warrants, securitized derivatives, Exchange-Traded Commodities (ETCS) and **Exchange Traded Notes (ETN).**

A **warrant** is a security that can be described as similar to an option, which entitles the buyer to buy, subscribe or sell (with or without leverage effect) a certain amount of underlying assets represented by financial instruments, for a specified price (exercise price or strike price), at or within a specific maturity date, depending on whether the warrant is of the European or American type, respectively. Call-type warrants are typically also used by companies to make their bonds more attractive (“cum warrant bonds”) or to gather new resources with capital increases. A warrant is an instrument that can circulate separately from the main security and an issuer of warrants may also not coincide with the issuer of the underlying asset.

A **securitized derivative** is a derivative instrument incorporated in a negotiable security on the capital market. Compared to other categories of derivatives such as futures and options, securitized derivatives are not contracts, but rather securities generally issued by a financial institution. They include:

Covered warrants - These are securitized derivative financial instruments (negotiated in regulated markets or in other trading venues) that incorporate an option (with or without leverage effect) and that entitle the buyer to buy or sell a certain amount of underlying assets represented by financial instruments, indices, currencies, rates, commodities, precious metals, at a predefined price (exercise price or strike price), at or within a specific maturity date, depending on whether the covered warrant is of the European or American type, respectively.

Certificates - These are securitized derivative financial instruments(negotiated on regulated markets or in other trading venues), which may incorporate one or more options and entitle the purchaser to take part (with or without leverage effect) in the variation of the current market value of the underlying asset and receive (upon exercise), at or within a specific maturity date, depending on whether the certificate is of the European or American type, respectively, the underlying asset or the settlement, if positive, of the current market value of the underlying asset.

Certificates without a leverage effect (“investment certificates”) allow savers to invest in underlying assets with alternative styles both in terms of invested capital and in terms of risk. Leverage certificates may be either of the bull or bear type.

In Italy, based on the classification provided by the Italian Association of Investment Certificates and Products ("ACEPI", *Associazione Italiana Certificati e Prodotti di Investimento*), which brings together the main issuers of structured products, and particularly of certificates, certificates can be further subdivided into the following four main categories: 1) protected / secured capital instruments, 2) conditionally protected capital instruments, 3) unsecured capital instruments, and 4) leverage instruments. The certificates mentioned in points 1), 2), and 3) fall into the category of "Investment Certificates" (without leverage effect). The certificates mentioned in point 4) are commonly categorizes as “Leverage Certificates" (with leverage effect).

Certificates may have different characteristics and structures from those described above, particularly if issued by non-Italian issuers.

Exchange-Traded Commodities (ETC) are securitized derivative financial instruments traded on regulated markets or in other trading venues which exactly replicate the performance of raw materials or indices or raw material sub-indices. ETC are securities without maturity issued by a special purpose vehicle (SPV) against the direct investment of the issuer in raw materials or in derivative contracts (e.g. futures) on raw materials (e.g. gold, platinum, silver, palladium, etc.). The price of ETCs is therefore directly or indirectly linked to the performance of the raw material or basket of raw materials selected, which is exactly replicated and possibly converted into euros in the event that the trading currency differs from the European currency.
The use of derivatives exposes the investor to the risk that the counterparty of the derivative contract is not capable of fulfilling its commitments**.**
The financial instrument allows the investor both to bet on the positive trend of a single raw material and to diversify the investment through a basket of commodities.
The assets purchased by the issuer with the profits obtained with the subscription of the ETCs are a completely separate equity from that of the SPV and from those of any other issue. In addition, the assets purchased with the profits obtained with subscriptions, as well as any income generated by the same assets, shall be exclusively used for the satisfaction of the rights incorporated in the financial instruments in question, and possibly to cover the costs of the operation.
The assets included in the separate equity cannot be used by creditors other than the bearers of the related ETC.

Exchange-Traded Notes (ETN) are securitized financial derivatives that exactly replicate the performance of underlying assets or indices other than raw materials or indices of raw materials. ETNs are financial instruments that are issued for direct investment by the issuer in the underlying (other than a commodity) or in derivative contracts thereon. Therefore, their price is directly or indirectly linked to the performance of the underlying.
Just like ETFs and ETCs, ETNs are traded on a stock exchange just like shares and exactly replicate the performance of the underlying (typically an index) to which they are related.
In fact, ETNs enable investors to access different indices and underlying items than the raw materials covered by the ETCs. Just like ETCs, ETNs, rather than CIUs, are securities without a maturity, issued by a SPV for direct investment in the underlying or for investment in contracts on the same underlying, signed by the issuer with international players of high standing.
The use of derivatives exposes the investor to the risk that the counterparty of the derivative contract is not capable of fulfilling its commitments.
ETCs and ETNs may also be characterized by the presence of a "**leverage effect**".

The risks of derivative financial instruments are substantially associated with those of each individual underlying, means that these financial products can be potentially exposed to the different types of risk described in the general part. If the derivatives are issued by entities regulated by the BRRD, the investor is also exposed to the bail-in risk.

2.11 Complex products

Complex products are financial products characterized by a high complexity, which could not be fully understood and, or this reason, may affect the capacity of a client to make informed investment choices.
The guidelines issued by the Supervisory Authorities provide a simplified list of Complex Products and additional criteria for their identification, as well as indications and precautions to be adopted for their distribution to retail clients, because this type of investors may not be capable of properly assessing the financial characteristics of the instruments and/or financial products in question.
The simplified list identifies two main types of complex products:

- Complex Products listed in a "Black List", which include the following categories: (I) financial products deriving from the securitization of credits or other assets, (ii) financial products that lead to conversion into shares or reduction of the nominal value upon fulfilling certain conditions or on the initiative of the issuer, (iii) credit-linked financial products (exposed to a third-party credit risk), (iv) derivatives, referred to in art. 1, paragraph 2 ter, of TUF [Consolidated Finance Act], not traded in trading venues, with different purposes than hedging, (v) structured financial products not negotiated in trading venues whose pay-off does not make the full return of the capital invested by the Client certain upon maturity;

- Complex Products listed in a "Grey List", which include the following categories: (vi) derivatives, referred to in art. 1, paragraph 2 ter, of TUF [Consolidated Finance Act] other than those described in the point *iv* above, (vii) financial products with pay-offs linked to indices that do not comply with the ESMA guidelines of 18 December 2012 relating to ETFs, (viii) perpetual bonds, (ix) alternative CIUs, (x) structured financial products, negotiated in trading venues, whose pay-off does not make the full return of the capital invested by the Client certain upon maturity, (xi) products with a leverage greater than 1, (xii) UCITS referred to in art. 36 of EU Regulation no. 583/2010, as well as unit-linked/index-linked or non-life policies with similar characteristics.

As regards the Complex Products listed in the Black List, the Bank shall provide neither the advice service nor the placing and trading in financial instruments services to retail clients, but the Client will be able to disinvest any complex products already in the portfolio. This type of Complex Products is not even listed among the financial instruments that can be recommended for the construction of the Investment Portfolio relating to the provision of the Advanced Advice Service.
As to Complex Products listed in the Grey List which may be included in the Offer Catalogue, the Bank always provides the Advice Service in combination with the Placement Service; therefore, the transaction may be performed only if the assessment of suitability has a positive outcome. The Bank does not provide the Advice Service for this category of Complex Products in case of investment transactions in the secondary market falling within the scope of the provision of financial instrument trading services, without prejudice to the power to propose and advise disinvestment transactions.
Complex Products listed in the Grey List and issued by companies of the MPS Group may be purchased by the Client in the secondary market within the framework of financial instrument trading services only on the initiative of the Client:
a) after assessing their suitability, in the event of transactions carried out at the branch offices or sales network of the Bank;
b) after assessing their appropriateness, in the event of transactions ordered by the Client through remote channels or remote communication methods (i.e. the internet, telephone and mobile banking).
Complex Products listed in the Grey List and issued by companies that are not members of the MPS Group may be purchased by the Client in the secondary market within the framework of financial instrument trading services only on the initiative of the Client, provided that their appropriateness has been assessed.
Appropriateness is assessed by the Bank by considering the concentration level of Complex Products in relation to the investment objective of the Client and the size of their equity, as well as by determining a maximum threshold for the concentration of these products.

SECTION III
INFORMATION ON COSTS AND CHARGES

For the purposes of ex ante and ex post communication to Clients of information on costs and charges, the Bank shall disclose the following information in an aggregated form:
a) all costs and associated expenses applied by the Bank or by other parties, if the Client has been addressed to said other parties, for the investment service(s) and/or ancillary services provided to the Client;
b) all costs and expenses associated with the financial instruments.

Third party payments received by the Bank in connection with the investment service provided to a Client are detailed separately, and the aggregated costs and expenses are summed and shown both as a cash amount and as a percentage.

When a portion of the total costs and expenses is to be paid or shown in a foreign currency, the Bank shall indicate the foreign currency and the related interest rates and applicable exchange fees. Furthermore, the Bank shall provide information concerning payment methods or other services.

As to the communication of costs and expenses of products not included in the document containing key information for investors (KIID) in UCITS/CIUs, investment firms shall calculate and communicate these costs by establishing contacts, for example, with UCITS management companies to obtain relevant information.

The Bank is required to provide complete ex ante information on the aggregated costs and expenses of financial instruments and of the investment or ancillary services provided in due time when: a) the Bank recommends or offers financial instruments for sale to Clients; (b) the Bank is required, under the legislation of the European Union, to provide Clients with a KIID on UCITS or a document containing key information (KID) on retail and preassembled insurance investment products (PRIIP) regarding the relevant financing instruments.

When the Bank has recommended or offered one or more financial instruments and/or products for sale to a Client or has provided the Client with the appropriate KID/KIID regarding said financial instruments and has or has had a continuous relationship with the Client for one year, the Bank shall provide that Client with aggregated ex post information on an annual basis on all the costs and expenses of the financial instruments, investment services and ancillary services the Client has received. Said information shall be based on the actual costs incurred and provided in a personalised form.

SECTION IV
INFORMATION ON THE CLASSIFICATION OF CLIENTS

The legislation provides for the classification of Clients into the following three categories:
- Retail customers
- Professional clients
- Eligible Counterparties

Each of these categories shall enjoy a different level of protection, which will be reflected, in particular, on the obligations of the Bank.

Retail Clients are all those that have not been classified as Eligible Counterparties or Professional Clients. Retail Clients enjoy the highest protection level, particularly as regards the scope of the information they will receive from the Bank, the assessment of the suitability and appropriateness of the requested services and transactions performed, and the execution of orders concerning financial instruments at the most favourable conditions.

Professional Clients are those with the highest level of expertise and knowledge of financial markets, who are capable of making conscious decisions concerning investments after adequately assessing the risks involved. Consequently, the applicable legislation requires a reduced protection level for these Clients as regards the assessment of suitability and appropriateness and disclosure requirements.

The applicable legislation identifies the categories of persons or entities to be considered as Qualified Professional Clients: they are, for instance, banks, investment companies, insurance companies, savings management companies, pension funds, institutional investors, exchange agents, large-size enterprises[5].

Retail Clients - whether natural or legal persons - who meet certain requirements may ask to be considered as professional clients and will be defined as Professional Clients on request.

Eligible Counterparties are a subset of the category of Professional Clients that only concerns order execution, dealing on own account and order reception/routing services, as well as the related ancillary services. The rules of conduct laid down for the other categories of investors do not apply to these clients, provided that brokers are always required to behave honestly, fairly and professionally in respect of said clients.

Initial classification

The Bank, before providing investment services, shall notify the Client with the classification assigned and inform them about their right to request a different classification and any limits applying to the protection enjoyed under each profile.

Change in classification

The classification that is originally assigned to clients may be changed either on the initiative of the Bank (only to pass to a greater protection) or on the Client’s request.

[5] I.e. those that meet or exceed at least two of the following dimensional requirements: a) financial statement balance of € 20,000,000 or more; b) net sales of € 40,000,000 or more; c) capital of € 2,000,000 or more.

The Client, following a specific procedure that will be disclosed, may ask the Bank to pass to a more protected category (from Professional Client to Retail Client) or to a less protected category (from Retail Client to Professional Client on Request).
For the specific request to be classified as a Professional Client, a client must demonstrate that they meet at least two of the following requirements:
1) they performed significant transactions on a relevant market with an average frequency of 10 transactions per quarter over the four previous quarters;
2) have a portfolio of financial instruments whose value exceeds EUR 500,000, including cash deposits;
3) work or have worked in the financial sector for at least one year in a professional position that assumes the knowledge of the transactions or services requested.
With legal persons, the assessment will concern the person authorized to perform transactions on their behalf and/or the same legal person.
The Client may ask to be classified as a Professional Client only on a general basis, which means that said request may not be limited to a specific investment service or transaction or to a type of transaction or product.
The Bank shall carry out a proper assessment of the competence, expertise, and knowledge of the Client and has the power to accept or reject the request, and then notify the Client about the outcome of the assessment.
Professional Clients are required to inform the Bank about any changes that may affect their classification.

ANNEX A

INFORMATION DOCUMENT ON THE CONFLICTS OF INTEREST POLICY

The MPS Group implements and maintains an effective and adequate global policy on conflicts of interest, which also takes into account the circumstances that may cause a conflict of interest resulting from the structure and the activities of the other intermediaries of the MPS Group.
The MPS Group Policy is designed to identify and prevent or manage any conflict of interest arising in the provision of investment services by adopting measures in accordance with the provisions of Directive 2014/65/EC of the European Parliament and of the Council ("MIFID II" - acronym of Markets in Financial Instruments Directive), with the Delegated Regulation (EU) 2017/565 of the Commission of 25 April 2016 ("Delegated Regulation"), by Legislative Decree no. 58 of 28 February 1998, as subsequently amended and supplemented ("TUF"), and by the Intermediaries' Regulation adopted by Consob with Resolution no. 16190/2007, as subsequently amended and supplemented ("Intermediaries' Regulation").
The Bank identifies potential conflicts of interest (Art. 23, paragraph 1 of the MIFID II Directive) and, for each type of conflict, the appropriate organizational measures to manage or prevent such conflicts. Where the organizational measures adopted are not sufficient to provide reasonable assurance that the risk of causing harm to the interests of customers is avoided, the MPS Group's Policy is to clearly inform customers, before acting on their behalf, of the general nature and/or sources of said conflicts of interest that are detrimental for investors and of the measures adopted to mitigate those risks.
In addition, a specific register has been created (art. 35 of the Delegated Regulation), where the types of services/investment activities in connection with which a conflict of interest detrimental to customers has arisen or may arise are described and updated.
The internal rules of the MPS Group also establish and regulate organizational and accounting separateness between the various facilities of the Bank or of the companies of the MPS Group that are involved in the exercise of investment services that carry out activities in potential conflict. The functional and logistic separation of the activities described above is ensured and supervised through hierarchical and functional reporting to separate business units.

Furthermore, specific checks are performed to ensure that there are no conflicting correlations between the subjects of the MPS Group that simultaneously take part in the provision of the investment or ancillary services as regards the specific individual asset management service.

IDENTIFICATION OF CONFLICTS OF INTEREST
In order to identify the types of conflicts of interest that may arise during the provision of investment services, the internal policy of the MPS Group considers whether the Bank, a relevant person[6] or another company of the Group is in any of the following situations:

a) may realize a financial gain or avoid a financial loss at the customer's expense;

[6] A "Relevant Person" for the investment firm is:

a) a director, partner or equivalent, executive or agent connected with the company;

b) a director, partner or equivalent or executive of an agent connected with the company;

c) an employee of the company or an associated agent, as well as any other natural person providing services to and under the control of the company or an associated agent, who takes part in the provision of investment services and in the exercise of the investment activities of the company;

d) a natural person who is directly involved in the provision of services to the investment firm or to its associated agent within the framework of an externalisation agreement whose scope is the provision of investment services and the exercise of investment activities by the company.

b) has an interest in the result of the service rendered that is distinct from that of the customer;

c) has a financial or other type of incentive in giving priority to the interests of another customer or group of customers rather than those of the customer concerned;

d) performs the same activity as the customer, i.e. operates with the same financial instruments of the customer;

e) receives from a person other than the customer an incentive, in connection with the service provided to the customer, in the form of money, goods or services, other than the commissions or fees normally received for that service.

MEASURES FOR THE MANAGEMENT OF CONFLICTS OF INTEREST

To prevent or manage potential conflicts of interest, the companies of the MPS Group adopt measures and procedures laid down by the relevant legislation, aimed at:

- preventing or controlling the exchange of information between the relevant persons who conduct business that might involve a risk of conflict of interest through the construction of information barriers (Chinese Walls);
- implementing a separate supervision of relevant persons who provide investment services or conduct business in potential conflict of interest. In particular, the persons involved in conflicting activities who have general management functions must be required to hierarchically report to different service managers;
- eliminating any direct link between the remuneration of the relevant persons who prevalently carry out a certain activity and that of other relevant subjects who prevalently carry out another activity in the event that a conflict between may arise between said activities;
- preventing or supervising the simultaneous or consecutive participation of a relevant person in different investment services or activities or ancillary services, when that participation may harm the proper management of conflicts of interest;
- eliminating or limiting the exercise of undue influence by any person on how a relevant person provides investment services.

In addition to the measures referred to above, which are expressly provided for by the relevant legislation, the Bank adopts additional measures, primarily designed to fulfil other regulatory obligations, which, however, are also useful to ensure a more effective management of conflicts of interest, such as procedures for the assessment of the adequacy of action recommended to customers, an execution policy, provisions concerning the prevention of market abuse, and incentive regulations.

The prevention or management measures adopted for each service/activity to supervise the types of conflicts identified for the intermediaries of the MPS Group, which are appropriately monitored and regularly updated in the special register, are described below.

Case a) Probability that the Bank realizes a financial gain or avoids a financial loss at the customer's expense		
Type of Conflict	**Disclosure YES/NO**	**Management measures**[7]
Simple placement of financial instruments (CIUs, insurance policies, certificates, etc.) issued by the Bank, by Group companies	YES	• Product Governance. • Absence of incentives and/or sales targets on individual investment products for the consulting personnel in the investment and portfolio management sector. • Staff remuneration policies. • Internal Group policies on the distribution of complex financial products to retail customers. • Controls against opportunistic revisions of MiFID questionnaires: suspension of the validity of the new questionnaire and maximum limit for annual changes. • Adequacy assessment procedures. • The possibility to refrain from carrying out
Placement with underwriting commitment or guarantee	YES	
Placement of financial instruments, with the Bank or one of the Group companies, selling a stake	YES	
Placement of financial instruments whose proceeds, based on a specific agreement, are used, in whole or in part, to repay the loans disbursed by the Bank or by a Group company	YES	
Placement of financial instruments deriving from the securitization of the Bank's loans	YES	

7 Any further measure, other than those provided for by the applicable legislation, is listed here (see section 2.2).

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Consulting on financial instrument investments, considering the options listed in the previous points	YES	placement activities with financial instrument issued by the Bank or by the Group companies in the presence of particularly delicate conflicts. • Sale and purchase consulting procedure. • Internal pricing policy.
Introduction of financial instruments in the management of portfolios, as referred to in the previous points	NO	
Consulting on divestments, combined with new investment operations	NO	

Case b) The Bank has an interest other than that of the customer in the result of the service provided to the customer or in the transaction carried out on behalf of the customer		
Type of Conflict	**Disclosure YES/NO**	**Management measures**
Placement of financial instruments structured by the Bank or by a Group company.	YES	• Product Governance • Internal policy concerning the activity of data contribution to the EURIBOR and EONIA indices • Absence of incentives and/or sales targets on individual investment products for the consulting personnel in the investment and portfolio management sector. • Staff remuneration policies. • Internal policy concerning the distribution of complex financial products to retail customers. • Controls against opportunistic revisions of MiFID questionnaires: suspension of the validity of the new questionnaire and maximum limit for annual changes. • Adequacy assessment procedures. • Sale and purchase consulting procedure. • Internal pricing policy. • Execution Policy.
Simple placement of financial instruments issued by parties related/connected with the Bank, by third parties financed by or associated to the Bank or a participating company to a considerable extent or that control the Bank	YES	
Dealing on own account or on behalf of a third party, receiving/routing orders on financial instruments issued by the Bank or Group companies	YES	
Dealing on own account or on behalf of a third party, receiving/routing orders on financial instruments issued by related parties connected with the Bank, by third parties financed by or associated to the Bank or a participating company to a considerable extent or that control the Bank	NO	
Dealing on own account with instruments connected with EONIA and EURIBOR indices, for which the Bank carries out data contribution activities	NO	
Placement of financial instruments structured by the Bank or by a Group company.	YES	
Placement of unit-linked insurance policies, where the underlying assets are assigned to the Bank for management	YES	
Introduction of financial instruments in the management of portfolios, as referred to in the previous points	NO	

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Advice on financial instrument investments, with the options listed in the previous points	YES	
Management of portfolios, investment advice and reception/routing of orders requiring the use of the MPS Group's negotiator	NO	

<u>Case c) The Bank has a financial or other type of incentive in giving priority to the interests of another customer or group of customers rather than those of the customer concerned</u>		
Type of Conflict	**Disclosure YES/NO**	Management measures
Placement of financial instruments issued by companies to which the Bank or a Group company provides business advice services	YES	• Product Governance. • Absence of incentives and/or sales targets on individual investment products for the consulting personnel in the investment and portfolio management sector. • Staff remuneration policies. • Internal policy concerning the distribution of complex financial products to retail customers. • Controls against opportunistic revisions of MiFID questionnaires: suspension of the validity of the new questionnaire and maximum limit for annual changes. • Adequacy assessment procedures. • Sale and purchase advice procedure. • Internal pricing policy.
Advice on financial instrument investments, considering the options listed in the previous points	YES	
Introduction of financial instruments in the management of portfolios, as referred to in the previous points	NO	

<u>Case d) The Bank conducts the same activity as the customer (deals with the same financial instruments of the customer)</u>		
Type of Conflict	**Disclosure YES/NO**	**Management measures**
Provision of services of portfolio management, advice, reception and routing of orders and trading on behalf of third parties, and conduction of a proprietary trading activity with the same type of financial instruments	NO	• Internal policy regulating the prevention of market abuse. • Internal policy regulating personal operations.

Provision of services of portfolio management, advice, reception and routing of orders and trading on behalf of third parties, and conduction of personal operations for the relevant persons of the Bank with the same type of financial instruments	NO	

<table>
<tr><td colspan="3"><u>Case e) The Bank receives or will receive from a person other than the customer an incentive in connection with the service provided to the customer, in the form of money, goods or services, other than the commissions or fees normally received for that service.</u></td></tr>
<tr><th>Type of Conflict</th><th>Disclosure YES/NO</th><th>Management measures</th></tr>
<tr><td>Placement of financial instruments issued by third-party companies, on which the issuer, the management company, the insurance company gives subscription, placement, management, exit fees back to the placer</td><td>YES</td><td rowspan="5">Internal incentive policy.
Absence of incentives and/or sales targets on individual investment products for the consulting personnel in the investment and portfolio management sector.
Staff remuneration policies.
Internal policy concerning the distribution of complex financial products to retail customers.
Controls against opportunistic revisions of MiFID questionnaires: suspension of the validity of the new questionnaire and maximum limit for annual changes.
Adequacy assessment procedures.
Sale and purchase advice procedure.
Internal pricing policy.</td></tr>
<tr><td>Placement of financial instruments issued by third-party companies, in relation to which the Bank receives non-monetary incentives</td><td>YES</td></tr>
<tr><td>Advice on financial instrument investments, as per previous points</td><td>YES</td></tr>
<tr><td>Introduction in the management of portfolios of financial instruments for which the manager receives rebates[8] or non-monetary incentives</td><td>NO</td></tr>
<tr><td>Reception of investment research by the manager of portfolios</td><td>NO</td></tr>
</table>

DISCLOSURE ON CONFLICTS OF INTEREST IN FAVOUR OF CUSTOMERS

Where the organizational or administrative provisions adopted to manage conflicts of interest are not sufficient to ensure with reasonable certainty that the risk of causing harm to the interests of customers is avoided, the Bank shall notify the customer in advance on the actual existence of conflicts of interest and risks, as well as on any action adopted to mitigate them, by adding specific disclaimers in its order, subscription or information forms. This information is disclosed before the completion of each financial product sale transaction.
In addition to this, the Information Document on the Conflicts of Interest Policy is delivered to clients before they sign the agreements for the provision of investment services/activities and is available for consultation on the company's website, as well as in the home banking application. The Bank will provide further details about the provisions applied upon request by the Counterparty.

[8] Internal policies regarding incentives do not allow for rebates on portfolio management or, alternatively, establish an obligation of fully return to the customer. As envisaged by the European legislation.

ANNEX B

INFORMATION ON THE ORDER ROUTING STRATEGY

A summary of the above-mentioned “ORDER ROUTING STRATEGY" is published on the website of the Bank at the following link: www.Mpscapitalservices.it/trasparenza and will still be sent by the Bank to the Client with a specific document before the contract is signed. The Client, having reviewed and understood the terms of this Agreement, hereby declares that they have received in due time, read and fully understood the summary of the Order Routing Strategy before signing the Agreement.