



**MONTE  
DEI PASCHI  
DI SIENA**  
BANCA DAL 1472

# JST QUARTERLY MEETING

COMPLIANCE OFFICER

*Siena, 11<sup>th</sup> of October 2018*

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The document contains relevant updates to the slides of July 2018, which are fully reported in the attachment.



# The new compliance policy

## Hierarchy of corporate regulatory sources

- a) Policy di Compliance (D. 2163)
- b) Direttiva di Gruppo in materia di Gestione del Rischio di non conformità (D. 1277)
- c) Gestione del Rischio di non conformità (D. 1413 – Process document)
- d) Regole in materia di metodologia di valutazione nella Gestione del Rischio di non Conformità (D. 1968)

## Main elements

- The Compliance Function oversees the respect of all the rules applicable to the Bank as expected from Supervisory Authorities. The Group's Internal Control System (see 1030D00793), in accordance with the provisions of the Supervisory Provisions, provides for a systematic collaboration between the Corporate Control Functions
- The Policy defines the models and the rules adopted by the Group regarding Compliance coherently with the Group Policy on the Internal Controls System (1030D00793) and with the Group Policy on Risk Management (1030D01114). This document defines also rules and models related to the Compliance Macro-process, identifies the management methods and the intervention perimeter of the Function.
- Previously, was adopted a decentralized compliance model, that envisaged that the matters with the greatest impact (n. 15 cd. "core") were overseen by the Compliance Function and the remaining (n. 17 cd. "non core") were delegated to the Specialized Functions
- As part of the activities to adapt to the "New prudential regulatory provisions for banks" the Holding Company has adopted, a "Compliance Model" **centralized for the Italian Companies** identified according to proportionality principles, in relation the complexity of the situations and the risks generated, **and decentralized for the foreign branch**.

The model follows an approach based on the management of the risk of non-compliance with regard to a business activity.

In the foreign branch the responsibility for Compliance risk is **attributed to specific Compliance Officer**.

- In this context, a Group Rule Map has been developed to implement the specific responsibilities of overseeing the regulatory areas. Actually the Compliance Function oversees n. 19 matters ("*Aree normative*") while n. 2 matters are oversee by Specialized Function.
- Taxonomy of regulatory areas and risk assessment methodology have been standardized for the whole Group.



# Organizational setup following the centralization of the group's Compliance functions

- The new «**Centralized Model**» for the governance and management of compliance risk provides for the **direct supervision** of the Compliance Function on the regulatory areas:
  - ✓ falling within the **Bank's scope of operations** (with assignment of operating activities to only two specialized structures for the rules on "Health and Safety in the workplace and Environmental Protection" and "Tax Compliance");
  - ✓ relating to **the scope of the Group's Italian subsidiaries**, subject to Supervision, including the «Consorzio Operativo di Gruppo».
- The services provided to Italian subsidiaries are regulated by **specific outsourcing agreements**. (BMPS Outsourcing Department quarterly monitors the provision of services and requires the quantification of the activities carried out in terms of hours provided for each deliverable envisaged by agreements).
- For companies characterized by organizational and operational peculiarities (Widiba, MPS Capital Services), the agreements provide for two specific roles:
  - ✓ «**Referente locale della Funzione di compliance**», functionally dependent on the Parent Company and has duties assigned by the Supervision (Circ. 285 della Banca d'Italia).
  - ✓ «**Referente cliente**» (o referente dell'accordo), which verifies the correct execution of the activities.
- This provision is also aimed at minimizing the possible "**conflicts**" between the service providing structure.

## Strengths of the new model

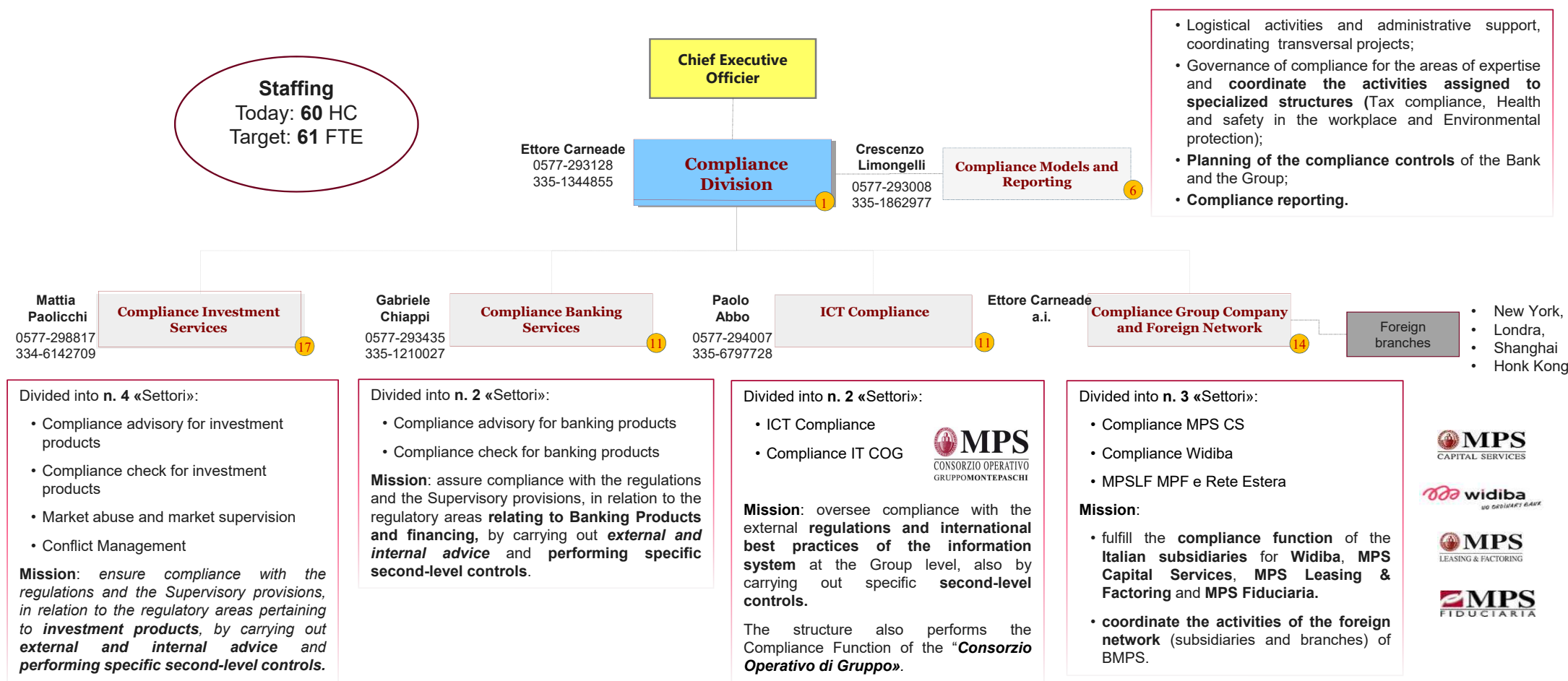
- availability of **higher resources specialization** on compliance issues (including specific impact);
- **economies of scale**, especially on issues currently considered "non-core", with simultaneous expansion of the compliance regulations;;
- reserve of **capacity**, in case of "peaks" of extemporaneous activities;;
- **increasing the efficiency** of the overall supervision at Group level, eliminating the need for **coordination and exchange of flows**;
- optimization of activities and methods for monitoring compliance risk and information flows between the subsidiary and the parent company;
- strengthening the Group's governance on strategic issues, at the same time freeing up work time of compliance resources dedicated to subsidiaries from other activities (for example, administrative, support, planning and reporting activities, etc.);
- functional report the Head of the Parent Company of the monitoring of the non-compliance risks of the Local Contact of the Compliance Function at the subsidiaries.

## Operational modes of coordination

- participation of the Head of Compliance Division (or his delegate) at events and **specific initiatives** of subsidiaries;
- take part in the Group **coordination meetings of the Compliance Division**. This meeting describes the progress of the activities in progress and the main findings of the project and / or verification activities are "participated" in order to assess their applicability or impact capacity on entities other than those in which the phenomenon emerged;
- maintenance in the control of the management of the prescriptive requirements **for the protection of personal data**, centralizing only the verification activities related to the Privacy aspects in the Parent Company, thus also ensuring greater third party in carrying out controls;
- collaboration in monitoring and carrying out **checks for specific areas** (es. Compliance ICT, etc.)
- adoption of a **common taxonomy of the regulatory areas** with alignment and homogenization of the compliance monitoring perimeter;
- adaptation of the **methodologies used by the subsidiaries**, standardizing **taxonomies and scales of risk assessment** and adopting **common operating procedures** for the execution of the **II level controls**
- extension of **the functionalities of the IT applications** used by the Parent Company (Compliance Platform and RIGAM);
- **strengthening of the reporting process**, including through the adoption of uniform methods for representing the risk of non-compliance.



## Present level and features of the compliance function's staff



On september 2018 a new resorce has been added to WiDiBa team. Two other resources will be inserted by December 31<sup>st</sup>.



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## MiFID 2 Regulation

### MIFID 2

Since 2nd January 2018 the bank complies with MiFID 2 Regulation. In the first months of the year a minority part of the requirements were not covered by IT solutions; these have been automated during the second quarter of the year.

In particular, with regard to basic advice, the operations carried out by natural and legal persons have been completely centralized on the new procedure “Advice” on June 9th, with the simultaneous closure of different procedures used before.

With regard to advanced advice, the new adequacy assessment model has been released on July 2nd with the adoption of the same criteria used in the basic advice and the addition of an adherence control with the model portfolio identified according to the customer's risk Profile.

In order to prepare the personnel of commercial network for the new regulations, various types of training activities were carried out during the 2017 and in the first months of 2018 (classroom courses, webinars, wbt, video). In addition, the mandatory professional update required by Consob Regulation n. 20307/2018 began in April (see next slide).

Compliance Function and First Level Control Area have carried out checks on the new rules introduced by the Bank in order to comply with Mifid 2 (slide 12) show the results of the most recent checks). In particular these controls have shown: (1) a still too high frequency of disinvestments flagged N (non advisable for sale) and (2) the presence of possible attempts to circumvent the cost/benefit control in case of switching investments. Business Functions and First Level Control Area have been asked to illustrate the initiatives that they intend to adopt in order to oppose to these conducts.



## Training activities (1/4) – MiFID 2

### CONSOB REGULATION N. 20307/2018 (IMPLEMENTING THE PROVISIONS ON INTERMEDIARIES): PROFESSIONAL UPDATE

The “professional update” requested by Mifid II will be guaranteed for 2018 through training in mode e-learning. The contents have been entirely prepared by the company Prometeia, certified body UNI EN ISO 9001:2008 sector EA37. Even the computer platform that will be used is owned by the company Prometeia.

At the end of the course of 30 hours, participants will be called to conduct in the classroom a test of knowledge and skills. The conduct of the test will be supervised by internal personnel.

Upon passing the test an attestation will be released – in electronic mode – to the participant. The completion of the training is necessary to continue providing investment services after 31.12.2018. If the participant doesn't pass the test he/she will continue providing investment services under supervision of the senior staff member (supervisor).

The compliance function is carrying out checks with reference to the provision of the training.

#### UPDATE TRAINING ACTIVITIES (03/10/2018)

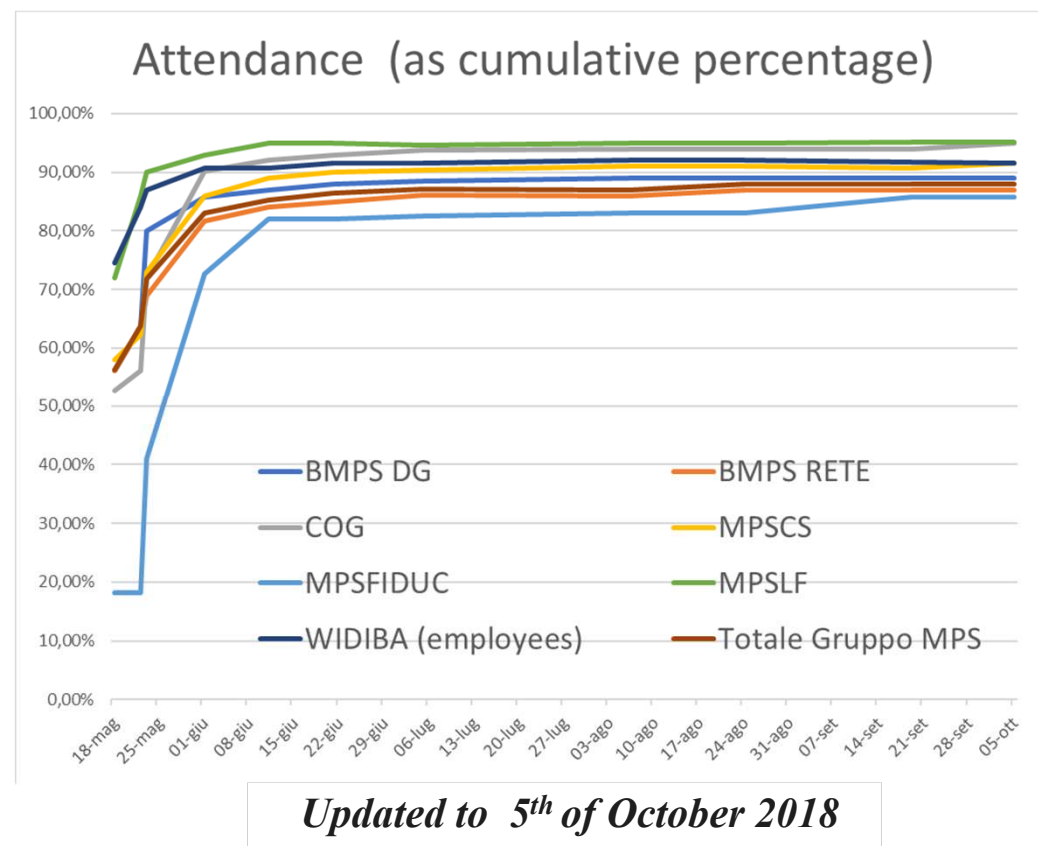
AT - TERRITORIAL UNITS	NO COURSE		COURSE IN ITINERE								COURSE COMPLETED		TOTAL	PASSED TEST	% PASSED TEST
	0%	%	<25%	%	25%-50%	%	50%-75%	%	>75%	%	100%	%			
Area Territoriale Nord Ovest	20	1%	11	1%	10	0%	16	1%	8	0%	1.936	97%	2.001	917	88%
Area Territoriale Nord Est	16	1%	14	1%	16	1%	32	1%	44	2%	2.450	95%	2.572	658	90%
Area Territoriale Toscana	8	0%	8	0%	4	0%	10	0%	10	0%	2.338	98%	2.378	1.287	95%
Area Territoriale Centro e Sardegna	9	0%	7	0%	8	0%	14	1%	29	1%	1.979	97%	2.046	886	91%
Area Territoriale Sud e Sicilia	27	1%	24	1%	16	1%	38	1%	31	1%	2.646	95%	2.782	1.234	89%
<b>Total</b>	<b>80</b>	<b>1%</b>	<b>64</b>	<b>1%</b>	<b>54</b>	<b>0%</b>	<b>110</b>	<b>1%</b>	<b>122</b>	<b>1%</b>	<b>11.349</b>	<b>96%</b>	<b>11.779</b>	<b>4.982</b>	<b>91%</b>





## Training activities (2/4) - GDPR

- Developed a training material to be delivered online through the group's web training platform
- Self training session opened on May,7<sup>th</sup>
- All group's employees (more than 22800) are registered «ex-officio», with notification via email
- Course is considered completed only if the final test, of 15 questions randomly chosen from a basket of 20, is passed with 70% of correct answers
- Periodic reminders sent by email to employees. After June,11<sup>th</sup> the list of those who didn't take the course has been transmitted to the human resources managers in order to send individual reminder
- Training material has been provided to Widiba for training sessions to financial advisors (independent professionals, not Widiba's employees), started on May,22<sup>nd</sup>.
- The same material has been provided also to Micro credito di solidarietà, CRAL, Cassa Mutua e Associazione Mutua for in-house training session
- Classroom Training delivered on May,15<sup>th</sup> to 11 employees of those group's companies that are not allowed to access to the web training platform: Tenimenti, Magazzini Generali, Perimetro gestioni immobiliari





## Training activities (3/4)

### ❑ **RELATED PARTIES' TRANSACTIONS**

A specific training session (Board induction) has been held on October 4, 2018 to the Board members as well as to the Statutory Auditors regarding the regulation about the related parties' transactions.

In the same date Compliance proposed to the Related Parties Committee a draft of the new Policy that:

- formalizes the “Silos Approach” for calculating the prudential limits of exposures with respect to companies controlled by the Ministry of Economy and Finance, adopted since last December in accordance with the letter of Bank of Italy dated 18 December 2017;
- introduces first-level controls on the correctness of transactions and for the collection of information necessary for the production of quarterly reports on transactions with related parties;
- introduces a “Technical Table” composed by Compliance, Legal, Financial Statements and other functions, with the purpose of providing advice to the business structures on the interpretation of the legislation and to resolve the doubtful cases in the classification of a counterparty as a related party or not;
- clarifies some aspects regarding the application of the exemptions from the decision-making procedures.

In addition, the Bank initiated IT and organizational measures to introduce a “Harmonized Perimeter” of related parties, ie to apply the decision-making procedures also to transactions with clients that are related parties only pursuant to IAS 24 regulations. This requirement is not requested by law, but the Bank intends to adopt it in order to further increase its fairness and transparency.

### ❑ **MARKET ABUSE REGULATION**

In October 2017, the Bank issued a directive that formalises the requirements introduced by the Market Abuse Regulation.

A specific training session has been held on July 30, 2018 to the members of the Loans Committee regarding the Market Abuse Regulation, focusing on the following topics:

- Definition of “*inside information*”;
- How to identify the inside information: examples and support;
- Process and Procedures to follow in case of inside information;
- Insider List: elements to provide;
- Monitoring of inside information;
- Rules of conduct in case of “inside information” and restrictions on personal transactions.

A training activity for the functions most affected by the legislation is scheduled for the beginning of the next year.



## Training activities (4/4)

### ☐ **QUESTIONNAIRE ON BANKING TRANSPARENCY**

The results of the questionnaire administered in May were examined and new training initiatives have been deemed necessary. More specifically, by the end of the year focus sessions on Transparency will be held with the Area Managers, while by 30 June 2019 a new course addressed to the branch network's employees will be released. Moreover, on 13 September 2018 the Compliance function held a specific board induction focussing on the main features of banking transparency, including information documents, contracts, unilateral change of contractual conditions and credit remuneration.

### ☐ **ONLINE COURSE ON DIRECTIVE 2014/17/EU**

An online course on the European Directive on credit agreements for consumers relating to residential immovable property was released on 5 October 2018. 15,670 resources, both from the Direction General and the branch network of the Bank, were enrolled, specifically those working in such fields as creditworthiness assessment, commercialisation of credit agreements, customer care and complaints handling

### ☐ **INSURANCE DISTRIBUTION DIRECTIVE - IDD TRAINING**

On 21 September 2018 10,677 employees were enrolled in the «New Insurance Distribution Directive - IDD» online course, whose completion with a final test by 31 December 2018 is mandatory in order to be able to sell insurance policies. On 5 October 2018 886 resources have completed the course. In addition, in September 2018 the features of the new legislation were explained to 623 customer care, product and business development specialists and webinar sessions targeting the branch network were arranged, involving about 10,000 resources.

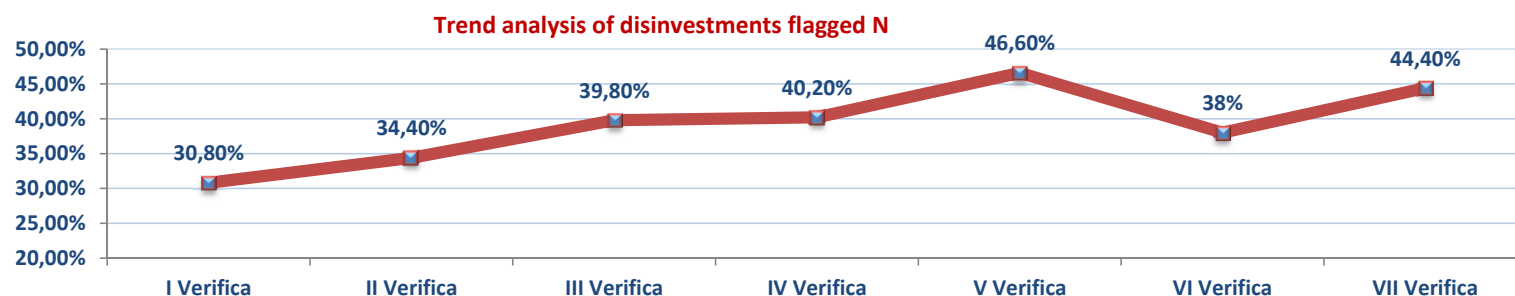


## Compliance checks put in place regarding investment products (1/2)

### SWITCHING INVESTMENTS

**Checks by I Level Control Area and Compliance regarding disinvestments flagged “N” (not advisable for sale) connected with placement of UCITS Anima Funds Orizzonte Energia 2023 (period 30.07.18 – 07.09.18).**

Analyzed items	Last Check Anima Reddito Più 2023 12.02.2018-08.03.2018	Check Anima Orizzonte Energia 2023 30.07.2018-03.08.2018	Check Anima Orizzonte Energia 2023 06.08.2018-10.08.2018	Check Anima Orizzonte Energia 2023 13.08.2018-17.08.2018	Check Anima Orizzonte Energia 2023 20.08.2018-24.08.2018	Check Anima Orizzonte Energia 2023 27.08.2018-31.08.2018	Verifica Anima Orizzonte Energia 2023 03.09.2018-07.09.2018
Replacement Rate	46%	43%	39%	38%	38%	47%	45%
Disinvestments flagged N (not advisable for sale) among "source" disinvestments	30,8% <sup>1</sup>	34,4%	39,8%	40,2%	46,6%	38%	44,4%



Deep dives have been made till «Territorial Area» and for some specific branches

Compliance, considering the relevant level and the growth trend of the disinvestments flagged N (not advisable for sale), asked Business Functions and First Level Control Area to illustrate the initiatives that they intend to adopt in order to oppose the phenomenon and related timing.



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<sup>1</sup> Figure recalculated by extending the sample of the original verification to all the financial products to which a disinvestibility flag (S / N) is attributed

## Compliance checks put in place regarding investment products (2/2)

### Monitoring of possible attempts to circumvent cost-benefit control

Period 03.09.18 – 07.09.18 - Product OICVM Anima Funds Orizzonte Energia 2023

Advice Type	Sales	Sales combined with purchases	Sales separated from purchases (Sales Stand Alone)	%	Of which: Sales Stand Alone with cost-benefit control failed in a previous advice that included the same sale and the purchase of UCITS Orizzonte Energia 2023	%
Advanced advice	701	621	80	11,4%	25	3,6%
Basic Advice	243	51	192	79%	39	16%
Total	944	672	272	28,8%	64 (Of which n. 57 cost-benefit control failures on the same day when the stand alone sale was made).	6,8%

Type of Product Being Sold	Sales	Sales combined with purchases	Sales separated from purchases (Sales Stand Alone)	%	Of which: Sales Stand Alone) with cost-benefit control failed in a previous advice that included the same sale and the purchase of UCITS Orizzonte Energia 2023	%
UCITS	772	584	188	24,4%	41	5,3%
Bonds, Shares, etc	95	43	52	54,7%	23	24,2%
Insurance Investment Products	77	45	32	41,6%	0	0%
Total	944	672	272	28,8%	64 (Of which n. 57 cost-benefit control failures on the same day when the stand alone sale was made).	6,8%

The Cost / Benefits control is part of the adequacy check and is undertaken in case of switching investments, both in the Basic and in the Advanced Advice service. The control is aimed to demonstrate that the expected benefits of switching are greater than the costs.

- A potential way of circumventing the cost / benefit control is the separation of the disinvestment operation from the investment transaction, because in this case the procedure can not carry out the control.
- The results of the check show an incidence of 28,8% of disinvestments separated from the investments, with greater impact on the Basic Advice Service.
- No concentration on specific branches or areas has been detected.
- Business Functions and First Level Control Area have been asked to illustrate the initiatives that they intend to adopt in order to oppose the phenomenon and related timing.



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## Focus on controls put in place regarding new product/business/activities

### BANKING PRODUCTS

#### «Ex ante» controls regarding new products

In order to prevent the non-compliance risk, the Service validates both the new banking products (current accounts, deposits, payment instruments, loans) and the existing products undergoing significant changes. When performing this activity, the function evaluates the features of each product and their compliance with regulatory requirements from the transparency, anti-usury and consumer protection point of view.

In 2017, 61 validations of both new and restyled products were released. More specifically, 34 validations concerned financial products, 11 current accounts and deposits, 7 payment products/services, 7 insurance and 2 internet banking products.

In the first three quarters of 2018, 30 products have been validated: 3 current accounts and deposits, 19 financial and 8 insurance products.

The Service also reviewed and validated the initiatives regarding massive unilateral change of contractual conditions, in order to ensure their compliance with article 118 of the Banking Act.

In June 2018, the new process – validated by the compliance function – for the management of customer requests for bank documentation was issued.

#### «Ex post» controls regarding products

These activities aim at checking the compliance of banking and insurance products with regulatory requirements. The main activities carried out in this field concerned:

- ✓ the sale of products under the system of adequacy;
- ✓ the provision of pre-contractual and contractual documents to customers and their proper archiving;
- ✓ the accurate calculation of cost indicators (i.e. TAEG);
- ✓ the transmission of periodic statements and documents;
- ✓ monitoring the fees charged on financial contracts (i.e. quick arrangement fees);
- ✓ for financial products, compliance with anti-usury thresholds.;
- ✓ the possible sale to the Bank's customers of insurance policies by unlicensed employees;
- ✓ monitoring the Territorial Areas' reports on their checks on the proper archiving of damage management insurance contracts;
- ✓ the correct implementation of the payment account switching service.



## Usury risk exposure – controls put in place (1/4)

In the field of anti-usury the Bank has put in place the following types of checks:

- first-level manual checks, aimed at assessing that the IT procedures have correctly adopted the threshold rates quarterly published by the Ministry of Economy and Finance;
- first-level IT checks, assessing that the rates applied to individual contracts comply with the anti-usury thresholds;
- Compliance checks on processes and procedures, aiming at verifying that they comply with the anti-usury legislation.

With specific regard to these last checks, the Compliance function:

- ✓ for each of the 10 credit categories established by the Bank of Italy's supervisory provisions, periodically randomly selects some contracts among those with the highest rates and manually recalculates the percentage rate of charge (Tasso Effettivo Globale – TEG) in order to verify that it complies with the anti-usury threshold; then this rate is confronted with the one calculated by the IT procedures, so that their proper functioning can be assessed;
- ✓ since October 2018 receives from the IT function quarterly datafeeds on the TEGs of the credits, in order to verify that during the quarter none of them has exceeded the threshold.

In the following slide the details of the Compliance checks carried out in the years 2016, 2017 and 2018 are provided.



## Usury risk exposure – controls put in place (2/4)

### List of 2016 checks

	Brief description of the check (source: Compliance Plan)	Outcome	Remedial action status
Anti-usury	Analysis of the anti-usury processes and procedures adopted by BMPS for the former Consum.it consumer credit products.	Partially compliant	90%*
Anti-usury	Sample check on the anti-usury compliance of loan agreements.	Partially compliant	100%
Anti-usury	Analysis of the criteria for TEG calculation when default interests are applied to loan agreements.	Partially compliant	100%
Anti-usury	Sample check on the anti-usury compliance of revolving credit agreements.	Partially compliant	100%
Anti-usury	Sample check on the anti-usury compliance of advance credit agreements.	Partially compliant	100%
Anti-usury	Sample check on the anti-usury compliance of credit portfolio discount agreements.	Non compliant	100%
Anti-usury	Sample check on the anti-usury compliance of grant agreements (sovvenzioni).	Mostly compliant	100%
Anti-usury	Analysis of the criteria for TEG calculation when default interests are applied to advance agreements.	Partially compliant	100%
Anti-usury	Integra S.p.A. - sample check on the anti-usury compliance of revolving credit cards.	Compliant	-
Anti-usury	Sample check on the anti-usury compliance of credit lines contracts.	Compliant	-
Anti-usury	Compass S.p.A. - sample check on the anti-usury compliance of consumer credit products.	Compliant	-

\*An automatic control procedure on default interests will be soon released; meanwhile manual controls are in place.



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## Usury risk exposure – controls put in place (3/4)

### List of 2017 checks

	Brief description of the check (source: Compliance Plan)	Outcome	Remedial action status
Anti-usury	Loan agreements: assessment of the proper functioning of the anti-usury procedures under the new supervisory instructions on the collection of the average percentage rates of charge (Tassi Effettivi Globali Medi - TEGM) of July 2016.	Compliant	-
Anti-usury	Personal loans: assessment of the proper functioning of the anti-usury procedures under the new supervisory instructions on the collection of the average percentage rates of charge (Tassi Effettivi Globali Medi - TEGM) of July 2016.	Compliant	-
Anti-usury	Credit portfolio discount agreements: assessment of the proper functioning of the anti-usury procedures under the new supervisory instructions on the collection of the average percentage rates of charge (Tassi Effettivi Globali Medi - TEGM) of July 2016.	Compliant	-
Anti-usury	Grants and chirography credit agreements: assessment of the proper functioning of the anti-usury procedures under the new supervisory instructions on the collection of the average percentage rates of charge (Tassi Effettivi Globali Medi - TEGM) of July 2016.	Mostly compliant	-
Anti-usury	Revolving credit cards: assessment of the proper functioning of the anti-usury procedures under the new supervisory instructions on the collection of the average percentage rates of charge (Tassi Effettivi Globali Medi - TEGM) of July 2016.	Partially compliant	100%

### List of 2018 checks

	Brief description of the check (source: Compliance Plan)	Outcome	Remedial action status
Anti-usury	Credit lines and overdrafts in current accounts: assessment of the proper functioning of the IT anti-usury procedures	Mostly compliant	-
Anti-usury	Advance credit agreements: assessment of the proper functioning of the IT anti-usury procedures	Partially compliant	100%



## Usury risk exposure – controls put in place (4/4)

Following some of the aforementioned Compliance checks on the proper functioning of procedures, some cases emerged when the threshold rates were exceeded. This occurred in credit advance and bill portfolio discount operations (sconto di portafoglio). The affected clients were identified and are being refunded. The details are the following:

### 1. Credit advance operations where the threshold rates were exceeded because of the incorrect computation of the «procedure fee» (commissione di pratica)

**Description:** Non-inclusion of the procedure fee among the fees used to calculate the TEG in the «ex post» check

**Affected procedure:** Advance credit agreements

**State of the anomaly:** Fixed in November 2017

**Global summary:**

Affected period: from 1 April 2017 to 30 September 2017

Number of positions: about 5,000

Refund estimate: about € 800,000

**Refund state:**

- The activity is being closed

### 3. Credit advance operations where the threshold rates were exceeded because of the incorrect computation of the «extension fee» (commissione di proroga)

**Description:** Non-inclusion of the extension fee among the fees used to calculate the TEG

**Affected procedure:** Advance credit agreements

**State of the anomaly:** Fixed on 3 April 2017

**Global summary:**

Affected period: from 1 January 2015 to 31 March 2017:

Number of positions: about 16,000;

Refund estimate: about € 1,200,000

Refund completion date: 30 November 2018.

### 2. Credit advance operations where the threshold rates were exceeded because the fees were not abated

**Description:** For some positions the TEG calculated in the «ex post» check exceeded the threshold rate although fees and interests were automatically abated in the settlement phase.

**Affected procedure:** Advance credit agreements

**State of the anomaly:** being fixed

**Global summary:**

Affected period: from 1 January 2015 to 30 June 2018

Number of positions: about 850

Refund estimate: about € 600,000

Refund completion date: 30 November 2018.

### 4. Discount operations (sconto di portafoglio) exceeding the thresholds because fees were not abated

**Description:** Incorrect functioning of the fee abatement procedure.

**Affected procedure :** Discount

**State of the anomaly:** Fixed on 27 March 2017.

**Global summary:**

Affected period: since 2011

Estimates, based on projections according to the availability of the actual elements for calculation, show what follows:

Number of positions: about 4,500

Refund estimate: about € 1,200,000

Refund completion date: 30 November 2018

On 27 September a project on usury was submitted to the Bank's Board, with the following purposes: a) reviewing the internal regulations; b) monitoring the above-mentioned refunds; c) re-validations of all the IT control procedures.



## *Compliance assessment of complaints handling processes and procedures*

Pursuant to Section XI of the Bank of Italy supervisory provisions on banking transparency, the Compliance function periodically assesses the adequacy of the procedures and organisational arrangements adopted by the Bank when handling customer complaints.

More specifically, the Compliance check focusses on such aspects as, for example:

- the position of the Complaints function in the organisational structure of the Bank and its qualitative and quantitative dimensioning;
- the internal regulations in the field, defining responsibilities, duties and roles in the management of customer complaints;
- the IT infrastructure supporting complaints handling.

Compliance checks in this area were carried both in 2017 and 2018 based on the data quarterly provided by the Complaints function.

Information on the complaints processing rate and on training initiatives administered to the human resources of the function were also taken into account, when assessing the work done by that structure.



*Annex*



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# **JOINT SUPERVISORY TEAM**

## **Meetings with MPS**

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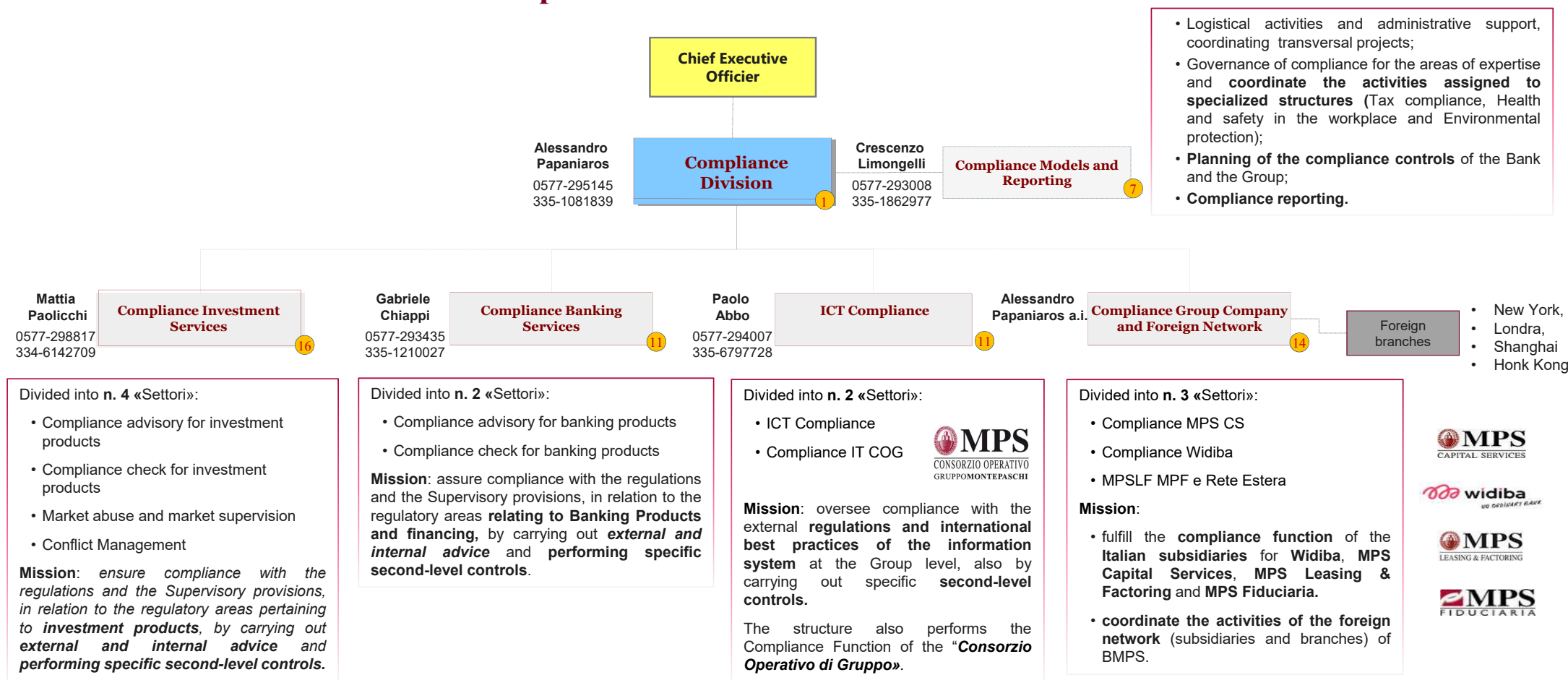
*Siena, 9<sup>th</sup> of July 2018*

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## Present level and features of the compliance function's staff



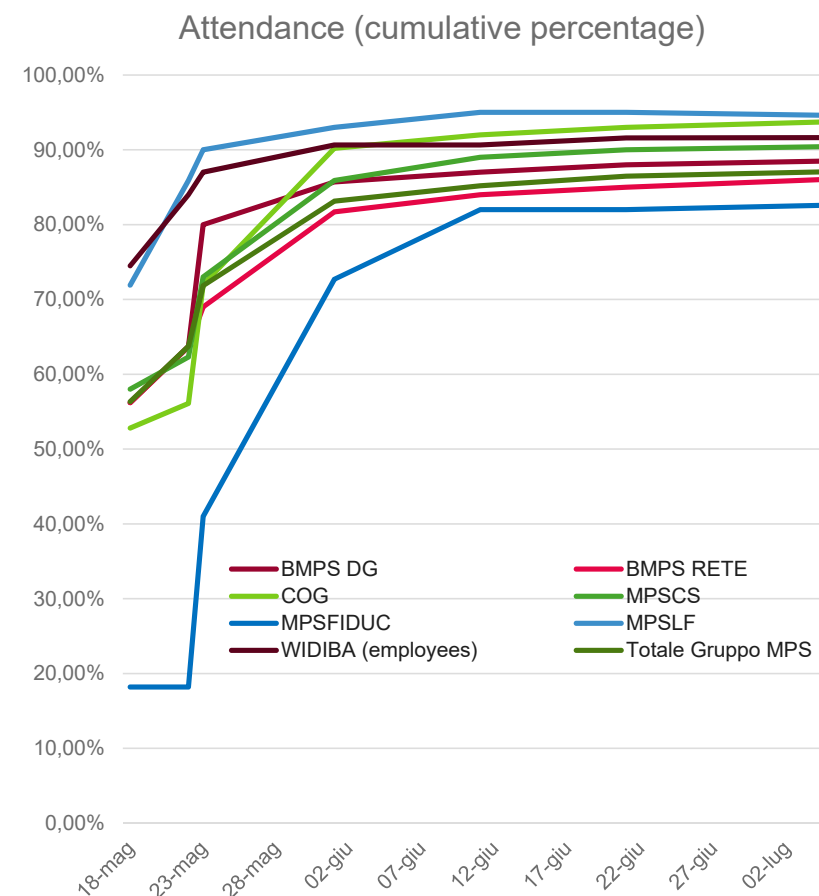
On July 5<sup>th</sup> 2018 a competition announcement «we open opportunities» was published for the selection of the missing FTEs within the WiDiBa team.



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## Training activities - GDPR

- Developed a training material to be delivered online through the group's web training platform
- Self training session opened on May,7<sup>th</sup>
- All group's employees (more than 22800) are registered «ex-officio», with notification via email
- Course is considered completed only if the final test, of 15 questions randomly chosen from a basket of 20, is passed with 70% of correct answers
- Periodic reminders sent by email to employees. After June,11<sup>th</sup> the list of those who didn't take the course has been transmitted to the human resources managers in order to send individual reminder
- Training material has been provided to Widiba for training sessions to financial advisors (independent professionals, not Widiba's employees), started on May,22<sup>nd</sup>.
- The same material has been provided also to Micro credito di solidarietà, CRAL, Cassa Mutua e Associazione Mutua for in-house training session
- Classroom Training delivered on May,15<sup>th</sup> to 11 employees of those group's companies that are not allowed to access to the web training platform: Tenimenti, Magazzini Generali, Perimetro gestioni immobiliari





## Training activities

### **BOARD INDUCTION: DIRECTIVE 2014/65/EU (MIFID II) AND REGULATION (EU) NO 600/12014 (MIFIR)**

A specific training session (Board induction) was set up (20.11.2017) to the Board members as well as to the Statutory Auditors regarding the regulations about investment services to clients, focusing on the following topics:

- Investment advice “independent basis” vs «non independent basis»
- Major innovations in the investment advice and suitability process
- Information to clients “ex ante” and “ex post”
- Incentives and Research
- Product Governance
- Staff and training
- Best Execution

For each topic a representation was given of the main new regulatory requirements and the consequent adjustment activities by the bank.



## Training activities

### TRAINING TO BRANCHES ON MIFID II

Within the "MiFID II" project, a specific "Change Management" team was created, with the aim of activating information initiatives and providing training to employees; it was attended by the commercial functions, the human resources function and the compliance function. The information activities were carried out in order to inform the employees in advance of the new regulations and the start-up of new processes and procedures.

#### **Webinars**

Courses have been prepared and provided (webinars) concerning (i) new MiFID Questionnaire, (ii) new suitability checks, (iii) new information to clients, (iv) KID and (v) conduct of the operational activities in relation to the new processes and procedures.

Attendance. In the period August 2017 – March 2018 six webinars per month were arranged for each segment. Those webinars were attended by **1,200** Premium Relationship Managers, **800** Value Relationship Managers, **400** Private Relationship Managers in each month.

#### **WBT Courses**

A WBT (Web-based training) with final test has been prepared and realized. The course (Title MiFID 2: New provisions and solutions adopted by the bank) concerned the following topics:

- ✓ New investment advice model: (i) new suitability checks; (ii) new operation in "basic" advice; (iii) automation controls in "advanced" advice; (iv) new MiFID Questionnaire
- ✓ Information to clients: (i) information on costs and charges; (ii) PRIIP's & Key Information Document (KID).



## Training activities

### TRAINING TO CENTRAL UNITS AND BRANCHES ON NEW ADVANCED INVESTMENT ADVICE

With the release of the new service model for advanced investment advice, the following training plan has been implemented:

- ✓ Session directed to personnel of central units;
- ✓ Sessions directed to Product Specialists, Segment Managers and trainers in the territorial units (AT)
- ✓ Info-training sessions to branches both through video and classrooms/webinars.

Training material has been prepared for the branches: (i) introductory video; (ii) video with operational insights; (iii) FAQ; (iv) Reminder on the intranet and daily reminder for resources that have not already displayed training materials.

#### Attendance

- Introductory video: available since 18.06, **viewed by 92% of Premium relationship managers and 95% of Private relationship managers** (% total: 78%)
- Video with operational insights: available since 25.06, **viewed by 87% of Premium relationship managers and by 90% of Private relationship managers** (% total: 69%)
- Classroom Training/Webinar for the branches (to guarantee at least one resource trained in each branch): about 1,700 resources trained between 26.06 and 06.07



## Training activities

### **CONSOB REGULATION N. 20307/2018 (IMPLEMENTING THE PROVISIONS ON INTERMEDIARIES): PROFESSIONAL UPDATE**

The “professional update” requested by Mifid II will be guaranteed for 2018 through training in mode e-learning. The contents have been entirely prepared by the company Prometeia, certified body UNI EN ISO 9001:2008 sector EA37. Even the computer platform that will be used is owned by the company Prometeia.

At the end of the course of 30 hours, participants will be called to conduct in the classroom a test of knowledge and skills. The conduct of the test will be supervised by internal personnel.

Upon passing the test an attestation will be released – in electronic mode – to the participant. The completion of the training course and the passing of the test in the classroom are necessary to continue providing investment services after 31.12.2018.

The compliance function will carry out checks with reference to the provision of the training.

Time table of training activities:

- ☐ April – December 2018
- ☐ 30 h Online Training: carrying out the educational activity through the on-line platform
  - End of course test: Participants will be able to make preparatory tests
- ☐ September – December 2018
  - Classroom Test and certificate issue



## Training activities - *Corporate Administrative Responsibility*

### **TRAINING ON CORPORATE ADMINISTRATIVE RESPONSIBILITY** **(Legislative Decree n. 231/2001)**

In June 2017, the new online course called "*Update on the subject of Corporate Administrative Responsibility (DL231)*" was activated on the Bank's platform, with the aim of providing information on Legislative Decree no. 231/2001 and illustrate the main repercussions on banking activity, also referring to the latest regulatory changes.

This course – prepared by Compliance Function - is intended for personnel who have already received training in this area in the past and was completed by 18,186 employees (89% of the recipients).

The aforementioned course describes the crimes, the conditions of applicability of the legislation, the sanctions and countermeasures available to companies to obtain exemption from administrative responsibility.



## Training activities - *Banking Transparency*

### TRAINING TO BRANCHES

In December 2017 a handbook on banking transparency was drafted by the Compliance function and provided to the branch network (it is available on the Knowledge Management platform called “Clic”). It concerns the following areas:

- ✓ The rules to follow in the case of audits on banking transparency by the Supervisory Authority;
- ✓ The main features of the legislation on banking transparency;
- ✓ A focus on how to properly archive pre-contractual and contractual documents.

### QUESTIONNAIRE ON BANKING TRANSPARENCY

In May 2018 a survey on knowledge of the main aspects of banking transparency, based on the Bank of Italy’s regulations on the subject (i.e., pre-contractual information, contracts, payment services, credit for consumers, etc), was carried out among 1,526 branch managers. The questionnaire, drafted by the Compliance function, was completed by the 93% of the recipients.

The results are being examined in order to identify specific areas for which training is necessary.





## Planned training activities

### RELATED PARTIES' TRANSACTIONS

A specific training session (Board induction) will be set up during the third trimester of 2018 to the Board members as well as to the Statutory Auditors regarding the regulation about the related parties' transactions, focusing on the following topics and issues:

- *rationale* of the law provisions on the matter;
- evaluation made on the regulation currently in force for BMPS;
- consequences due to the new role of the Ministry of Economy and Finance as the majority Shareholder of BMPS;
- recent developments and contacts with the Supervisory Authority;
- proposed amendments to the regulation;
- areas of the related parties' transactions, obliged subjects, exemptions;
- duties of BMPS corporate bodies;
- risk tolerance and risk capacity;
- Connected Borrowers and related obligations.





## Planned training activities

### MARKET ABUSE REGULATION

A specific training session will be set up in the third trimester 2018 to the members of the Loans Committee regarding the Market Abuse Regulation, focusing on the following topics:

- Definition of “*inside information*”;
- How to identify the inside information: examples and support;
- Process and Procedures to follow in case of inside information;
- Insider List: elements to provide;
- Monitoring of inside information;
- Rules of conduct in case of “inside information” and restrictions on personal transactions.



### BANKING PRODUCTS

#### «Ex ante» controls regarding new products

In order to prevent the non-compliance risk, the Service validates both the new banking products (current accounts, deposits, payment instruments, loans) and the existing products undergoing significant changes. When performing this activity, the function evaluates the features of each product and their compliance with regulatory requirements from the transparency, anti-usury and consumer protection point of view.

In 2017, 61 validations of both new and restyled products were released. More specifically, 34 validations concerned financial products, 11 current accounts and deposits, 7 payment products/services, 7 insurance and 2 internet banking products.

The Service also reviewed and validated the initiatives regarding massive unilateral change of contractual conditions, in order to ensure their compliance with article 118 of the Banking Act.

In June 2018, the new process – validated by the compliance function – for the management of customer requests for bank documentation was issued.

#### «Ex post» controls regarding products

These activities aim at checking the compliance of banking and insurance products with regulatory requirements. The main activities carried out in this field concerned:

- ✓ the sale of products under the system of adequacy;
- ✓ the provision of pre-contractual and contractual documents to customers and their proper archiving;
- ✓ the accurate calculation of cost indicators (i.e. TAEG);
- ✓ the transmission of periodic statements and documents;
- ✓ monitoring the fees charged on financial contracts (i.e. quick arrangement fees);
- ✓ for financial products, compliance with anti-usury thresholds.



## **Focus on controls put in place regarding new product/business/activities**

- ❑ Among the main activities, the supervision of the projects concerning banking transparency and usury should be pointed out. More specifically :
- ✓ following the Bank of Italy's audit in 2016 and the audit report received in August 2017, at the end of last year the Bank undertook several actions aiming at increasing the efficiency and overcoming the issues detected by the Supervisory Authority. In this field our function monitors the compliance with the commitments made and reports to the Bank's top management;
  - ✓ In 2017 the Bank's anti-usury process was updated in accordance with the new Bank of Italy's regulations of July 2016. The Compliance function carried out and is still carrying out checks on the compliance of the activities performed. These compliance checks are carried out:
    - by validating the definition of business requirements for IT system implementation;
    - in a remote mode, on selected samples of contracts.



## Focus on controls put in place regarding new product/business/activities

### INVESTMENT PRODUCTS

- ❑ Approval by Compliance not only of the launch of new products, but also of the review/amendment of the existing products for retail investors. The compliance analysis is conducted from several point of view, such as quality and contents of documentation, data entry, information identifying the financial instrument, cost criteria, risk assessment, check on the Effective Target Market. The checks by Compliance includes the verification that the product have been approved by all the functions identified in the internal procedure.  
From 2017 till present 59 products approved: 14 mutual investment funds, 6 variable capital investment company, 16 insurance investment products, 11 bonds, 12 certificates.
- ❑ Review of the clauses contained in the placement agreements for UCITS, in order to comply with MiFID II and to verify whether the inducements received are eligible or not (from 2017 till now 8)
- ❑ Review partnership/sponsorship agreements with third parties to verify whether the inducements received are eligible or not – (7 agreements related to 2018)

### MiFID II Project

- ❑ Drafting by Compliance of:
  - Policy on the management of conflicts of interest in the provision of investment services
  - Policy on Inducements in the provision of services and investment activities
- ❑ Advisory and approval of the contents with regard:
  - Policy on Investment advice
  - New MiFID Questionnaire
  - Suitability “rules and controls” for “basic” and “advanced” advice investment, including cost-benefit control in switching investments
  - Information to clients on costs, charges and inducements
  - PRIIPS’s and Key Information Document (KID)
  - Policy on Product Governance



# Organizational setup following the centralization of the group's Compliance functions

- The new «**Centralized Model**» for the governance and management of compliance risk provides for the **direct supervision** of the Compliance Function on the regulatory areas:
  - ✓ falling within the **Bank's scope of operations** (with assignment of operating activities to only two specialized structures for the rules on "Health and Safety in the workplace and Environmental Protection" and "Tax Compliance");
  - ✓ relating to **the scope of the Group's Italian subsidiaries**, subject to Supervision, including the «Consorzio Operativo di Gruppo».
- The services provided to Italian subsidiaries are regulated by **specific outsourcing agreements**. (BMPS Outsourcing Department quarterly monitors the provision of services and requires the quantification of the activities carried out in terms of hours provided for each deliverable envisaged by agreements).
- For companies characterized by organizational and operational peculiarities (Widiba, MPS Capital Services), the agreements provide for two specific roles:
  - ✓ «**Referente locale della Funzione di compliance**», functionally dependent on the Parent Company and has duties assigned by the Supervision (Circ. 285 della Banca d'Italia).
  - ✓ «**Referente cliente**» (o referente dell'accordo), which verifies the correct execution of the activities.
- This provision is also aimed at minimizing the possible "**conflicts**" between the service providing structure.

## Strengths of the new model

- availability of **higher resources specialization** on compliance issues (including specific impact);
- **economies of scale**, especially on issues currently considered "non-core", with simultaneous expansion of the compliance regulations;;
- reserve of **capacity**, in case of "peaks" of extemporaneous activities;;
- **increasing the efficiency** of the overall supervision at Group level, eliminating the need for **coordination and exchange of flows**;
- optimization of activities and methods for monitoring compliance risk and information flows between the subsidiary and the parent company;
- strengthening the Group's governance on strategic issues, at the same time freeing up work time of compliance resources dedicated to subsidiaries from other activities (for example, administrative, support, planning and reporting activities, etc.);
- functional report the Head of the Parent Company of the monitoring of the non-compliance risks of the Local Contact of the Compliance Function at the subsidiaries.

## Operational modes of coordination

- participation of the Head of Compliance Division (or his delegate) at events and **specific initiatives** of subsidiaries;
- take part in the Group **coordination meetings of the Compliance Division**. This meeting describes the progress of the activities in progress and the main findings of the project and / or verification activities are "participated" in order to assess their applicability or impact capacity on entities other than those in which the phenomenon emerged;
- maintenance in the control of the management of the prescriptive requirements **for the protection of personal data**, centralizing only the verification activities related to the Privacy aspects in the Parent Company, thus also ensuring greater third party in carrying out controls;
- collaboration in monitoring and carrying out **checks for specific areas** (es. Compliance ICT, etc.);
- adoption of a **common taxonomy of the regulatory areas** with alignment and homogenization of the compliance monitoring perimeter;
- adaptation of the **methodologies used by the subsidiaries**, standardizing **taxonomies and scales of risk assessment** and adopting **common operating procedures** for the execution of the **II level controls**
- extension of **the functionalities of the IT applications** used by the Parent Company (Compliance Platform and RIGAM);
- **strengthening of the reporting process**, including through the adoption of uniform methods for representing the risk of non-compliance.



## On-site compliance checks put in place

9<sup>th</sup> of July 2018

### Checks on banking products and services

- ☐ On-site checks on banking products and services are planned based either on specific events showing potentially risky situations, or on the need to assess the branch network's compliance with new regulations.
- ☐ In these cases (i) samples of contracts are selected by the Compliance function and (ii) documents to be analyzed are requested to the single branches, in order to verify that they have been properly filled and archived.
- ☐ With specific regard to the reasons leading to the checks, they were the following:
  - a) the malfunctions reported to the Compliance function regarding the Direction under scrutiny for the check on the current account resolution process;
  - b) the new provisions on banking transparency for the checks on credit brokers and on credit agreements for consumers relating to residential property.
- ☐ The sample extraction for the checks of point b) included the whole country.



## On-site compliance checks put in place

9<sup>th</sup> of July 2018

The checks performed by the Compliance function in 2018 included, among other activities, the following remote controls on the Bank's branch network:

Scope of the check	Objective, method and outcome of the check		
Current account resolution process in the Pisa-Livorno Direction	Partially compliant	☹️	The activity aimed at detecting any improper conduct in the 43 branches of the selected Direction when managing the customers' requests for current account resolution in the period from 1.11.2017 to 31.12.2017, amounting to 1.831 requests. In-depth analysis has been made and is available till the "branch" level of detail and for several specific requests. Several cases of non-compliance with the resolution process established in the Bank's internal regulations and of delayed handling of the requests were detected.
Credit brokers – compliance with banking transparency regulations	Non-compliant	☹️	The check aimed at assessing the compliance with the process established in the Bank's internal regulations, concerning the transparency requirements that credit brokers must comply with, especially when collecting and archiving the documents laid down in the legislation. The negative outcome of the check results from the significant number of cases where the branches were not able to prove that customers had received the documents provided for by the regulations. Deep dives have been made and are available till branch level of detail.
Credit agreements for consumers relating to residential immovable property (European Standardised Information Sheet - ESIS)	Partially compliant	☹️	The check aimed at assessing the activities carried out on the Bank's procedures in order to ensure their compliance with the provisions of Legislative Decree 72/2016 (implementing Directive 2014/17/UE), specifically with regard to the pre-contractual information called ESIS (European Standardised Information Sheet). For this purpose 121 credit agreements relating to residential property and concluded with consumers in the period from 1 January to 31 May 2017 were examined. Both mismatches in the information provided in the transparency documents and errors when filling the forms were detected.

Actions have been undertaken in the above-mentioned fields in order to overcome the issues detected.



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### *Methodology: Checks on Investment Services*

#### Step nr. 1: Identification of warning signals on the overall activity of the bank

Typical examples of warning signals are:

- simultaneous disinvestments and investments within 15 days;
- not using of new IT solutions for investment advice;
- loss-making disinvestments;
- presence of disinvestments flagged “N” (not advisable for sale)

#### Step nr. 2: analysis of the distribution of the warning signals on the branches/relationship managers

Analysis of the distribution of the warning signals in order to identify the the worst performers among:

- Local units
- Branches
- Relationship managers

#### Step nr. 3: consequence management activities

Typically the «worst performers» are alternatively:

- reported to the First Level Control Unit for further checks or warnings to the employees
- subject to direct warning by the Compliance Function
- Under certain circumstances, subject to direct meeting with the Compliance Manager
- subject to further checks by the Compliance Function (eg. on the quality of the placement activity).



## On-site compliance checks put in place

### Voluntary Partial Public Offering for Exchange and Settlement to holders of UT2 shares, on behalf of the Italian Ministry of Economy and Finance

According to the note sent to Consob on 13.10.2017, Compliance checks carried out during the Voluntary Partial Public Offering (from 31.10.2017 - 20.11.2017) concerned:

1. progress of the bids to the public offering: no anomalies were detected.
2. communications sent to customers: the activity was completed without anomalies.
3. The correctness and completeness of documentation collected by branches - sample check. Checked a sample of 113 transactions during the offering period from 31.10.2017 to 20.11.2017: no anomalies were detected.

With regard to the correct formalization of the bids, Compliance also carried out a more extensive ex post verification in the period immediately following the conclusion of the offer, on a sample of 500 bids, consisting of the transactions that had the highest nominal value of UT2 (max € 10,000,000 - min. € 300,000). The control revealed 4 operations (all fixed later) for which the branches were requested to complete the storing of the documentation: no particular anomalies were detected.

**Results of checks were reported into 2017 annual Compliance Report**

**[Relazione di Compliance – Anno 2017 on page 16: Offerta Pubblica di Scambio e Transazione azioni UT2]**



## On-site compliance checks put in place

### SWITCHING INVESTMENTS IN COMPARABLE PRODUCTS

**Check of switching investments by customers in comparable products: analyzed period 12.02.2018 - 08.03.2018**

- Detected customers with loss-making disinvestments flagged “N” (not advisable for sale) equal to **4,5%** of the total disinvestments analyzed (compared to **8.8%** of the previous check).
- The volume of customers subscriptions with disinvestments in the same period is **46%**, reduced compared to the previous check (**56.5%**). Recorded **19.8%** of subscriptions from disinvestments of other comparable UCITS (compared to **20.8%** recorded in the previous audit).
- All the data collected show an improvement trend compared to the previous checks, positioning on the best levels recorded in the same type of controls
- **Deep dives have been made and are available till «Territorial Area» level of detail and for some specific branches**

### DATA TRENDS EMERGED FROM THE CONTROLS ON SWITCHING INVESTMENTS

The table below summarizes the main data emerged from the audits carried out in 2018 and 2017 regarding switching investments.

Analyzed items	Last Check Anima Reddito Più 2023 (04/18)	Anima Cedola 2023 Check (11/17)	Anima Sforzesco A Check (03/17)	Trend
Replacement Rate	46%	56,5%	49,1%	😊
Replacement Rate referred to comparable products	19,8%	20,8%	34%	😊
Presence of loss-making disinvestments among "source" disinvestments	10,9%	21,8%	26,9%	😊
Presence of disinvestments flagged N (not advisable for sale) among "source" disinvestments	6,3%	22,5%	N.R.	😊
Presence of loss-making disinvestments flagged N (not advisable for sale) among "source" disinvestments	4,5%	8,8%	N.R.	😊

*Results of 2017 checks of the same type were reported into 2017 annual Compliance Report*

*[Relazione di Compliance – Anno 2017 on page 16: «Operazioni di disinvestimento con contestuale reinvestimento», points (i), (ii) and (iii)]*



## On-site compliance checks put in place

9<sup>th</sup> of July 2018

### Checks about using of new IT solutions for switching investments

#### First wave checks : period 02.01.2018 - 31.01.2018

- **Using of new IT solutions for investments: 90%** of the total subscriptions was made in Advanced Advice or in New Base Advice Solution. On these operations the information on costs was therefore automatically produced (new Mifid II obligation).
- **Using of new IT solutions for switching investments: 52%** of disinvestments has been carried out in the New Base Advice Solution, thus with saleability control.
- Formal reminder has been sent to the Branch Managers with the largest number of sales outside the new solution. Compliance Officer on-site visit in branches with the worst percentages.

#### Second wave of checks: period 12.02.2018 – 08.03.2018

- **Using of new IT solutions for investments: 92%** (from 90%) of the total subscriptions was made in Advanced Advice or in New Base Advice Solution.
- **Using of new IT solutions for switching investments: 63%** (from 52%) of disinvestments has been defined through New Base Advice Platform, thus with saleability control.
- On request of Markets and Retail Products Area, Territorial Departments Segments and Area Managers intervened on the Branch Managers and relationship managers that had the highest number of sales outside the new solution, inviting them to respect compliance procedures and, where necessary, implementing coaching and in-depth analysis aimed at filling any training gap.

*For both waves, deep dives have been made and are available till branches level of detail*



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## On-site compliance checks put in place

9<sup>th</sup> of July 2018

**Controls 2017 on customers with simultaneous disinvestments and investments in products (UCITS) belonging to the same funds system**

Checked Profiles	Evidenze Ricontrate
Presence of disinvestments and reinvestments on UCITS of the Anima System. Presence of disinvestments e reinvestments on the same UCITS.	<p><b>CHECK nr 1 (2/02/2017 – 17/02/2017).</b> Detected nr. 528 customers with divestments and reinvestments on other UCITS belonging to the Anima System that <b>generated the charge to the customer of subscription fees and fixed costs which, if a switch had been carried out between the two funds, as in application of the provisions of the ANIMA System prospectus, would not have been applied.</b> These customers accounted for 8.49% of the total (6.220) of customers analyzed with subscriptions and / or SWITCH IN in the funds of the ANIMA SYSTEM. Customers for which divestment / investment transactions instead of switches have paid on average 2.09% higher subscription fees.</p> <p><b>CHECK nr 2 (1/6/2017 -16/06/2017).</b> Detected nr. 404 customers with divestments and reinvestments on other UCITS belonging to the Anima System that <b>generated the charge to the customer of subscription fees and fixed costs which, if a switch had been carried out between the two funds, as per the ANIMA System prospectus, would not have been applied.</b> These customers accounted for 8.26% of the total (4,893) of customers analyzed with subscriptions and / or SWITCH IN in the funds of the ANIMA SYSTEM.</p> <p>In both survey periods, some customers (total 28) have disinvested and reinvested in the same UCITS (<b>0.22%</b> and <b>0.29%</b> of customers with investments and / or switches in the Anima System ).</p>

***In both checks deep dives have been made and are available till «Territorial Units» level of detail and for some specific branches***

### MITIGATION ACTIONS CARRIED OUT WITH CHIEF COMMERCIAL OFFICER

- 1) strengthening of internal procedures;
- 2) formal reminder to Branches and Area Departments to comply with the law and internal procedures;
- 3) activation of first level checks.

***Results of checks nr. 1 and nr. 2 have been reported into 2017 annual Compliance Report***

***[Relazione di Compliance – Anno 2017 on page 16: «Operazioni di disinvestimento con contestuale reinvestimento», point (iv)].***

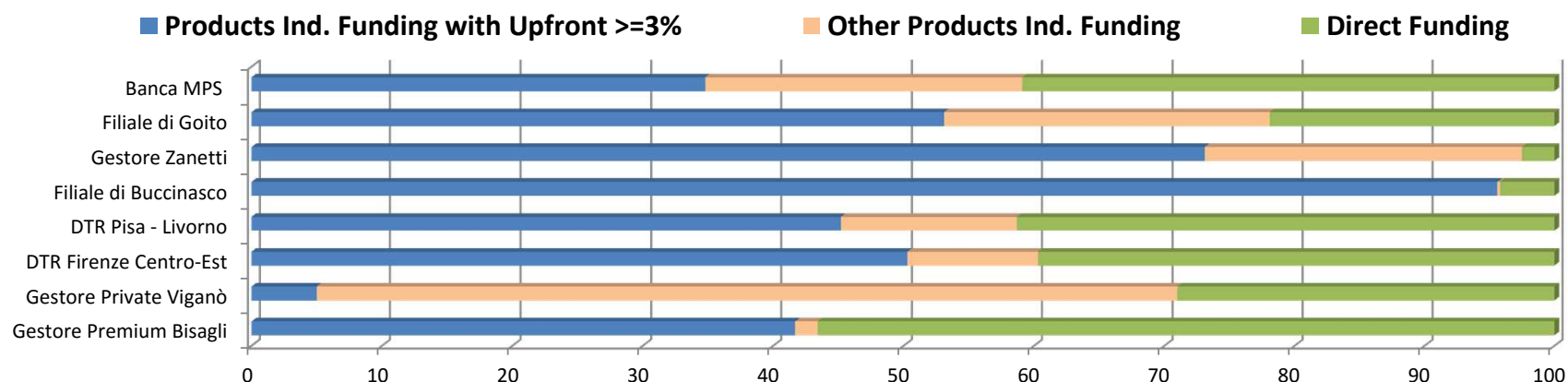


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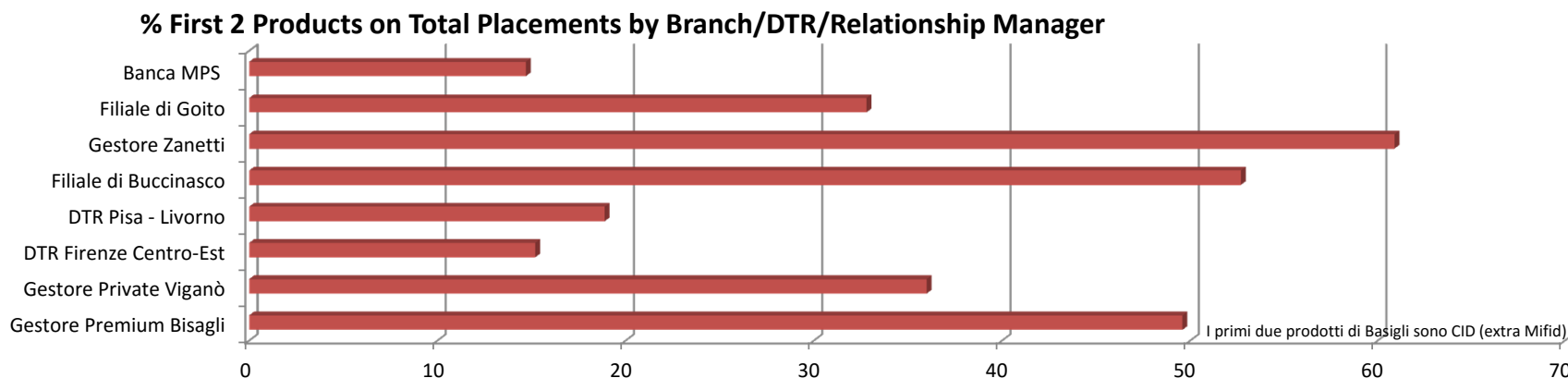
## On-site compliance checks put in place

9<sup>th</sup> of July 2018

**Monitoring of placements (period 15/02/2018 - 15/03/2018) with focus on certain branches, units and relationship managers which have already been detected by other controls (eg: failure to use the new CB NEW advice procedure) .**



**Deep dives into some specific Territorial Units, branches and relationship managers.**



The analyses carried out showed, with reference to the branches/DTR/relationship managers taken into consideration, a greater concentration, compared to the Bank average, of the placement activities on products with upfront > = 3% and on individual products. Such evidence indicates the possibility that the advice activity was guided by product logic, rather than by the client's needs.



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