

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

**REPORT
ON CORPORATE GOVERNANCE AND
THE SHAREHOLDING STRUCTURE**

in accordance with article 123-*bis* of the Consolidated Law on Finance

(traditional administration and control model)

- Issuer: BANCA MONTE DEI PASCHI DI SIENA S.P.A.
- Website: www.gruppomps.it
- Year to which the Report relates: 2018
- Report approval date: 7 March 2019

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DEFINITIONS

Director in charge: Director in charge of the internal control and risk management system.

BMPS/Bank/Issuer: Banca Monte dei Paschi di Siena S.p.A.

Code/Corporate Governance Code: the Corporate Governance Code for Listed Companies approved in July 2018 by the Corporate Governance Committee and endorsed by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

Financial Reporting Officer: Manager in charge of drawing up the corporate accounting documents pursuant to art. 154-*bis* of the Consolidated Law on Finance.

Bank of Italy Supervisory Provisions for Related Parties: Bank of Italy Circular no. 263/2006, Title V, Chapter 5 on risk assets and conflicts of interest with respect to related parties.

Supervisory Provisions concerning banks' corporate governance: Bank of Italy Circular no. 285/2013, First Part, Title IV, Chapter 1.

Supervisory Provisions regarding the internal control system: Bank of Italy Circular no. 285/2013, First Part, Title IV, Chapter 3.

Year: the financial year to which the Report refers.

Montepaschi Group/Group: Monte dei Paschi di Siena banking group.

Consob Issuer Regulation: the Regulation for issuers promulgated by Consob with its resolution no. 11971 of 14 May 1999 (as subsequently amended).

Consob Related Parties Regulation: the Regulation for transactions with related parties promulgated by Consob with its resolution no. 17221 of 12 March 2010 (as subsequently amended).

Report: the report on corporate governance and shareholding structure that companies are required to prepare in accordance with Article 123-*bis* of the TUF.

Consolidated Law on Finance/TUF (Testo Unico della Finanza): Italian Legislative Decree no. 58 of 24 February 1998.

Consolidated Law on Banking/TUB (Testo Unico Bancario): Italian Legislative Decree no. 385 of 1 September 1993).

This Report on corporate governance and the shareholding structure was prepared in accordance with article 123-*bis* of Italian Legislative Decree no. 58 of 24 February 1998 and with the provisions of the Corporate Governance Code (July 2018) - to which the Bank adheres - based on the latest Format for the “Report on Corporate Governance” provided by Borsa Italiana (January 2019).

The Report, approved by the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. at the meeting on 7 March 2019, is published on the Bank's website - www.gruppomps.it - *Corporate Governance - Governance Model – Corporate Governance Report*.

1. ISSUER PROFILE

Banca Monte dei Paschi di Siena S.p.A. is a bank with shares listed on the Mercato Telematico Azionario (Electronic Stock Market) organised and managed by Borsa Italiana S.p.A. As of June 2018, the MPS share has been included in the basket of the FTSE Italia Mid Cap Index.

The Bank carries out banking activities through the various forms of funding and lending in Italy and abroad. It can perform all transactions and banking and financial services permitted by the applicable regulations, establish and manage forms of supplementary pensions, and carry out any other transaction instrumental for, or in any case, connected to the achievement of the company purpose.

As a listed company, BMPS adheres to the legislative provisions relating to issuers of securities listed on a regulated market and, being a bank, is subject to the applicable legislative, regulatory and supervisory provisions for banks and banking groups.

Based on the new criteria indicated in the Supervisory Provisions concerning the corporate governance of banks, BMPS is a key bank in terms of size and complex operations and is subject to the direct prudential supervision of the European Central Bank.

BMPS is parent company of the Montepaschi Group and carries out, in addition to banking activities, sole direction, governance and control of the banking, financial and instrumental companies controlled by it, through management and coordination of the Group pursuant to article 2497-*bis* of the Civil Code and art. 61, par. 4 of the TUB, and issuance of provisions to Group companies for implementation of the instructions given by the Supervisory Authorities, in the interest of stability of the Banking Group.

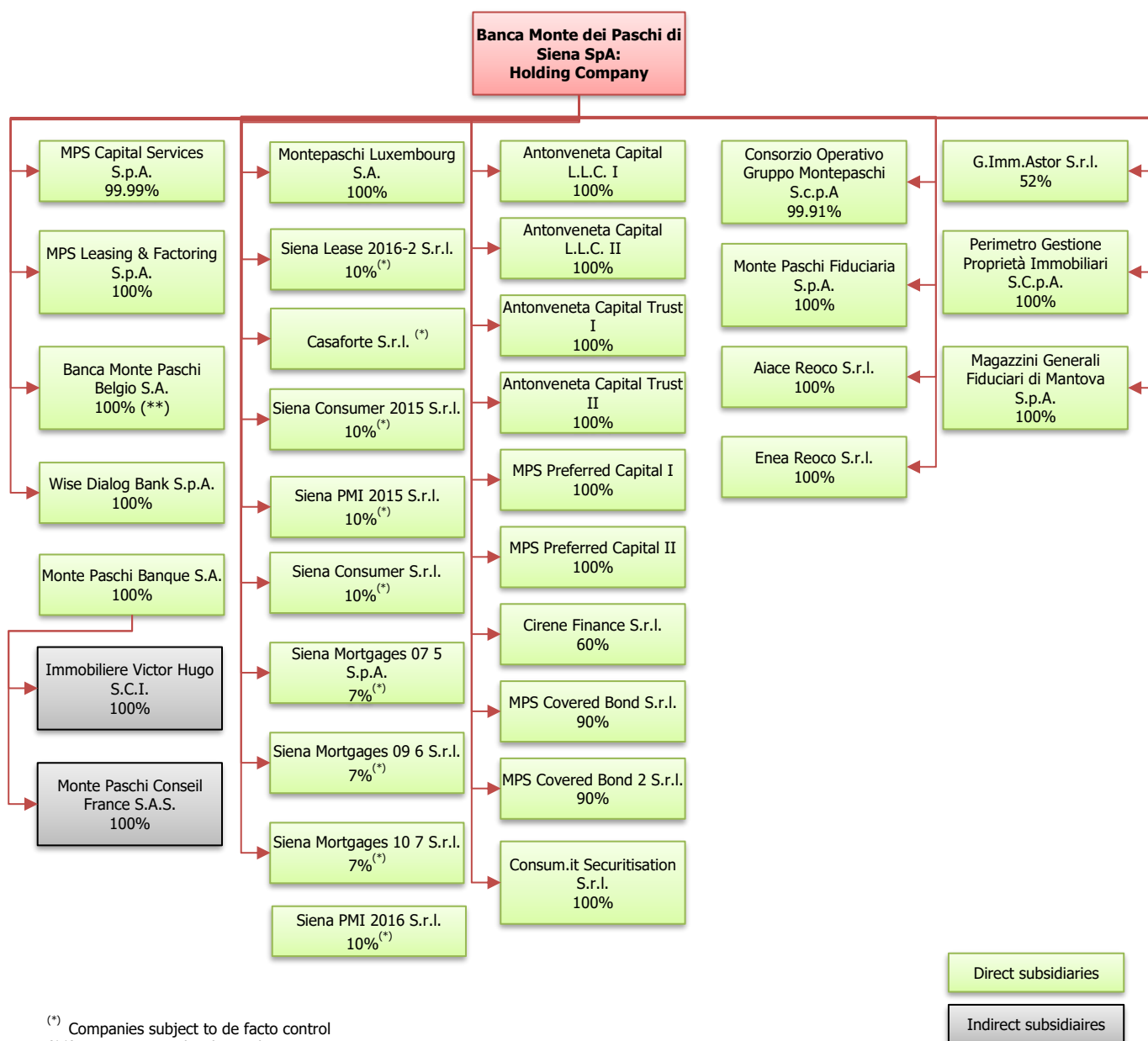
Description of the Montepaschi Group

The Montepaschi Group is active across Italy and in some of the major international financial markets with operations focused on traditional retail and commercial banking services and a particular commitment towards household customers and Small and Medium Enterprises.

The Group operates through its own specialised companies in all key business areas: leasing, factoring, corporate finance and investment banking. The insurance-pension sector is covered by a strategic partnership with AXA while asset management activities are based on the offer of investment products of independent third parties.

The Group combines traditional services offered through its network of branches and specialised centres with an innovative self-service and digital services system enhanced by the skills of the network of financial advisors through Widiba Bank. Foreign banking operations are focused on supporting the internationalisation processes of corporate clients in all major global financial markets

The breakdown of the Montepaschi Banking Group as at 31 December 2018 is illustrated below. For additional details, see the website www.gruppomps.it – *Group – Presentation - Organisational Model*.



The percentage indicated in the organisational chart above refers to the total share capital held at Group level.

MPS Capital Services S.p.A., MPS Leasing and Factoring S.p.A. and Wise Dialog Bank S.p.A. (Widiba) are the Italian banks controlled by the Parent Company and which, based on the supervisory regulations in effect on corporate governance, are qualified as “larger banks or with more complex operations” and subject to the prudential supervision of the European Central Bank.

Corporate Governance System

The overall corporate governance system adopted by the Bank complies with the Civil Code, with the banking supervision and financial regulations in effect and with the Corporate Governance Code for Listed Companies, and takes into account the objective of achieving a system of coordinated rules and structures that ensure transparent and accurate management of relations with shareholders, and among shareholders, directors and top management.

Compliance with the Corporate Governance Code entails clear-cut segregation of duties and responsibilities, the appropriate assignment of powers, and the balanced composition of corporate bodies, and it bases its organisational foundations on effective controls, monitoring all enterprise risks, adequate information flows and corporate social responsibility.

In particular, the administration and control system adopted by the Bank is of the traditional type, with a:

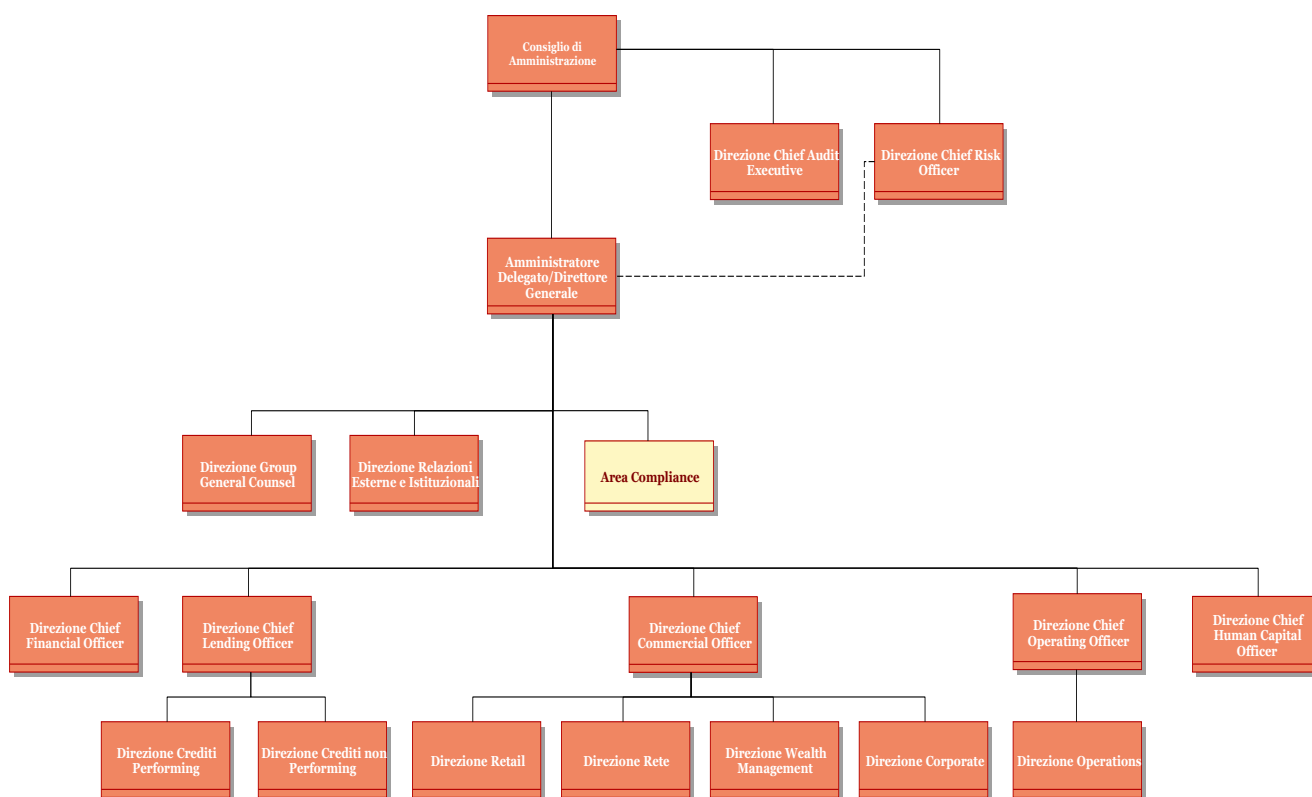
- **Shareholders' Meeting**, with capacity to resolve, *inter alia*, in ordinary or extraordinary session, upon the appointment and dismissal of the members of the Board of Directors and of the Board of Statutory Auditors and their compensation and responsibilities, the appointment of the independent auditors, the approval of the financial statements and the allocation of profits, remuneration and incentive policies, certain extraordinary transactions, share capital increases and amendments to the By-Laws, without prejudice to the Board of Directors' capacity to resolve upon changes to the By-Laws required by regulatory provisions and for the deliberation of merger transactions in the cases set out in articles 2505 and 2505 *-bis* of the Civil Code;
- **Board of Directors**, tasked with the strategic supervision and management of the Bank;
- **Board of Statutory Auditors**, which oversees compliance with laws, regulations and the By-Laws, proper administration, the adequacy of the company's organisational, control and administrative-accounting systems, independent audit activities, the manner of actual enforcement of the corporate governance rules prescribed by the Corporate Governance Code and the adequacy of the instructions issued by the Bank to subsidiaries in accordance with article 114, par. 2 of the TUF.

The independent audit is attributed to the independent auditors.

Organisational structure

Through its Head Office, Banca Monte dei Paschi di Siena performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors and in the interest of the Group's stability.

Organisational chart of the Bank's Head Offices as at 31 December 2018



Organisational development in 2018 was characterised by the implementation of initiatives to reorganise the framework of responsibilities set out by the Regional Network Areas' new organisational model approved by the Board of Directors in the fourth quarter of 2017, and by a number of revisions and rationalisation

measures aimed at facilitating the implementation of the Bank's Restructuring Plan agreed on with the relevant Authorities.

In particular, the reduction of the Regional Network Areas from 6 to 5 and the revision of the organisational model aimed at orienting the structures and processes towards commercial objectives with a specialisation by market were both completed in February 2018. Furthermore, an organisational level (the Regional Network Area commercial units) was eliminated, with the product specialists and pricing processes and autonomy being transferred directly to the Regional Network Divisions. The Network Division was also set up with direct reporting over the Regional Network Areas and operational management of the pricing lever. The non-commercial functions (the Network's Control and Compliance Functions reporting directly to the Chief Commercial Officer and the Middle Office Products and Ancillary Services and Logistics Functions reporting directly to the Chief Operating Officer) were also transferred from the Regional Sales Areas. With regard to the credit sector, the outsourcing of NPL recovery activities to Juliet was completed, with the establishment of structures and processes to oversee the outsourced activities.

Regarding "Network" processes, efforts continued to be focused on improving the quality of work, freeing up commercial time and increasing the quality of service offered to customers, reducing response times and service delivery times by streamlining "administrative" activities and cutting document management costs, with a strong emphasis on revising digitising processes. To this end, the centralisation of the Branch operational support functions to a specialist unit under the Chief Operating Officer was completed.

2. INFORMATION ON THE SHAREHOLDING STRUCTURE (per Article 123-bis, Par. 1 of the TUF)

a) Structure of the share capital (per Article 123-bis, Par. 1, Letter a) of the TUF)

As at the date of this Report, the company's share capital is equal to Euro 10,328,618,260.14, fully subscribed and paid-in. It is represented by 1,140,290,072 ordinary shares without nominal value. Each share entitles the holder to one vote.

All shares are issued in dematerialised form. Procedures for the circulation and legitimation of shares are governed by law.

SHARE CAPITAL STRUCTURE				
	No. of shares	% of share capital	Listed /Unlisted	rights and obligations
Ordinary shares	1,140,290,072	100.00	Listed (Milan Stock Exchange)	=

There were no operations on share capital in the course of 2018.

Other financial instruments granting the right to subscribe newly-issued shares

As at the date of this Report, there are no outstanding financial instruments which grant the right to subscribe newly-issued shares of the Bank.

Stock Granting Plans

In 2018, the Shareholders' Meeting did not approve any Stock Granting plans - involving the free allocation of ordinary BMPS shares - for Montepaschi Group employees.

For the sake of completeness, it should be noted that, as at the date of this Report, during the period of its duration (April 2018 – April 2019), no use has been made of the Treasury Stock Plan approved by the Shareholders' Meeting of 12 April 2018 and intended exclusively for the payment of any severance to Montepaschi Group personnel.

For more information on previous years, please refer to the relevant information communicated pursuant to Article 84-*bis* of Consob Issuer Regulation - Information on the assignment of financial instruments to company representatives, employees or collaborators, published on the website www.gruppomps.it - *Investors – Azionariato e Titolo – Acquisito azioni proprie e stock granting*. For information on the contents and implementation of these plans, please refer to the respective Remuneration Reports prepared pursuant to Article 123-*ter* of the TUF and Article 84-*quater* of Consob Issuer Regulation, available on the company's website www.gruppomps.it – *Corporate Governance – Remuneration*, as well as to the documents published for the respective shareholders' meetings.

b) Restrictions on the transfer of shares (per Article 123-*bis*, Par. 1, Letter b) of the TUF)

The current By-Laws do not contain clauses restricting the transfer of shares.

c) Significant equity investments (per Article 123-*bis*, Par. 1, Letter c) of the TUF)

According to the notifications received pursuant to applicable regulations and based on other information available as well as the information provided on Consob's website, shareholders who, at the date of this Report, directly or indirectly own ordinary shares accounting for more than 3% of the Bank's share capital and who do not fall under the exemptions provided for by Article 119-*bis* of Consob's Issuer Regulation, are as follows:

Declarant	Direct shareholder	% of ordinary share capital	% of voting rights
Ministry of Economy and Finance		68.247	68.247
Assicurazioni Generali S.p.A.	(*)	4.319	4.319
Banca Monte dei Paschi di Siena SpA:	(**)	3.181	3.181

(*) *Interest held through subsidiaries (Genertellife S.p.A. (0.519%); Alleanza Assicurazioni S.p.A. (1.734%) and Generali Italia S.p.A. (2.066%).*

(**) *Treasury shares held by the Montepaschi Group (Banca Monte dei Paschi di Siena S.p.A. (1.886%) and MPS Capital Services Banca per le Imprese S.p.A. (1.295%) following the capital strengthening measure pursuant to Italian Legislative Decree no. 237/2016 (as subsequently amended and converted into law) and the Ministerial Decree of 27/07/2017.*

The latest data on the Bank's main shareholders can be viewed at www.gruppomps.it – *Corporate Governance - Shareholding Structure*.

d) Shares with special rights (per Article 123-*bis*, Par. 1, Letter d) of the TUF)

No shares with special control rights have been issued.

BMPS's By-Laws do not make provisions for shares with multiple or increased voting rights.

e) Employee share ownership: voting rights exercise mechanism (per Article 123-*bis*, Par. 1, Letter e) of the TUF)

Each employee of the Montepaschi Group holding ordinary BMPS shares deriving from former stock granting plans may exercise his/her voting rights at ordinary and extraordinary shareholders' meetings.

f) Restrictions on voting rights (per Article 123-*bis*, Par. 1, Letter f) of the TUF)

There are no restrictions on voting rights.

g) Shareholder agreements (per Article 123-*bis*, Par. 1, Letter g) of the TUF)

As at the date of this Report, the Bank is not aware of any shareholders' agreement stipulated in any form pursuant to Article 122 of the TUF, concerning the exercise of the rights inherent in the shares or the transfer thereof.

h) Change of control clauses (per Article 123-*bis*, Par. 1, Letter h) of the TUF) and provisions of the By-Laws regarding takeover bids (per Article 104, Par. 1-*ter* and Article 104-*bis*, Par. 1)

In conducting its core business, the Bank stipulates funding or marketing agreements for products even of significant relevance which may envisage, according to negotiating practices, effects/modifications/settlement of the same in the event of a change in control of the contracting company.

As in the past, there continues to be a shareholders' agreement with AXA relating to the joint venture between BMPS-AXA, a strategic partnership in life and non-life bancassurance and supplementary pensions, signed in March 2007 and renewed in December 2016 until 2027, for the distribution of insurance products through the Bank's retail network.

In 2018, BMPS and its subsidiaries did not enter into any significant agreements that become effective, are amended or terminated in the event of a change in control of the contracting company.

The By-Laws of BMPS do not provide for any exemptions to the passivity rule (article 104, paragraphs 1 and 1-*bis* of the TUF) and to the neutralisation rules (article 104-*bis*, paragraphs 2 and 3 of the TUF) prescribed by the TUF for takeover bids.

i) Delegated powers to increase share capital and authorisations to buy back stock (per Article 123-*bis*, Par. 1 Letter m) of the TUF)

– Delegated powers

At present, there are no powers assigned to the Board of Directors pursuant to Article 2443 of the Civil Code by the Shareholders' Meeting.

– Purchase of treasury shares

Following the completion of the Bank's capital strengthening transaction in 2017 pursuant to Decree 237 of the related Ministerial Decrees of 27 July 2017, the Bank holds 21,511,753 treasury shares and the Group Company, MPS Capital Services S.p.A., holds 14,768,995 BMPS shares, for a total of 36,280,748 treasury shares. This also factors in the conversion of bonds (subject to burden-sharing measures) which were held by the Bank and by MPS Capital Services S.p.A at the time.

At the date of this Report, there are no existing authorisations by the Shareholders' Meeting for the buy-back of shares pursuant to Article 2357 of the Civil Code.

For the sake of completeness, it should be noted that the Ordinary Shareholders' Meeting of 12 April 2018, pursuant to Article 114-*bis* of the Consolidated Law on Finance, approved an annual plan for the use of a maximum of 6 million of the Bank's own shares for the payment of any amounts recognised in favour of Montepaschi Group personnel as part of the agreements for termination of employment or early termination of office and for the portion exceeding the cost of notice (so-called *severance*), authorising the disposal of its own shares pursuant to Article 2357 and 2357-*ter* of the Italian Civil Code.

l) Direction and coordination (per Article 2497 et seq. of the Civil Code)

BMPS is not subject to direction and coordination by any other third party entity pursuant to Article 2497 et seq. of the Civil Code since the MEF, albeit a controlling shareholder, does not exercise any direction or coordination activity on BMPS under applicable regulations.

* * *

The information required by article 123-*bis*, par. 1, letter i) of the TUF (“*the agreements between the company and the directors ... that provide indemnity in case of resignation or termination without just cause or discontinuation of their term of office due to a takeover bid*”) and the information on Directors’ remuneration (per Section 9 of this Report) is contained in the Remuneration Report, published in accordance with article 123-*ter* of the TUF and with article 84-*quater* of the Consob Issuer Regulation, to which reference should be made. The document is available at www.gruppomps.it – *Corporate Governance – Remuneration*.

The information required by Article 123-*bis*, Par.1, Letter l) of the TUF (“*the rules applicable for the appointment and replacement of directors ... and for amendments to the By-Laws, if different from the applicable provisions of the law and regulations*”) is provided in the section of this report dedicated to the Board of Directors (Section 4.1.).

3. COMPLIANCE (per Article 123-*bis*, Par. 2, Letter a), of the TUF)

The Bank adheres to the Corporate Governance Code of listed companies (most recently amended in July 2018), accessible to the public on the website of the Committee for Corporate Governance of Borsa Italiana on the page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf> and on the Bank's website www.gruppomps.it – *Corporate Governance - Governance Model*.

Neither BMPS nor its strategically significant subsidiaries¹ are subject to non-Italian law provisions that influence the corporate governance structure of BMPS itself.

Considerations on the letter from the Chairperson of the Corporate Governance Committee dated 12 December 2018

At its meeting of 7 March 2019, the Board of Directors confirmed the compliance of the Bank's corporate governance model with the principles and criteria set out in the current Corporate Governance Code, also with regard to the specific issues put forward in the “Committee's Recommendations for 2019” (the “Recommendations”) addressed to the Italian listed companies by the Italian Corporate Governance Committee in its letter of 21 December 2018, which was also submitted to the Chairperson of the Board of Statutory Auditors. The review conducted by the Board of Directors - with particular consideration being given to the issues set out in the Recommendations² as well as the results of the Board's annual self-assessment - did not reveal the need, at present, to improve or adapt current corporate governance. This was also on account of the fact that, in order to rationalise the flows to be brought to the attention of the Board of Directors and better define the interrelationships between the board committees (hereinafter the “Committees”) and the Board itself, improving their efficiency, the Bank has - in compliance with the EBA guidelines and in response to specific recommendations by the Supervisory Authorities - already launched a project initiative with the aim of improving the Board's effectiveness. This will involve, *inter alia*, streamlining Board meeting agendas and enhancing the preliminary activities carried out by the Committees for the benefit of the Board of Directors.

For further details on the Board's self-assessment results, please refer to the relative section of this Report. The Recommendations were also submitted to the i) Appointments Committee on 30 January 2019 during the periodic review of the requirements of banking officers with particular reference to recommendation 2 regarding the application of the independence criteria; ii) Risk Committee on 6 March 2019 during the review of this Report, and iii) the Remuneration Committee on 7 March 2019 as part of the review of the

1 Wholly controlled subsidiaries, whether or not belonging to the Banking Group, defined as strategic by the Board of Directors in view of their particular importance in terms of book value and type, are: MPS Capital Services Banca per le Imprese S.p.A., MPS Leasing & Factoring S.p.A., Widiba S.p.A., Consorzio Operativo Gruppo Montepaschi S.c.p.a., Monte Paschi Banque S.a., MPS Tenimenti Poggio Bonelli and Chigi Saracini Soc. Agricola S.p.A., as well as Banca Monte Paschi Belgio S.a. (under disposal) and Perimetro Gestione Proprietà Immobiliari S.c.p.a. (currently being merged into the Bank).

2 The recommendations for 2019 refer to the quality of pre-Board information flows; stricter application of the independence criteria defined by the Corporate Governance Code; greater transparency of the self-assessment process and adequacy of the remuneration policies with a view to the sustainability of the company's activities in the medium to long term.

2019 Remuneration Report, with particular regard to recommendation no. 4 on the adequacy of the remuneration policies.

* * * * *

Diversity policies (as per Article 123-*bis* para. 2 lett.d-*bis*) of the TUF

The Company By-Laws, as last amended by the Ordinary and Extraordinary Shareholders' Meeting of 18 December 2017, set out specific criteria to achieve diversity in the composition of its Board of Directors, Board Committees and Board of Statutory Auditors in terms of gender, age and managerial and professional skills.

More specifically, the application of the diversity criteria adopted to determine the composition of the corporate bodies considered optimal with respect to the By-Laws and provisions, including regulatory provisions, on corporate governance as well as the corporate governance code to which the Bank adheres, ensures:

- a level of gender balance that is, on average, higher than the one established by primary and supervisory legislation and in line with the average level of other listed, Italian companies: of the 14 directors, 5 are female (the least represented gender, which includes the Chairperson of the Board of Directors), accounting for 35.71%;
- a diverse age range, from a minimum of 48 years to a maximum of 74 years (and an average age of 57 years), which also takes account of the maximum age limits established by the Company By-Laws for particular offices (*i.e.* the Chairperson and the Chief Executive Officer);
- the presence of suitability requirements for directors (training, professional experience, independence of judgment, time available) which are regularly assessed both with regard to the individual member and to the overall of structure of the Board of Directors, in order to ensure the best possible composition of the Board of Directors in relation to the company's state and the Bank's objectives, including the strategic ones. The qualitative and quantitative criteria for the Board of Director's ideal composition are made known to the shareholders in preparation for the renewal of the corporate boards.

These aspects, which form an integral part of a diversity governance structure deemed to be in line with applicable best national and international practices, were taken into account for the renewal of the corporate boards during the Shareholders' Meeting of 18 December 2017, which appointed the Board of Directors and the Board of Statutory Auditors currently in office.

For further details on this subject, and with particular regard to the criteria adopted by the Bank to set out its Diversity policies, please refer to the subsequent chapters of this Report dedicated to the appointment, composition and self-assessment of the Corporate Boards. With regard to the recommendations contained in the current Corporate Governance Code regarding the policies on equal treatment and opportunities between the genders within the corporate organisation, please refer to the specific contents in the Non-Financial Declaration for 2018, available on the Bank's website at www.gruppomps.it – *Group – Sustainability - Reports*.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (per Article 123-*bis*, Par. 1, Letter l) of the TUF)

The Board of Directors is composed of a number of members established by the Ordinary Shareholders' Meeting which cannot be less than nine (9) or more than fifteen (15).

Subject to removal from office, no BMPS director shall be entitled, at the same time, to hold the office of director or serve as a member of the management body or of the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the supervisory authority and operate in the markets of bank funding or ordinary credit in Italy. In the event that a BMPS director accepts to hold one of the above-mentioned offices, he/she must promptly notify the BMPS Board of Directors which will declare his/her prompt removal from office. Directors' term of office is three years and expires on the day of the shareholders' meeting called to approve the financial statements of the most recent

financial year of their term. Directors may be re-appointed for a maximum of two consecutive terms after the first one, with the exception of the Chief Executive Officer/Chief Executive Officers.

The Board of Directors is appointed on the basis of lists submitted by the shareholders, in which the candidates are listed by consecutive number, according to the procedure set out in Article 15 of the By-Laws, as described below.

Each list must contain and specifically indicate at least two candidates - or the only candidate or at least a third of the present candidates in case of lists where there are more than six (6) candidates - who meet the independence requirements established by law for statutory auditors and the further independence requirements set out by the Corporate Governance Code for Listed Companies. In the event that the mentioned quota of one-third does not correspond to a whole number of candidates, this number shall be rounded up.

Lists must include candidates of both gender in compliance with applicable legislation regarding gender balance⁽³⁾. The lists shall not include candidates who are 75 years of age as of the date of the Shareholders' Meeting for the renewal of the Corporate Bodies, also in view of the age limits indicated for the office of Chairperson of the Board of Directors (70) and for the office of Chief Executive Officer (67) as provided for by Article 13, para. 3 letter b) and Article 18, para. 2, respectively.

Each list shall be filed at the Company's registered office, within the deadline for their filing, together with the documents specified in the notice calling the meeting, including: (i) declarations by the candidates in which they accept their candidacy and certify, under their own responsibility, that there are no reasons for ineligibility and incompatibility, as well as the fact that they meet the requirements prescribed for the office as laid down by applicable law and regulations; (ii) declarations by the candidates indicated as independent in the list certifying that they meet the independence requirements pursuant to foregoing para.2; and (iii) the curricula vitae showing the personal and professional characteristics of each candidate, indicating the management and control positions held in other companies. In particular, the candidates must declare that they do not hold the office of director or serve as member of the management board or the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the Supervisory Authority and operate in the markets of bank funding or ordinary credit in Italy. The lists submitted by the shareholders must be filed at the Company's registered office at least twenty-five days prior to the date set for the Shareholders' Meeting and published in accordance with applicable regulations. Each shareholder may submit or contribute to the submission of one list only and each candidate may stand for election in one list only, under penalty of ineligibility.

Only shareholders that, either individually or together with other shareholders, collectively hold shares representing at least 1% of the Company's share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage required by applicable regulations are entitled to submit lists. In order to prove ownership of the number of shares required for submission of lists, shareholders who submitted the lists must submit and/or send the documentation proving ownership of the minimum shareholding required to submit lists to the Company's registered office, when filing the lists or at a later date but within the term provided for the publication of the lists. Ownership is determined by taking into account the shares registered to the shareholder on the date on which the lists are filed.

Lists submitted that do not comply with the By-Laws cannot be voted.

Each shareholder entitled to vote may vote for only one list.

In accordance with article 15 of the By-Laws, as amended by the Shareholders' Resolution of 18 December 2017, the Board of Directors is elected as follows:

- a) all of the Directors to be elected less three (3) or the smallest number of Directors that exhausts the candidates of the list shall be drawn from the list obtaining the majority of the votes expressed, in the progressive order with which they are listed in that list;
- b) the remaining Directors shall be drawn from the other lists; to this purpose, the votes obtained by the lists shall be divided subsequently by one, two, three, four and so on according to the number of directors

⁽³⁾The By-Laws aimed at respecting gender balance, according to the principles established by law 120/2011 (the so-called Golfo-Mosca Law) and introduced in Articles 147-ter and 148 of the TUF, were applied for the first time for the renewal of the corporate boards of the Bank approved by the Shareholders' Meeting of 16 April 2015.

still to be elected. The quotients obtained shall be assigned progressively to the candidates of each list according to their related order. The quotients assigned to the candidates of the various lists shall be listed in decreasing order.

The candidates obtaining the highest quotients shall be elected.

If several candidates have obtained the same quotient, the candidate of the list that has not yet elected a director or that has elected the lowest number of directors shall be elected.

If none of these lists has elected a director or if all of them have elected the same number of directors, the candidate of the list that has obtained the highest number of votes shall be appointed among these lists.

In the event of equal number of votes and quotients, the entire Ordinary Shareholders' Meeting shall hold a new voting and elect the candidate obtaining the simple majority of the votes.

However, also notwithstanding the foregoing provisions, at least one director must be drawn from the minority list which has obtained the highest number of votes and is in no way linked, either directly or indirectly, with the parties that submitted or voted the list ranking first by number of votes.

For the allocation of the directors to be elected, the Bank's By-Laws do not provide for the exclusion of the lists that have not obtained a percentage of votes equal to at least half the one required by the By-Laws for presentation of the lists (see Article 147-ter, Par. 1 of the TUF), *i.e.* at least 1% of the share capital of the Bank with voting rights in the ordinary Shareholders' Meeting.

If, as a result of the voting, at least one third of the directors that meet the independence requirements provided have not been appointed, the required number of last non-independent directors shall be replaced with independent candidates - drawn from the same lists of the replaced candidates - who have obtained the highest quotient.

The candidate replaced for the purpose of allowing the appointment of the minimum number of independent directors shall in no case be drawn from the minority list which obtained the majority of votes and no way be linked, directly or indirectly, with the parties that submitted or voted the list which obtained the majority of votes. In this case, the non-independent candidate which ranked last but one by quotient achieved shall be replaced.

In addition, if application of the foregoing procedures does not ensure compliance with current regulations on gender balance, the quotient of votes to be assigned to each candidate from the lists shall be calculated by dividing the number of votes obtained by each list by the progressive number of listing of each candidate. The candidate of the most represented gender with the lowest quotient among the candidates taken from all the lists is replaced by the candidate of the least represented gender who has obtained the highest quotient in the same list as the replaced candidate. If candidates from different lists have obtained the same quotient, the candidate of the list with the highest number of directors, or the candidate from the list with the lowest number of votes or, at a parity of votes, the candidate obtaining the lowest number of votes from the Shareholders' Meeting during a specific voting, shall be replaced.

In the event of application of the above procedures, should the number of Directors necessary to comply with the minimum number of independent Directors and of Directors of the least represented gender not be appointed due to an insufficient number of independent directors or of the least represented gender, the Shareholders' Meeting shall appoint the missing Directors by resolution approved by simple majority on the basis of the candidatures proposed, there and then, primarily by the parties that submitted the list of the candidate or candidates to be replaced.

With respect to the appointment of the Directors who were not appointed for any reason whatsoever in compliance with the procedure provided for herein, the Shareholders' Meeting shall resolve pursuant to and with the majorities provided for by law, without prejudice to the criteria envisaged by legislation in force and by the By-Laws with regard to independent directors and gender balance.

In order to replace any Directors terminating their office during their term, the provisions of law shall apply, in accordance with the criteria envisaged by legislation in force and by the By-Laws with regard to independent directors and gender balance. If the majority of Directors terminates office, the whole Board of Directors shall be deemed to have resigned, with effect from the date it is re-established. Directors may be revoked by the Shareholders' Meeting at any time, subject to the Director's right to compensation for damages, if his/her revocation is without just cause.

Each member of the Board of Directors must meet the requirements of integrity, professional experience and independence established by law and by these By-Laws. In compliance with applicable regulations, the verification of these requirements is notified to the Bank of Italy, which then informs the European Central Bank, the competent authority for decisions on the assessment of suitability of all members of the management bodies of significant credit institutions that fall under its direct supervision. The results from the assessment of requirements is also disclosed to the public pursuant to the Consob Issuer Regulation and Corporate Governance Code.

The regulations on the requirements for bank officers pursuant to Article 26 of the TUB were amended by Italian Legislative Decree no. 72/2015 envisaging, in accordance with Directive CRD IV and guidelines issued by the EBA, that individuals that carry out administrative, management and control functions within banks must be “suitable” to carry out the task. For the purposes of “suitability”, the officers, in addition to possessing the qualities of integrity (standard for all officers), professional experience and independence (tiered based on principles of proportionality), must satisfy the criteria of competence and fairness, which will be defined in an implementing decree currently being issued by the MEF, to be adopted upon consultation with the Bank of Italy.

Article 26 of the TUB establishes that the criterion of “competence” must be governed in a manner that is *“consistent with the role to be covered and with the characteristics of the bank, and with adequate composition of the board” and that the concept of “fairness” regard, “among other things, business dealings of the officer, conduct with regard to the supervisory authority and sanctions or corrective measures issued by the same, restrictive provisions regarding the professional activities carried out, and any other element that could impact the fairness of the officer”*. The MEF will be responsible for setting a limit on the number of “directorships” which may be held, *“according to the principles of proportionality and taking into account the size of the intermediary”*, and for establishing *“the causes resulting in the temporary suspension of the office and its term”*.

Pending the issuance of the decree implementing Article 26 of the TUB and in compliance with the ECB's request to banks of "significant" size in its letter of 14 April 2016, the fit and proper assessment of each officer is conducted by the Board of Directors, with the support of the Appointments Committee, taking also account of the circumstances listed in a specific questionnaire, drawn up by the ECB itself and signed by each person concerned, containing detailed information on any pending criminal, administrative and civil proceedings, bankruptcies, conflicts of interest, etc.

On this basis, on 24 May 2016, the Board of Directors updated its internal Regulation as well as the internal Regulation on the self-assessment process, which incorporates the guidelines set out by the ECB in its letter. The internal Regulation was amended and updated by the Board of Directors on 22 December 2017 to implement the amendments to the By-Laws approved by the extraordinary and ordinary Shareholders' Meeting of 18 December 2017 as well as the new regulatory provisions on the subject introduced in the course of 2017⁴.

In accordance with Supervisory Provisions concerning banks' corporate governance, the Board of Directors, both upon renewal of the entire Board of Directors, and in case of co-optation following the termination of office of directors during their office, shall initiate the procedures necessary to preventively identify the qualitative and quantitative composition of the Board that is considered optimal, identifying and justifying, with the support of the Appointments Committee, the theoretical candidate profile deemed best suited to the objectives indicated in the aforementioned provisions. In case of the renewal of the Board of Directors, the Bank shall publish on its website and file at the company's registered office and the market management company, the results from the assessment of the qualitative and quantitative composition and theoretical candidate profile deemed suitable for this purpose, in time for the shareholders' meeting to take them into account when choosing candidates. After the appointments, the Board of Directors shall verify whether the qualitative and quantitative composition considered optimal ex ante matches the composition resulting ex post from the appointments made by the shareholders' meeting or by co-optation.

⁴ Regarding the renewal of the Board of Directors, the ECB has expressly recommended the Bank to take into consideration the “Guidelines on the assessment of the suitability of members of the management body and key function holders”, published by the EBA. In this regard, it should be noted that the “Guide to fit and proper assessments of banking officers”, issued by the ECB in May 2017, which applies to the assessment of the requirements of professional experience and integrity for members of the board of directors of all entities subject to direct supervision by the ECB (significant entities), was updated in May 2018 in order to align it with the EBA-ESMA Guidelines on the "assessment of the suitability of members of the management body and key function holders”.

In particular, pursuant to the provisions issued by the Bank of Italy, the Boards of Directors of banks are required to identify the qualitative and quantitative composition they consider optimal in relation to the achievement of the objective which is to correctly perform the functions incumbent upon the supervisory and management bodies. Said optimal composition requires that the individuals involved:

- are fully aware of the powers and obligations inherent in the functions that each individual is required to carry out (supervisory or management function, executive and non-executive functions, independent members, etc.);
- have the professional requirements to perform the duties assigned to them, including in any committees within the Board of Directors itself, commensurate with the operating and dimensional characteristics of the bank;
- have skills that are appropriately diversified, so each of the members, both within the committees that they participate in and in board decisions, may effectively contribute, among other things, to identify and pursue appropriate strategies and ensure effective governance of risk throughout all areas of the bank;
- dedicate adequate time and resources to the complexity of their task, subject to the compliance with the limitations on the plurality of offices as provided in implementation of the CRD IV;
- address their action to the pursuit of the overall interests of the Bank, regardless of the shareholders who voted for them or the list from which they are selected; they shall operate with autonomy of judgment.

For further details on the “*Guidelines of the Board of Directors of Banca Monte dei Paschi di Siena to Shareholders on the size and composition of the new Board of Directors?*” approved on 7 November 2017 by the outgoing Board of Directors and addressed to all shareholders intending to submit a list of candidates at the extraordinary and ordinary Shareholders’ Meeting on 18 December 2017 for the renewal of the Board of Directors, please refer to the document published on the Group’s website at www.gruppomps.it – *Corporate Governance – Shareholders’ Meetings and BoDs* as well as the relevant information contained in the following paragraph.

Furthermore, following the appointment of the directors and statutory auditors and on an annual basis thereafter, the Board of Directors verifies compliance with the so-called interlocking ban (pursuant to Article 36 of Legislative Decree 201/2011 – converted into Law 214/2011) applicable to directors, statutory auditors and general managers of companies or groups of companies that operate in the credit, insurance or financial markets, who take on or perform similar duties in competitor groups or companies. To this end, the directors and the statutory auditors in office issue an appropriate declaration and provide a list of the offices they hold in other companies or groups of companies that operate in the credit, insurance or financial markets, accompanied by a certification, duly justified, that the incompatibility as set forth in the Legislative Decree does not apply.

With regard to the amendments to the Bank’s By-Laws, the quorums established by law are applicable, without prejudice to the provisions concerning the regulatory amendments to the By-Laws, for which the Board of Directors is responsible.

Succession plans

As required by the Supervisory Provisions and the best international practices for larger banks or banks with complex operations such as BMPS, a plan has been prepared which shall ensure the orderly identification of the top executive positions (Chief Executive Officer and General Manager, who, in the case of BMPS, are currently the same individual), in order to ensure the going concern basis of the bank and avoid any financial or reputational issues. The identification process approved by the Board of Directors, upon the proposal of the Appointments Committee - which, in turn, is referred to by the Chairperson - and with the favourable opinion of the Remuneration Committee (within its area of responsibility), contains the processes for defining the skills and remuneration profile of the role, as well as for the identification and appointment of both the General Manager and the Chief Executive Officer. At its meeting held on 7 February 2019, the Board of Directors confirmed the current process concerning succession plans.

4.2. COMPOSITION (per Article 123-*bis*, Par. 2, Letter d) of the TUF)

The current Board of Directors, composed of 14 members, was appointed by the Ordinary Shareholders' Meeting of 18 December 2017⁵, with effect from the date the amendments to the By-Laws approved by the extraordinary session of the same Shareholders' Meeting (21 December 2017) are entered in the register of companies. The Board of Directors shall remain in office until the approval of the financial statements for the year ended 31 December 2019. In the course of 2018, a resigning director was replaced by co-optation (*see* note (1) of the table below).

The table below shows the directors in office at the date of this Report.

Name and surname	Office	Place and date of birth
Stefania Bariatti	Chairperson	Milan, 28 October 1956
Antonino Turicchi	Deputy Chairperson	Viterbo, 13 March 1965
Marco Morelli	Chief Executive Officer	Rome, 8 December 1961
Maria Elena Cappello (*)	Director	Milan, 24 July 1968
Roberta Casali (*) (1)	Director	Latina, 25 January 1962
Marco Giorgino (*)	Director	Bari, 11 December 1969
Fiorella Kostoris (*)	Director	Rome, 5 May 1945
Roberto Lancellotti (*)	Director	Besana in Brianza (MB), 21 July 1964
Nicola Maione (*)	Director	Lamezia Terme (CZ), 9 December 1971
Stefania Petruccioli (*)	Director	Torino, 5 July 1967
Salvatore Fernando Piazzolla	Director	Milan, 5 March 1953
Angelo Riccaboni (*)	Director	La Spezia, 24 July 1959
Michele Santoro (*)	Director	Siena, 28 March 1955
Giorgio Valerio (*)	Director	Milano, 13 July 1966

(*) *Independent director pursuant to the Consolidated Law on Finance and the Corporate Governance Code (Article 15 of the By-Laws).*

(1) *Co-opted by the Board of Directors of 12 July 2018 to replace the director Giuseppina Capaldo, who resigned on 4 May 2018. In office until the next Shareholders' Meeting.*

At the extraordinary and ordinary Shareholders' Meeting of 18 December 2017 for the appointment of Board of Directors in office, two lists were submitted, of which:

1. **List no. 1** - submitted by the controlling shareholder, the Ministry of Economy and Finance, for the candidacies of: Marco Morelli, Antonino Turicchi, Maria Elena Cappello, Stefania Bariatti, Salvatore Fernando Piazzolla, Nicola Maione, Roberto Lancellotti, Giuseppina Capaldo, Angelo Riccaboni, Michele Santoro and Fiorella Kostoris;⁶

2. **List no.2** - submitted by the shareholder Generali Investments Europe S.p.A. – Società di gestione del risparmio, on behalf of the shareholders Genertellife S.p.A., Alleanza Assicurazioni S.p.A. e Generali Italia S.p.A. for the candidacies of: Marco Giorgino, Stefania Petruccioli and Giorgio Valerio.

On 23 November 2017, the Board of Directors, in compliance with Article 148, para. 2 of the TUF and Article 144-*quinquies* of the Consob Issuer Regulation and considering the recommendations contained in Consob's Notification DEM/9017893 of 26 February 2009, assessed and declared that, to the Bank's knowledge, there existed no material relationships of affiliation within the lists submitted.

Results of the shareholders' votes were as follows:

⁵ The Board of Directors was appointed by the Shareholders' Meeting of 18 December 2017 following the resignation of all the directors in office upon completion of the precautionary recapitalisation exercise, which led to significant changes in the Bank's ownership structure with the Ministry of Economy and Finance acquiring a controlling interest in the Bank's share capital (with a shareholding of more than 68%) and the entry of new shareholders. The effectiveness of the resignations was subject to the application of the amendments to the by-laws approved by the extraordinary Shareholders' meeting, which provided for governance rules that were in line with the Bank's new ownership structure.

⁶ Among the candidates, on 15 December 2017, the Chair of the outgoing Board of Directors, Alessandro Falciai, announced that, due to personal reasons, he was unavailable to accept his nomination in the list submitted by the MEF for the subsequent Shareholders' meeting on 18 December.

- **List no. 1:** total votes 781,308,604, accounting for 90.731406% of the shares entitled to vote;
- **List no. 2:** total votes 79,350,263, accounting for 9.214747% of the shares entitled to vote.

The following persons were elected: Stefania Bariatti, Antonino Turicchi, Marco Morelli, Giuseppina Capaldo, Maria Elena Cappello, Fiorella Kostoris, Marco Giorgino, Roberto Lancellotti, Nicola Maione, Stefania Petruccioli, Salvatore Fernando Piazzolla, Angelo Riccaboni, Michele Santoro and Giorgio Valerio.

In the same shareholders' meeting, Stefania Bariatti was appointed Chairperson of the Board of Directors and Antonio Turicchi was appointed Deputy Chairperson.

Each member of the Board of Directors meets the requirements prescribed by applicable regulations and the current By-Laws in force.

Following the appointment of the new corporate bodies by the Shareholders' Meeting of 18 December 2017, the Board held a meeting on 16 January 2018 and assessed the requirements of its members and of the members of the Board of Statutory Auditors against the Italian laws, taking also account of European regulations established primarily by Directive 2013/36/EU (CRD IV), implemented with the "*Guide to fit and proper assessments*" issued by the ECB in May 2017 and the joint EBA-ESMA "*Guidelines on the assessment of the suitability of members of the management body and key function holders*" issued on 26 September 2017, which came into force on 30 June 2018, and which already constitute a benchmark for the assessment of officers appointed after the issue of this document. Following the meeting of 16 January 2018, board induction sessions were arranged on specific topics and issues of interest to the Directors.

On 2 August 2018, the Board of Directors proceeded with the procedures described above to verify the requirements of the director Roberta Casali, who was co-opted on 12 July 2018.

For detailed information on the personal and professional background of each director in office, please refer to the curricula vitae published on Bank's website at www.gruppomps.it – *Corporate Governance – Board of Directors*.

For additional information on the composition of the Board of Directors in 2018, please refer also to Table no. 1 attached hereto.

– **Maximum number of offices held in other companies**

At its meeting on 22 December 2017, the Bank's Board of Directors approved its Operating Regulation which incorporates, *inter alia*, the amendments to the By-Laws approved by the Shareholders' Meeting on 18 December 2017, as well as the final version of the European Central Bank's (ECB's) Guide to fit and proper assessments issued on 15 May 2017, prepared by the ECB on the basis of the Single Supervisory Mechanism (SSM).

Pending issuance of the implementing decree by the MEF pursuant to Article 26, paragraph 3, lett. e)⁷ of the TUB, as amended by Legislative Decree 72/2015 and taking into account of the fact that the holding of multiple directorships is an important factor that may affect a Director's time commitment, it was considered that the number of directorships deemed compatible with the effective performance of a Director's duties would be limited to: one executive directorship with two non-executive directorships, or four non-executive directorships. However, there are two exceptions to this rule:

1. directorships in organisations which do not pursue predominantly commercial objectives do not count. Nevertheless, presence on the management body of such organisations may have an impact on overall time commitment and need to be declared as part of the fit and proper notification;
2. certain multiple directorships count as a single directorship ("privileged counting"):
 - a) directorships held in the same group;
 - b) directorships held within institutions which are members of the same institutional protection scheme;

⁷ Letter e) of art. 26 of the TUB establishes that "*The Ministry of Economy and Finance, with decree adopted upon approval by the Bank of Italy, identifies: e) limits on the maximum number of positions held by bank officers, according to the principles of proportionality and taking into account the size of the intermediary...*"

c) directorships held within entities in which the Bank holds a qualifying holding.

In addition to the quantitative limits on the number of directorships, there are qualitative factors that should also be considered, such as: the size and the circumstances of the entities where the directorships are held and the nature, scale and complexity of their activities; the place or country where the entities are based; other personal or professional commitments and circumstances. While assessing whether the appointed Director will be able to commit sufficient time to performing his/her functions, account will also be taken of the need for ongoing learning and development as well as unexpected circumstances.

In brief, the assessment of the maximum number of positions, prescribed by current regulations pro tempore, takes into account the substance of the positions held, rather than their mere number; therefore, it is based on the type of position held (e.g. executive or non-executive director), the nature and size of the company where the positions are held (e.g. listed or unlisted companies), the remuneration envisaged (in the case of positions within the MPS Group or in other companies designated by it), the specific circumstances and, in any case, keeping the Bank's best interest as the foremost reference criterion.

At its meeting on 16 January 2018, the Board also confirmed that there were no material situations pursuant to the regulations on interlocking directorates for directors, statutory auditors and top officers (general managers and the financial reporting officer) under Article 36 of Legislative Decree no. 201/2011, converted into Law no. 214/2011. At the same meeting and in its first assessment of requirements, the Board of Directors also confirmed that the directorship of its members was compatible with other directorships held by them for an effective performance of their duties as a director of the Bank, also in terms of the time commitment required.

During its term of office, the Board of Directors assessed the appointment of its members to new positions in other companies in order to determine their relevance in relation to the ban on interlocking directorates in terms of number of positions held and amount of time available to allocate to the position in BMPS. At its meeting of 7 February 2019, the Board of Directors also carried out its yearly assessment of interlocking directorates, based on the declarations issued by its members and on the information available to the Bank. At the same meeting, the Board of Directors also confirmed that the limits on multiple directorships had been complied with and that the other directorships of its members was compatible with an effective performance of their duties as a director of the Bank, even in terms of the time availability required.

– ***Induction Session***

In the course of 2018, which was the first year of office of the current Board, the Chairperson of the Board Directors oversaw the Board Induction program, consisting of a set of regular seminars for all Board members (directors and statutory auditors), conducted by managers of the Bank on specific issues: (i) presentation of the structure and illustration of the Group's main business and operational issues; (ii) introduction to risk management; (iii) Risk Appetite Framework (RAF) - RAS 2018-2020 and budget process; (iv) ICAAP, ILAAP and Recovery Plan; (v) Widiba; (vi) credit risk management: approach, processes and tools; (vii) the regulatory framework of credit institutions and transparency of banking and financial operations and services: applicable regulations, supervision and responsibility of corporate bodies; (viii) transactions with related parties and connected persons (to represent the key regulatory requirements in force in this area and describe the main elements of the new "Group Directive governing regulatory requirements regarding related parties, connected persons and the obligations of banking officers", which was subsequently approved by the Board of Directors on 29 November 2018).

4.3. ROLE OF THE BOARD OF DIRECTORS (per Article 123-*bis*, Par. 2, Letter d) of the TUF)

– **Operation**

During 2018, a total of 23 meetings of the Board of Directors were held, with an average duration of approximately 6 hours.

In 2019, as at 7 March inclusive, a total of 4 meetings had been held with an average duration of approximately 6 hours and 41 minutes. A further 13 Board meetings have been scheduled for the remainder of 2019.

For each director's percentage of attendance at meetings, please refer to Table no. 1.

Distribution of information is regulated and structured so as to ensure efficient management and effective controls.

The Directors observe the strictest confidentiality of all documents and information received in the course of their duties.

The agenda is set by the Chairperson of the meeting, having heard the Chief Executive Officer and/or General Manager and the Chairpersons of the Board sub-Committees. The Chairperson convenes the meetings of the Board according to the procedures and timescales established in the Regulation, including the possibility for Directors to attend the meetings by using teleconference and video conference systems, as established by the By-Laws.

The Chairperson ensures that adequate and comprehensive information and documentation is provided on the agenda items for the Board of Directors meeting for all members with suitable advance notice, correlated to the importance, relevance and complexity of the individual positions to be examined, always complying with the rule that the documentation shall be made available to Directors sufficiently in advance to enable them to examine and evaluate the proposals on the agenda.

Information is made available to Directors and statutory auditors using a dedicated procedure accessible via intranet or extranet in a secure environment that enables all Directors and statutory auditors to view proposals and annexes and obtain all the preliminary information necessary at least three days – including holidays – prior to the meeting, barring any urgencies, and be in a position to participate in the discussion and deliberation of the items on the Board of Directors meeting's Agenda in an informed and considered manner. This objective is generally complied with.

On the subject of pre-Board information, which is also the subject a specific recommendation issued by the Corporate Governance Committee for 2019, it should be noted that, in order to rationalise the flows to be brought to the attention of the Board of Directors and better define the interrelationships between the board committees (hereinafter the "Committees") and the Board of Directors itself, improving their efficiency, the Bank has - in compliance with the EBA guidelines and in response to specific recommendations by the Supervisory Authorities - launched a project initiative with the aim of improving the Board of Directors effectiveness. This will involve, among other things, streamlining Board of Directors meeting's Agenda and enhancing the preliminary activities carried out by the Committees for the benefit of the Board of Directors.

The Chairperson begins the meeting by ensuring that the meeting itself has been convened in accordance with due procedure and that it is duly constituted. The Chairperson reminds the directors present to comply with the requirements regarding Directors' interests (Article 2391 of the Civil Code and Article 53 of the TUB), the obligations of bank corporate officer (Article 136 TUB) and related-party transactions, and invites them to declare any interests in the agenda items and, if so, to comply with all due obligations and procedures. In such cases, the same provisions of the law and Articles 17 and 19 of the By-Laws apply.

During the course of the meeting, all members are entitled to intervene in the discussion, request information or clarifications and make comments. The Chairperson governs and regulates the discussion. At the end, the Chairperson invites the Directors to cast their vote. Directors express their vote clearly. Minutes of each Board meeting are drawn up and signed by the Chairperson and by the Secretary; as per the By-Laws, the Board of Directors appoints a Secretary chosen among the Company's Executives. In the case of absence of the Secretary, the Chairperson may appoint a Director to act as temporary Secretary.

As established by the Board Regulation, in 2018 the Chairperson - in executing the task of managing the Board of Directors meetings and discussions - relied on the contributions of the persons in charge of the corporate functions responsible for the subject matters being examined by the Board of Directors, as well as on the contribution of consultants for certain topics.

The minutes of the meetings are made available to each Director through the secured procedure referred to above; the minutes are also submitted to the Supervisory Authority in the cases provided for by regulations and where required.

– **Powers of the Board of Directors**

The Board of Directors holds all powers of ordinary and extraordinary management in order to achieve the company purpose, with the exception of the powers assigned to the Shareholders' Meeting according to the law, and of any other matter submitted to the Board by the Chairperson and the Chief Executive Officer or the Chief Executive Officers (if appointed).

More specifically, the By-Laws (Article 17, para. 2) establish that the Board of Directors has exclusive responsibility, which may not be delegated, for:

- defining and approving the business model, strategic guidelines for the Company and the Banking Group to which it belongs and approving the respective business and financial plans as well as the strategic transactions and providing for their periodic review;
- monitoring the correct and consistent implementation of the guidelines and plans as per above into the management of the Company and of the Banking Group;
- establishing the Company's organisational guidelines and approving its organisational structure, monitoring their adequacy over time, as well as approving and amending its main internal regulations;
- drawing up guidelines for the organisation and operation of the Banking Group, by establishing criteria to co-ordinate and manage the subsidiaries belonging to the Banking Group as well as for the implementation of Bank of Italy's instructions;
- defining and approving risk governance objectives and policies, as well as the process of risk reporting, management and assessment over time;
- defining and approving the guidelines for the internal control system and verifying its adequacy, consistency, functioning, efficiency and effectiveness in compliance with supervisory regulations in force on the matter;
- approving the policies and processes for the assessment of company assets and particularly financial instruments, verifying their constant adequacy;
- approving the accounting and reporting system;
- taking general responsibility for setting guidelines for and controlling the information system;
- ensuring that the Financial Reporting Officer has the appropriate powers and means to fulfill his/her duties pursuant to the law, and the administrative and accounting procedures are complied with.

In addition, as established by Article 17 of the By-Laws, pursuant to Article 2365 of the Italian Civil Code, the Board of Directors resolves upon any mergers as provided for by Articles 2505 and 2505-*bis* of the Italian Civil Code, the establishment or closing of secondary offices and any adjustments to the By-Laws in order to comply with regulations.

The Board of Directors of the Bank shall make decisions with regard to the transactions of the Issuer itself and, as Parent Company, of its subsidiaries (in this case through the "Parent Company's prior opinion" tool) on the transactions relating to relevant matters (have significant strategic, economic, capital or financial relevance, which entail the assumption of additional risks and for all other matters governed/identified as such by the By-Laws of the Parent Company and the subsidiaries and by Group regulations). The above activities are carried out in accordance with the By-Laws and internal regulations. In particular, the Board approved the regulatory framework for relations between the Parent Company and the Group companies regarding all company processes, with the "Regulation for the operating governance of the Group", which regulates, in close synergy with the remaining internal regulations, the strategic and operating responsibilities of the Parent Company and the Group companies regarding company processes, the associated operation mechanisms and the dissemination of information flows, in order to ensure that the common objectives are reached, in observance of the legal autonomy of the Group companies and the principles for their proper corporate and business management.

The Board assesses the general operating performance on a quarterly basis through the budget review prepared by the Chief Executive Officer.

On a periodic basis (quarterly/half-yearly/annually and whenever relevant), the heads of the internal control and risk management functions (internal audit, compliance, risk management, advanced risk management system validation function and anti-money laundering) and the Financial Reporting Officer report to the Board of Directors on matters within their competence.

At least every quarter, the Board of Directors assesses the general business performance, taking into consideration the information received from the delegated bodies, and based on a comparison of the results achieved against those that were forecast.

With reference to the relevant supervisory and company regulations, the Board of Directors:

- based on the prior opinion of the Risk Committee:
 - defines the guidelines for the internal control and risk management system, so that the main risks concerning the Bank and its subsidiaries are correctly identified and adequately measured, managed and monitored, determining, moreover, the level of compatibility of such risks with the management of the company in a manner consistent with its strategic objectives;
 - assesses, at least on an annual basis, the adequacy of the internal control and risk management system taking into account the characteristics of the Bank and its risk profile, as well as its effectiveness;
 - approves, at least on an annual basis, the plan drafted by the managers in charge of the Corporate Control Functions;
 - examines the periodic reports on the evaluation of the internal control and risk management system and the particularly significant reports prepared by the Compliance, Risk Management and Internal Audit Functions;
 - assesses, together with the Financial Reporting Officer and having received the opinion of the auditors and the Board of Statutory Auditors, the correct and consistent application of accounting standards when preparing the consolidated financial statements;
 - after hearing the Board of Statutory Auditors, it assesses the finding reported by the external auditor in the suggestions letter, if any, and in the report on the main issues resulting from the auditing;
 - upon the proposal of the Remuneration Committee, determines the remuneration structure and role allowances for the Managers in charge of the Corporate Control Functions;
- upon the proposal of the Risk Committee, with the prior opinion of the Appointments Committee and after hearing the Board of Statutory Auditors, appoints or revokes the managers in charge of the Corporate Control Functions (Internal Audit, Compliance, Anti-money Laundering, Risk Control and Internal Validation).

– **Board Self-Assessment**

On 16 January 2018, the Board of Directors, appointed by the Shareholders' Meeting on 18 December 2017, assessed the requirements of professional experience, integrity and independence of its members pursuant to Article 26 of the Consolidated Law on Banking, taking also account of the criteria set by the European regulatory and legislative framework and the opinion expressed by the Appointments Committee on the size and composition of the Board and on the professional skills within it. The Board deemed its size, composition and professional experience (in terms of type and variety of skills as a whole) to be appropriate and also judged as appropriate the Board's effectiveness. As part of their assessment of the Board's composition, the new Board of Directors also took into account the contents of the document "*Guidance by the Board of Directors of Banca Monte dei Paschi di Siena to Shareholders regarding the size and composition of the new Board of Directors*", approved on 7 November 2017, in which the outgoing Board of Directors set out guidelines for a qualitative composition that ensured the stable and effective management of the Bank in compliance with the "*guidelines agreed on with the European Commission and the other supervisory bodies to implement the business plan and re-launch the bank with a view to ensuring a redefined strategic and operational process that sees the divestiture of the Italian State's stake in the Bank according to the time frame established in the business plan ...[...]*" and a prevalence of managerial figures with strategic vision, international experience, involvement in innovation,

including digital, whilst maintaining a fair gender balance and identifying personal and professional qualities deemed appropriate to the various roles of Chairperson, Executive Directors and other Directors.

In line with international best practice and with the provisions of the Corporate Governance Code, the Supervisory Provisions concerning Bank's Corporate Governance and its own Regulation and Self-Assessment Regulation, the Board of Directors carried out its self-assessment and that of the Board committees for the year 2018 (2018 "Board Review"), availing itself of the support of the independent advisory firm Management Search S.r.l., an expert in corporate governance and board effectiveness⁸.

As provided for in its own "Self-Assessment Regulation", the Chairperson of the Board of Directors ensures that the self-assessment process is carried out effectively; the Chairperson also ensures that the methods used to conduct the process are consistent with the degree of complexity of the Board's work; the Chairperson also ensures that the corrective measures established to deal with any shortcomings that may emerge during the self-assessment process are adopted in the best possible way. The Appointments Committee is also involved in the process, particularly during the selection of the external advisor and the examination of the board review results.

The purpose of the 2018 Board Review, referring to the Board's first year in office, was to evaluate the overall operation and effectiveness of the Board and its Committees in order to determine its strengths and weaknesses as well as any areas of improvement. The topics addressed in the Board Review mainly concerned the structure and composition of the Board, also in terms of Directors' skills; the operations of the Board including the number of meetings held, their duration and management; the completeness and timeliness of the information provided to the Board in preparation for Board meetings; the work climate within the Board as well as meeting procedures and decision-making processes; the role of the Chairperson; the proper amount of time allocated by the Board to debate the issues which are important for the Bank, including risk control and management and long-term strategy; the effectiveness of the Committees, including the definition of their mission, their autonomy and their authority; the effectiveness of their tasks to support the Board; the Directors' relationship with and knowledge of top management; the opinions of Directors on the work of the Board and on their contribution to debates and the decision-making process; the awareness of all Board members of the issues and principles related to proper governance.

The 2018 Board Review was conducted with the aid of a questionnaire prepared by the advisor in collaboration with the Bank's corporate secretariat and submitted to each director; the topics proposed in the questionnaire were then explored further in the course of the interviews conducted by the advisor (Management Search) with each single director directly.

The advisor also prepared a benchmarking analysis against other Italian and International banks listed on the Stock Exchange. The benchmarking analysis with peers included the composition of the various Boards of Directors (in terms of number, diversity, average age and professional activities of the directors), the number of executives and non-executives, the professional background of the non-executive directors, the methods used to conduct their respective Board Reviews and other items of significance based on the data published in 2018.

At the end of their review, Management Search drew up a report on the results obtained, setting out the Board of Directors' strengths and areas of improvement as well as recommendations for potential measures to be put in place.

4.4. DELEGATED BODIES

– Chief Executive Officer

The Chief Executive Officer of the Bank is vested with proposal-making and decision-making powers, pursuant to the By-Laws and as assigned by the Board of Directors, and is responsible for implementing the resolutions adopted by the Board, The Chief Executive Officer is vested with:

- the power to submit recommendations to the Board of Directors, regarding, *inter alia*.

⁸ The advisor only provided the Group with advisory services for the self-assessment of the Bank's Board of Directors and Board of Statutory Auditors.

- strategic guidelines, strategic transactions, long-term plans and annual budgets for the Bank and Group;
 - the organisational model of the Parent Company and Network, primary structure of the organisational layout (definition of the first two hierarchical levels - Divisions and Areas, Committees with the duty to support the Board of Directors and provide strategic guidelines, number and responsibilities of the Regional Sales Areas), and the Group's general operating policies, including corporate reporting lines;
 - general criteria for the coordination and management of subsidiaries;
 - outsourcing strategies, intra-group outsourcing of the Corporate Control Functions; intra-group or extra-group outsourcing of key operating functions, including the information system (full outsourcing) or its critical components, and their sub-outsourcing outside the Group; intra-group or extra-group outsourcing of other corporate functions of over Euro 20 million, or of any amount if with the transfer or assignment of human resources or if the contractual agreement exceeds 9 years; authorisation of ancillary changes to intra-group and extra-group outsourcing of over Euro 20 million;
 - key corporate Regulations, Policies and Group Directives on matters under the responsibility of the Board of Directors, in addition to the system of delegated powers, definition of the business model and strategic guidelines for the assumption, management, monitoring and mitigation of the risks to which the Group is exposed;
 - development and management policies, as well as the employee incentive system and hiring plan;
 - definition of internal policies and regulations regarding the legal and economic status of personnel, the appointment and revocation of the Division Managers and Executives in charge of the units directly reporting to the CEO or to the General Manager and taking any measure in relation to their remuneration and legal status;
 - ordinary legal disputes, labour disputes, tax disputes for amounts over Euro 10 million; filing of complaints or civil action in criminal proceedings;
 - the acquisition of shareholding (new or increased), disposal of shareholdings, either significant or non-significant, with changes in the Banking Group of any amount, or not significant and without changes in the Banking of more than Euro 20 million; acquisition and disposal of business units, membership of or withdrawal from trade associations; trade associations, appointment of representatives of the Montepaschi Group and administrative and operational decisions in significant Group investments and in trade associations, or in non-significant non-Group shareholdings or equity instruments over Euro 20 million;
 - final recognition in the income statement of one-off income and expenses in excess of Euro 10 million;
 - sale/transfer of operating or non-operating properties and related management of immovable property rights for more than Euro 10 million;
 - negotiation and sale of artworks owned by the Bank for any amount if lower than the appraisal or book value, or for an amount higher than Euro 3 million, accumulated over 24 months with the same counterparty;
 - spending for strategic/management intervention amounting to more than Euro 10 million;
- decision-making powers, which include, *inter alia*, the power to:
- manage the Bank's finance portfolio with regard to market risk, liquidity risk and interest rate risk in the banking book, as defined by the Board of Directors and in compliance with the approved budget and within the risk tolerance limits established in the Bank's Risk Appetite Framework;
 - authorise expenses up to a maximum amount of Euro 20 million, within the budget limits approved by the Board of Directors;
 - authorise the sale/transfer of operating or non-operating properties and the related management of immovable property rights for up to a maximum of Euro 10 million;
 - resolve on disposals of non-significant investments which do not involve changes to the Banking Group and Equity Instruments up to the amount of Euro 20 million; approve the waiver of exercising

options/pre-emption rights, assignment of options on capital increases involving no changes to the Banking Group, participate in Committees, Associations, Entities, and Foundations, excluding trade entities;

- provide the subsidiaries with a prior opinion on investments/divestments of shareholdings within the respective amounts of Euro 2 million/4 million for non-significant, non-group investments; up to any amount for non-significant Group investments;
- after hearing the Chairperson of the Board of Directors, appoint representatives of the Montepaschi Group and make administrative and operational decisions in non-significant Group holdings up to any amount, in non-significant and non-Group equity investments or Equity Instruments up to the amount of Euro 20 million, in non-trade Associations, Committees, Organisations and Foundations;
- promote executive, summary, insolvency and voluntary jurisdiction proceedings and relative litigation, as well as disputes by the company or counterclaims, also aimed at credit recovery and tax disputes relative to liquidation of taxes on court or out-of-court documents connected to or dependent on recovery, or appear before the court in disputes against the company, without amount limits; disputes by the company or counterclaims even for labour disputes, in addition to appeals and challenges before the tax court for an undefined amount or up to the maximum amount of Euro 10 million;
- file criminal disputes or exercise all other powers envisaged within a criminal proceeding, with the exception to propose or file complaints, or bring civil action in a criminal proceeding;
- waive, abandon, rescind the actions and acts and accept similar withdrawals from the other parties; authorise court transactions and resolve to waive appeals against decisions against the Bank for an undefined amount or up to the maximum amount of Euro 10 million;
- exercise decision-making autonomy in terms of personnel of any level and rank (except for cases under the exclusive responsibility of the Board of Directors);
- approve the contents of regulations (except for those under the responsibility of the Board) and their publication within the internal regulations;
- approve the organisational structure of the Parent Company's central units and network within the pre-established hierarchical levels;
- authorise the final recognition in the income statement of one-off income and expenses in excess of Euro 10 million;
- authorise spending for strategic/management interventions or for interventions which are urgent or unforeseeable for up to the amount of Euro 10 million;
- authorise intra-group outsourcing of other corporate functions (not key operating functions or Corporate Control Functions) for up to Euro 20 million, without the disposal or secondment of human resources and with a contractual agreement of less than or equal to 9; ancillary changes on intra-group and extra-group outsourcing for up to Euro 20 million;
- approve the negotiation and sale of artworks owned by the bank for amounts greater than or equal to the appraisal or book value up to Euro 3 million, accumulated over 24 months with the same counterparty.

No specific powers have been assigned to the Chief Executive Officer in relation to the granting of loans, management of doubtful loan positions⁹ and management of products and conditions¹⁰.

In the event of the absence or impediment of the Chairperson of the Board of Directors and the Deputy Chairperson, the powers which the Chairperson may exercise in an emergency in accordance with the procedures established by the By-Laws, are attributed to the Chief Executive Officer. The decisions taken

⁹ With the exception of the autonomy of Euro 10 million in the area of legal disputes also in relation to bad loan positions.

¹⁰ For these areas, the Board of Directors assigns specific powers to the General Manager, pursuant to Article 22 of the By-Laws. The office of General Manager is currently assigned to the Chief Executive Officer.

when exercising these powers must be communicated to the competent body at the first subsequent meeting.

The Chief Executive Officer does not hold any directorships in other banks.

– **Chairperson of the Board of Directors**

The Chairperson of BMPS's Board of Directors has received no management mandate from the Board itself, nor carries out a specific role in drawing up the corporate strategies; at the same time, this person does not have the position of Chief Executive Officer, nor is he the controlling shareholder of BMPS.

As provided in the Regulation of the Board of Directors, the Chairperson is responsible for the operation of the corporate governance system and acts as the contact point for the internal control bodies and the internal committees.

Pursuant to article 21 of the By-Laws, the Chairperson of the Board of Directors is vested with general representation of the Company before third parties; moreover, if necessary and in urgent cases, the Chairperson may take decisions with regard to any business or transaction falling under the Board of Directors' competence, with the exception of those reserved to the latter's exclusive authority. Such decisions must be taken upon the binding proposal of the General Manager and/or Chief Executive Officer, if appointed. Such decisions must be brought to the attention of the competent body at the first subsequent meeting. The Chairperson of the Board of Directors also has the important task of promoting internal dialogue and ensuring the balance of powers in accordance with the duties assigned by the Civil Code and By-Laws. In particular, with regard to the organisation of the Board's work, the Chairperson is responsible for managing the work and the debates, conducting the discussions, while having the possibility of obtaining illustrative contributions on specific issues, during the meetings of the Board, from bank managers or consultants. The Chairperson of the Board also ensures that the information is circulated so that the appropriate information on the issues set forth under the agenda is provided to all the Directors.

– **Executive Committee (per Article 123-*bis*, Par. 2, Letter d) of the TUF)**

The By-Laws in force at the date of this Report do not provide for the appointment of an Executive Committee.

– **Disclosure to the Board of Directors**

The bodies delegated by the Board of Directors report on a quarterly basis on the actual performance of the mandates conferred upon them so as to enable the Board of Directors to check whether the delegated powers have been used correctly and exercise its authority to give directives and assume powers. The Report, pursuant to Article 18, para. 5 of the By-Laws, refers to overall management performance and its foreseeable development as well as to the major transactions carried out by the company and its subsidiaries in terms of nature and size.

With regard to information flows, please refer to section 4.3 "Powers of the Board of Directors" and to the subsequent sections of this report (especially those dedicated to the Board Committees and to the risk control and management system).

4.5. OTHER EXECUTIVE DIRECTORS

The Regulation of the Board of Directors establishes (in Article 5) which directors are to be considered as "executive" in accordance with Supervisory Provisions, namely:

- the Chief Executive Officer;
- the directors who have received mandates;
- the directors holding the office of Chief Executive Officer in a strategically significant subsidiary;

- the directors who carry out operations relative to the management of the business, such as the directors who hold management positions at the Bank or at one of its subsidiaries, or who are assigned the task to supervise specific areas of the management of the company, through constant presence in the company, acquiring information on the relative operating structures, participating in management committees and reporting to the Board on the activities carried out.

This definition makes it possible to consider all the members of the Board of Directors, except for the Chief Executive Officer, as “non-executive directors”, since, at the date of this Report, the Board of Directors:

- has not assigned mandates to its own members, except for the Chief Executive Officer;
- there are no directors who are managers of the Bank or one of its subsidiaries, except for the Chief Executive Officer who has also been the General Manager of BMPS since 20 September 2016;
- there are no directors with executive responsibilities, as these are defined above, in subsidiaries.

4.6. INDEPENDENT DIRECTORS

The Corporate Governance Code, as a benchmark standard for effective corporate governance, sets out the duties of the Board of Directors, which include the following: (i) evaluate the independence of its non-executive members having regard more to the substance than to the form; (ii) evaluate any relationships which could be or appear to be such as to compromise the autonomy of judgment of the non-executive director, based on information provided by the single parties concerned or, however, at the disposal of the issuer.

The Board has decided that the qualification of a non-executive director as independent director does not express a judgment of value, but rather indicates a factual situation: the absence of any relation with the Issuer, or with subjects linked to the issuer, such as to actually affect the independence of judgment and the unbiased assessment of the management activity.

Upon the appointment of the officers, the Board of Directors confirmed that the independence requirements of its own non-executive members were met by 10 of its directors. This assessment was confirmed in the course of the annual assessment of requirements of its members conducted by the Board of Directors on 7 February 2019.

The independence assessments were conducted according to the criteria defined by Article 15 of the By-Laws, which makes reference to the requirements established for the statutory auditors pursuant to the law (Articles 147-*ter* and 148 of the TUF) and additional requirements set out in the Corporate Governance Code, based on the information provided by the interested parties or which is nevertheless available to the Bank and examined also the credit relations of the Directors considered to be independent, as prescribed by the Supervisory Provisions (taking also account of the commercial, financial or professional relationships with the Bank or the Montepaschi Group).

In particular, the Board confirmed that the requirements of independence, as provided for by the Bank's By-Laws, had been met for the following Directors in office: Maria Elena Cappello (Chairperson of the Appointments Committee); Roberta Casali; Marco Giorgino (Chairperson of the Risk Committee); Fiorella Kostoris (Chairperson of the Remuneration Committee); Roberto Lancellotti; Nicola Maione; Stefania Petruccioli; Angelo Riccaboni (Chairperson for the Committee on Transactions with Related Parties); Michele Santoro and Giorgio Valerio.

Based on the declarations made by the single parties concerned, the Chairperson of the Board of Directors Stefania Bariatti and the Director Salvatore Fernando Piazzolla were deemed to be independent under the TUF but not under the Corporate Governance Code and, therefore, were not assessed as independent pursuant to the Bank's By-Laws.

Regarding the results of the annual assessment conducted by the Board of Directors, the following in particular should be noted for the individual Board members. The Directors Casali, Cappello, Giorgino, Kostoris and Valerio did not have any commercial, professional or financial relationships of any kind with the Bank or its subsidiaries in the three years prior to the appointment, either directly or through companies or firms and/or professional associations with which they have or have had a professional relationship. Please be reminded that, under the previous mandate, the Directors Cappello and Kostoris were

independent Directors of the Bank (as of 2015), therefore the situation is not material for the assessment of requirements.

With regard to the Directors Bariatti, Lancellotti, Maione, Petruccioli, Piazzolla, Riccaboni and Santoro, a description is provided below regarding their commercial, professional or financial relationships with the Bank or the Group, none of which were found to materially impact their qualification as independent director pursuant to item 3.C.1 of the Corporate Governance Code for Listed Companies (it being specified that the Directors Bariatti and Piazzolla only declared to be independent pursuant to the TUF).

Professor Stefania Bariatti – It should be remembered that the Board’s assessment confirmed that Professor Bariatti met the requirement of independence pursuant to the TUF but not under the Corporate Governance Code as a result of her appointment as Chairperson. Therefore, although the aforementioned principle 3.C.1 is not material for the Director’s position, for the sake of completeness, it should be noted that Professor Bariatti was an independent director of the Bank (as of 2015) under her previous mandate and that, in addition to her academic university career, she is currently of-counsel in the Chiomenti Law Firm. The relationship cannot be considered as an “associateship/partnership” with the legal firm which, among other things, was also one of a number of Law Firms that provided advisory services to the Bank and to the Group over the three-year period (2015, 2016 and 2017) for a total invoiced amount of Euro 0.4 million in 2015, Euro 0.2 million in 2016 and Euro 0.4 million in 2017. Turnover in 2018 amounted to Euro 0.4 million.

Mr. Roberto Lancellotti – Mr. Lancellotti did not declare to have any significant commercial, professional or financial relationships with the Bank, or its subsidiaries in the three years prior to his appointment. Although the relationship is not considered material, it should be noted that, as stated in his curriculum vitae, until February 2017, the Director held the position of senior partner within the digital and business technology sector of the consulting firm McKinsey & Company Inc. (Italy), which provided services to the Bank and to the Group in 2015, 2016 and 2017, for total respective amounts of Euro 2.8 million in 2015, Euro 2 million in 2016 and Euro 2.7 million in 2017.

Mr. Nicola Maione – owner of the Law Firm of the same name, Mr. Maione stated that he had directly provided legal assistance to the Bank in the past. The fees declared by the Director for these services are not material and are as follows: none for 2015; € 16,887.04 for 2016 (accounting for 1.72% of the Mr. Maione’s total professional compensation); € 29,937.06 for 2017 (accounting for 2.94% of Mr. Maione’s total professional compensation). Following his election to the Board, no further professional appointments have been assigned to him. Mr. Maione has continued to follow - even during the appeal process - certain cases for which he had already been appointed as the Bank's lawyer prior to taking up his office as director. The fees received by the Director for these services in 2018 amount to Euro 10,563.62.

Ms Stefania Petruccioli – Ms. Petruccioli did not declare to have any significant commercial, professional or financial relationships with the Bank, or its subsidiaries in the three years prior to his appointment. Although the professional relationship is not considered material, it should be noted that, as stated in her curriculum vitae, until 1994, the Director worked on projects in the banking and energy sources industries with the consulting firm Bain & Company Italy Inc., which provided services to the Bank and to the Group in 2015, 2016 and 2017, for the total amounts respectively of Euro 4.5 million in 2015, Euro 2.1 million in 2016 and Euro 1.7 million in 2017.

Mr. Salvatore Fernando Piazzolla – regarding the independence pursuant to the Corporate Governance Code, on the other hand, the Director declared that he did not believe to meet the requirement on account of his previous relationships with the AXA group.

Prof. Angelo Riccaboni – there were no further credit relationships with the Bank in 2018 other than those already declared and assessed as immaterial for the purposes of the independence requirements (a current account (active), three securities dossiers and a repurchase agreement (CID), a mortgage loan issued in 2007, at a time when the Director served on the Board of Banca Toscana, a bank which was subsequently merged by absorption in BMPS. The size of these relationships did not appear such as to affect the requirement of independence of the Director).

Mr. Michele Santoro – Public Notary and owner of the Notary Office of the same name, did not declare to have any significant commercial, professional or financial relationships with the Bank or its subsidiaries in the the three years prior to the appointment and during his term of office (it should be remembered that the Director received a fee of approximately Euro 1,000, as Notary Public appointed by a customer for a deed of subrogation drawn up in 2016, considered to be an immaterial professional relationship).

Not having qualified as independent directors (pursuant to the Bank's By-Laws), it is noted that the Board of Directors did not carry out any assessment regarding the independence requirement for the Directors Turicchi and Morelli.

The Board of Directors in office, therefore, consists of a majority of independent directors (10), well above the minimum threshold of at least one third established by the Code of Corporate Governance for issuers belonging to the FTSE-Mib index and by Article 15 of the By-Laws.

The Board of Statutory Auditors verifies the correct application of the criteria and assessment procedures adopted by the Board of Directors for the evaluation of its members' independence and will communicate this in its report to the Shareholders' Meeting convened for the approval of the financial statements.

In the course of 2018, the independent directors met, in the absence of the other directors, on 12 March, 21 June and 18 October. Issues relating to the effectiveness of the Board of Directors and the Board sub-Committees were discussed during these meetings.

There have been no cases of directors who, in the lists of candidates for appointment to the Board of Directors qualified as independent, undertook to maintain this requirement for the entire duration of their term of office or, if necessary, to resign.

4.7. LEAD INDEPENDENT DIRECTOR

In consideration of the fact that the Chairperson of the BMPS Board of Directors received no management mandate from the Board itself, nor carries out a specific role in preparing the corporate strategies or acts as the Chief Executive Officer or is the controlling shareholder of BMPS, and lacking a request from the majority of the independent directors, the BMPS Board of Directors has not appointed an independent director as the Lead Independent Director, since the application criterion 2.C.4 of the Corporate Governance Code does not apply.

5. HANDLING OF CORPORATE INFORMATION

The Board of Directors of the Bank has adopted internal regulations for the internal management and external communication of documents and information regarding the Issuer, in order to regulate the flow of such information, in particular inside information.

With regard to external disclosure of documents and information regarding the Bank, the contents of the "Group Directive on disclosure and external relations" are also relevant. This Directive indicates for the Group the responsibilities inherent in management the process of disclosure to the public, as part of the strategic supervision carried out by the Board of Directors (as provided by the applicable Supervisory Provisions on corporate governance). The Directive in question defines three types of external macro-communications (institutional, economic-financial and corporate, commercial) and the so-called "significant" disclosures. Specific safeguards have been identified for each type (by the internal functions and the corporate bodies of the Parent Company and the Group environment overall), with a differing degree of involvement of the corporate bodies, depending on the type and relevance of the information to be published. The above Directive also governs the certifications by the Financial Reporting Officer of acts and disclosures to the market relative to the accounting information (press releases, presentations, etc.), in which this individual is required to declare, pursuant to par. 2, article 154-*bis* of the TUF, the correspondence of the accounting information contained in the documentation published with the actual results as these are set forth in the accounting books and records.

Regarding the disclosure of privileged information, reference is made to the "Group Directive on the Management of prescribed Market Abuse requirements" (in the paragraph hereafter "Directive"). The Directive provides for a specific authorisation process involving the Chief Executive Officer, the Legal and Corporate functions, Investor Relations, External Relations, Compliance and the internal functions responsible for generating and handling all information flows relevant to these purposes.

The principles and guidelines of the internal management process for confidential information are contained in the Directive and the relative operating instructions regarding management of the mandatory fulfilments in relation to market abuse. The existing controls apply first of all to the Parent Company in its capacity as a listed issuer, but also to the other companies belonging to the Group who are intermediaries

licensed to provide investment services. The Group companies adopt their own internal regulation, in compliance with the rules and processes described in the Parent Company's regulation, implementing the rules, responsibilities and internal processes in compliance with characteristics and dimensions of each subsidiary.

The management process for inside information aims to ensure that the environment is confidential, protected and monitored insofar as the circulation of the information itself prior to its disclosure to the public, and to eliminate phenomena such as rumours or information leaks, thereby preventing uses of inside information which are not in line with applicable laws by the persons who came to be aware of such information, whether directly or indirectly.

The regulation therefore contains specific standards of conduct which employees with access to confidential information must adhere to, in addition to specific security measures which must be complied with that concern the handling of inside information.

The Directive also covers the following areas which are connected to internal management and disclosure of inside information:

- the preparation and constant updating of the registry of persons that have access to inside information (whether at the Parent Company or third party listed issuers);
- adoption of the "Managers' Transactions" Regulation, regarding the duty of disclosure to the market and Consob of the transactions carried out by persons exercising administrative, supervisory or management functions (Directors, Statutory Auditors and strategic managers) and by individuals closely connected to them.

6. BOARD COMMITTEES *(per Article 123-bis, Par. 2, Letter d), of the TUF)*

In compliance with current regulations, Article 17 of the By-Laws requires that committees with advisory and proposal-making duties be established within the Board of Directors. The Committees are composed of a number between 3 and 5 non-executive, mainly independent directors; if there are directors elected by the minority shareholders, at least one of them must be part of at least one committee.

Following its inauguration, at its meeting on 22 December 2017 the Board of Directors established the following sub-committees, assigning them with the duties provided for by the By-Laws and Corporate Governance Code and pursuant to applicable Supervisory Provisions on Corporate Governance for banks regarding the separation of specialised duties (which require the establishment of three separate committees, specialised in appointments, remuneration and risk):

- **Appointments Committee**, with the following main tasks:
 - supporting the Board of Directors in the process of appointing directors, proposing, in the case provided for by Article 2386, first paragraph of the Civil Code, candidates for the office of director;
 - supporting the Board of Directors in processes of self-assessment and verification of requirements, as well as of defining top management succession plans;
 - submitting proposals to the Board of Directors for the appointment of the members of the Executive Committee and of the Chief Executive Officer.
- **Remuneration Committee**, with the task, in particular of:
 - submitting, to the Board, proposals for the remuneration of the chief executive Officers and of the other directors holding special offices, as well as of the General Manager, and monitoring application of the resolutions adopted by the Board;
 - periodically assessing the criteria adopted for the remuneration of executives with strategic responsibilities, monitoring their application and submitting general recommendations on the matter to the Board of Directors;
- **Risk Committee**, with the main function of supporting the Board of Directors in fulfilling its tasks to define the guidelines of the internal control and risk governance system and assess that the internal

control and risk governance system is adequate, effective and properly functioning, as well as to approve the company asset assessment policies and processes;

- **Related-Party Transactions Committee**, consisting solely of independent directors having the task of advising on related-party transactions.

No function of one or more committees was carried out by the entire Board.

In respect to the requirements for the members of the committees, in addition to independence and non-executive capacity, as defined by the By-Laws and the laws in force at the time, additional specific skills are required for at least one member of the Remuneration Committee (adequate knowledge and experience in finance or pay policies, to be assessed by the Board at the time of the appointment) and for the members of the Risk Committee (for all, knowledge, skills and experience of such a calibre as to allow full comprehension and monitoring of the strategies and the risk guidelines of the Bank and, for at least one Committee member, possession of adequate experience in accounting and finance or risk management).

The committees carry out their operations in compliance with the specific regulations approved by the Board of Directors, the supervisory regulations and the applicable provisions of the laws, the regulations, the By-Laws and the corporate governance in force at the time, in addition to the provisions set forth in the Corporate Governance Code.

The composition, operation, mandate, powers, and resources available are clearly defined in the internal legislative provisions and in particular the specific regulations governing each Committee.

In any case, each Committee appoints its own Chairperson, selected from among the independent directors, who is required to convoke and Chairperson the meetings and a Secretary, selected from among the employees of the Bank with a managerial position.

Also in light of the issues to be discussed, the Functions of the Bank that worked on the report and/or formulated the proposal may be required to participate in the work of the committees, as may one or more representatives of the management and other heads of the Bank's functions and third parties.

Below is a description of the composition of the committees in office as at the date of this Report, the most recent date of approval of the respective Regulations, the committees' operations and main duties performed.

7. APPOINTMENTS COMMITTEE

At its meeting on 22 December 2017, the Board of Directors resolved to establish the Appointments Committee, assigning to it the functions provided for in the By-Laws, the Corporate Governance Code and applicable Supervisory Provisions.

The most recent Regulations of the Appointments Committee were approved by resolution of the Board of Directors of 5 May 2016.

Composition and operation

The current Committee consists of five members of the Board of Directors, all non-executive and the majority of whom are independent: Maria Elena Cappello (Chairperson, independent), Antonino Turicchi, Salvatore Fernando Piazzolla, Giorgio Valerio (independent) and Petruccioli Stefania (independent).

The Committee is entitled access to the business information required for it to carry out its duties and has sufficient financial resources to ensure operating independence, with the use of a specific budget. The Committee may also use external consultants, with costs borne by the Bank as part of its own budget.

The Chairperson of the Board of Statutory Auditors or another statutory auditor designated by him permanently participates in the work of the Committee, although the other statutory auditors are also allowed to participate. The Chairperson of the Board of Directors is invited to permanently participate in the works of the Committee if not already a part of it. The CEO and General Manager may also be invited to attend the Committee meetings, along with the Chairperson of the other Committees.

In 2018, the Committee had 15 meetings, with an average duration of approximately 50 minutes. The minutes of the meeting were duly recorded by the secretary. On average, 95% of the members participated in the meetings.

No schedule of meetings has been prepared for 2019 since the Chairperson will convene a meeting whenever there are issues to be discussed that fall under the Committee's area of activity. In the initial months of 2019, the Committee met twice (30 January and 27 February).

The table summarises the Committee's composition from 1 January 2018 – 31 December 2018, as well as information on meeting attendance of members.

Members	Office	List (M/m) **	Non- executive	Independence Code	Independence pursuant to TUF	(*) %
Maria Elena Cappello (*)	Chairperson	M	X	X	X	93
Stefania Petruccioli (*)	Member	m	X	X	X	100
Salvatore Fernando Piazzolla	Member	M	X	X	X	87
Antonino Turicchi	Member	M	X			100
Giorgio Valerio (3)	Member	m	X	X	X	100
Members terminated in 2018						
Giuseppina Capaldo (4)	Chairperson	M	X	X	X	100

(1) *Committee Chairperson as of 2 August 2018.*

(2) *Committee Member as of 2 August 2018.*

(3) *Chairperson pro tempore of the Appointments Committee from 10 May 2018 to 2 August 2018 (date on which the BoD appointed the Director Maria Elena Cappello as new Committee Chairperson).*

(4) *Chairperson of the Appointments Committee up to 4 May 2018.*

(*) *Attendance of the Board and Committees at meetings (no. of presences/ no. of meetings held during the period that the director was in office, expressed as a percentage).*

Functions attributed

The Appointments Committee mainly supports the Board of Directors in the following processes:

- appointment or co-optation of directors;
- self-assessment of the corporate bodies;
- assessment of fit and proper criteria as well as independence requirements of banking officers pursuant to Article 26 of the Consolidated Law on Banking (TUB), providing opinions on the size and composition of the Board of Directors as well as the professional skills considered necessary within the Board;
- definition of the succession plans for the top executive positions.

In carrying out its duties, the Committee takes into account the objective of avoiding that the decision-making processes of the Board of Directors are dominated by a single individual or groups of individuals that can cause harm to the Bank.

Specifically, the Committee:

A) submits recommendations to the Board of Directors:

- for the appointment of candidates to the office of director in the cases provided under article 2386, first paragraph of the Civil Code, when a director needs to be replaced;
- on the indication of the Chairperson, for the appointment of the CEO or CEOs;
- for identification of the individuals required to carry out the self- assessment process of the Board of Directors;

B) expresses its opinions to the Board of Directors:

- on recommendation from the Chief Executive Officer, regarding the appointments and succession plans for top management of the Bank (General Manager, Division Managers and Executives in charge of the units reporting directly to the CEO);
- on the proposal of the General Manager, regarding the appointments of the Acting Deputy General Manager and the Deputy General Managers;

- on the recommendation of the Chief Executive Officer, as regards the process connected to the succession plans relative to the positions of the Managers in charge of the Bank's major functions;
- on the proposal of the Chief Executive Officer, which will be discussed with the Chairperson of the Board of Directors, regarding the appointment of directors and statutory auditors in subsidiaries and investee companies, the autonomous decision-making powers of which lie with the Board of Directors or the Executive Committee, if one exists;
- in the event that lists are presented by the Board of Directors to the Shareholders' Meeting, on the appropriateness of the candidates based on an analysis carried out in advance by the Board itself;
- regarding the maximum number of offices as director or statutory auditor in other listed companies in regulated markets (including abroad), financial, banking or insurance companies, or companies of a significant size, which can be considered compatible with effective performance of the office, taking also into account any participation in committees established within the Board of Directors;

C) supports the Board of Directors in its duties and the achievement of its objectives attributed to it by the supervisory regulations:

- in identifying the qualitative and quantitative composition of the Board of Directors considered to be optimal;
- in the subsequent verification of the qualitative and quantitative composition considered to be optimal and the composition that actually ensues from the appointment process;
- in regard to the requirements aimed at ensuring an adequate level of diversification in the overall composition of the body, without prejudice to the mandatory provisions applicable to listed banks, the committee will set a target in terms of the percentage of the less represented gender and prepare a plan in order to increase this percentage up to the target that has been set;

D) provides its own contribution to the Risk Committee:

- for identification and recommendation of the Managers to be appointed to the company control functions.

In respect of the above mentioned functions, in 2018 the Committee supported the Board of Directors and the Risk Committee with recommendations and opinions on the:

- self-assessment of the Board of Directors;
- assessment of fit and proper criteria and independence requirements of corporate officers as well as the qualitative and quantitative composition of the Board of Directors;
- co-optation of a director;
- succession plans;
- appointment of the Bank's Top Management and Managers in charge of the corporate control functions;
- appointment of directors and statutory auditors of subsidiaries and/or investee companies.

The Committee also provided the Board with a quarterly update on the activities carried out. The minutes of the Committee meeting are approved and provided to the Board of Directors and the Board of Statutory Auditors.

8. REMUNERATION COMMITTEE

At its meeting on 22 December 2017, the Board of Directors resolved to establish the Remuneration Committee, assigning to it the functions provided for in the By-Laws, the Corporate Governance Code and applicable Supervisory Provisions.

The most recent Regulations of the Remuneration Committee were approved by resolution of the Board of Directors of 5 May 2016.

Composition and operation

The current Committee consists of five members of the Board of Directors, all non-executive and the majority of whom are independent: Fiorella Kostoris (Chairperson, independent), Roberto Lancellotti (independent), Maria Elena Cappello (independent), Marco Giorgino (independent) and Nicola Maione (independent).

In addition to the requirements of being non-executive and independent, at least one of the members of the Committee must have adequate knowledge and experience in the financial or remuneration policy areas, a requirement that is assessed by the Board at the time of the appointment.

The Committee accesses the business information required for it to carry out its duties and has sufficient financial resources to ensure operating independence, with the use of a specific budget. With costs born by the Bank as part of its own budget, the Committee may also engage external consultants and experts in remuneration policy issues, provided they do not simultaneously provide strategically significant services to the Human Resources division, the Directors or Executive Managers with strategic responsibilities such as to compromise the independence of their judgment.

As provided for in its own Rules and Regulations, any member of the Remuneration Committee with a personal or third party interest in a matter on the Agenda must disclose the existence and nature of the interest to the Committee and should leave the meeting during discussion and voting on the item. No Director should take part in a Committee meeting in which Board proposals regarding their compensation are formulated.

The Chair of the Board of Statutory Auditors or another statutory auditor designated by him/her permanently participates in the work of the Committee; the other statutory auditors are also allowed to participate. The Chair of the Board of Directors has a permanent invitation to attend the Committee meetings. The CEO and General Manager may also be invited to attend the Committee meetings, along with the Chairpersons of the other Committees.

In 2018, the Committee had 15 meetings, with an average duration of approximately 50 minutes. The minutes of the meeting were duly recorded by the secretary. On average, 98% of the members participated in the meetings.

No schedule of meetings has been prepared for 2019 since the Chair will convene a meeting whenever there are issues to be discussed that fall under the Committee's area of activity. In the initial months of 2019, the Committee held 3 meetings (16 January, 5 February and 7 March).

The table summarises the Committee's composition from 1 January 2018 – 31 December 2018, as well as information on meeting attendance of members.

Members	Office	List (M/m) **	Non- executive	Independence Code	Independence pursuant to TUF	(*) %
Fiorella Kostoris (1)	Chairperson	M	X	X	X	100
Maria Elena Cappello (2)	Member	M	X	X	X	100
Marco Giorgino (*)	Member	m	X	X	X	93
Roberto Lancellotti	Member	M	X	X	X	100
Nicola Maione	Member	M	X	X	X	93
Members terminated in 2018						
Michele Santoro (4)	Member	M	X	X	X	100

(1) Committee Chairperson as of 2 August 2018.

(2) Committee Member as of 2 August 2018.

(3) Committee Chairperson up to 2 August 2018.

(4) Committee Member up to 2 August 2018.

(*) Attendance of the Board and Committees at meetings (no. of presences/ no. of meetings held during the period that the director was in office, expressed as a percentage).

Functions attributed

The Remuneration Committee performs the duties as required by the applicable laws, regarding remuneration and incentives policies and practices. In particular, in compliance with the Supervisory Provisions on corporate governance:

- its duties comprise recommendations regarding the compensation of personnel, and the remuneration and incentive systems for the latter are decided upon by the Board of Directors;
- it provides recommendations for determination of the criteria for the remuneration of all the identified staff;
- it directly monitors correct application of the rules relative to the remuneration of the managers of the company control functions, in close cooperation with the Board of Statutory Auditors;
- it handles the preparation of the documentation to be submitted to the Board of Directors for the relative decisions to be taken;
- it collaborates with other internal committees of the Board of Directors, in particular the Risk Committee;
- it ensures that the competent corporate functions are involved in the process of setting up and monitoring the remuneration and incentive policies and practices;
- including through the use of information received from the qualified corporate functions, it expresses its opinion on whether the performance objectives connected to the incentive schemes have been reached and ascertains that other terms and conditions set for the granting of the remuneration have been fulfilled;
- it provides a comprehensive report on the activities of the corporate bodies, including the Shareholders' Meeting;
- it expresses an independent opinion regarding the Group's remuneration policies and practices, in general, with reference to the reconciliation of the staff retention objectives and the limitation of the corporate risks;
- in relation to the provision of investment services, it expresses an opinion regarding the efficiency of the policies for the handling of conflicts of interest and in respect of the risk management obligations connected to the conduct of the personnel, so as to ensure that the interests of the customers are not compromised by the remuneration policies and practices adopted over the short, medium and long-terms.

In this context, the Committee carries out the following tasks:

A) submits recommendations to the Board of Directors:

- on the indication of the Chairperson of the Board of Directors, in the absence of the directly interested parties, regarding the remuneration of the Chief Executive Officers and other directors with specific duties in compliance with the By-Laws, including the directors that are members of Committees within the Board of Directors, pursuant to article 17, paragraph 4, of the By-Laws, including the remuneration by virtue of any stock option plans or allocation of shares;
- in relation to the remuneration of the General Manager, including the remuneration by virtue of any stock option plans or allocation of shares;
- for determination of the remuneration structure for Managers in charge of the Corporate Control Functions, inclusive of their position-related allowance;
- on the indication of the Chief Executive Officer, regarding the remuneration of the Deputy General Managers, division managers and managers of areas and units reporting directly to the Chief Executive Officer himself:

B) expresses its opinions to the Board of Directors:

- on the proposal of the Chief Executive Officer, regarding the Bank's incentive schemes;
- on the determination of the compensation to be granted in the event of early termination of the relationship, for the Executive Directors, the General Manager and the Managers, if it is not in line with the policies and practices for remuneration and incentives adopted by the Bank.

In regard to the functions described above, in 2018, the Committee provided recommendations and/or advice on the:

- remuneration of the directors with particular duties in compliance with the By-Laws (Board sub-Committees and the 231/2001 Supervisory Body);
- remuneration of identified staff;
- remuneration of the Managers in charge of the company control functions;
- remuneration report pursuant to Article 123-ter TUF and the identification of Identified Staff;
- report on compliance of remuneration and incentive policies;
- the “*Directors & Officers Liability*” (D&O) insurance coverage in replacement of the "self-insurance" scheme;
- report on the procedures for carrying out investment services and activities, ancillary services and the distribution of financial products issued by insurance companies or banks;
- review of the Group's remuneration policies and practices;
- analysis of compensation policies;
- analysis of the use of own shares for the payment of any severance;
- consensual termination of employment relationships - resolutions pursuant to Article 17 of the Bank's By-Laws.

The Committee also held additional deep dive sessions on total rewards in the course of 2018.

The Committee also provided the Board with a quarterly update on the activities carried out. The minutes of the Committee meeting are approved and provided to the Board of Directors and the Board of Statutory Auditors.

9. DIRECTORS' REMUNERATION

It is hereby reminded that:

- article 13 of the By-Laws establishes that the Ordinary Shareholders' Meeting shall determine the remuneration of the directors and statutory auditors as provided in article 25 and approves the remuneration and incentive policies, the compensation plans based on financial instruments applicable to the members of the board, the employees and collaborators who are not employees of the Bank and the criteria for determination of the compensation payable in the event of early termination of the work relationships or early termination of the office, including the limits set for said compensation in terms of the years of fixed remuneration and the maximum amounts arising from their application;
- article 25 of the By-Laws provides that upon hearing the opinion of the Board of Statutory Auditors and the recommendation of the Remuneration Committee, the Board of Directors will establish the remuneration of the directors with particular duties in compliance with the By-Laws, including the directors that are members of the Board's internal committees pursuant to article 17 paragraph 4 (Appointments, Remuneration and Risk Committee and the Committee for Transactions with Related Parties), except for the remuneration of the Chairperson of the Board of Directors, which is set by the Shareholders' Meeting;
- the Board of Directors sets out the general guidelines for the remuneration of directors and executive managers with strategic responsibilities as part of the remuneration and incentive policies and practices adopted for the Group; Once a year it provides the Shareholders' Meeting with a “Remuneration Report” prepared in accordance with Article 123-ter of Legislative Decree 58/98 (TUF) and pursuant to the requirements under Article 123-ter of the TUF as well as those implementing banking sector regulations. The report also provides Shareholders with timely information on the application of the remuneration policies in the previous year.

For further information regarding the emoluments of the Bank directors during 2018 and the information relating to transparency of the remuneration paid to executive and non-executive directors and the directors with strategic responsibilities, and the compensations paid to directors in the event of resignation, termination or termination of the employment relationship following a take-over bid, incentive mechanisms for the internal audit manager and the Financial Reporting Officer, please see the aforementioned "Remuneration Report pursuant to article 123-ter of Legislative Decree 58/98 (TUF)" (in particular Section II – chapters 6, 7.2.3, 7.3.3 and 9.3 Section II) published on the Bank's website at www.gruppomps.it – *Corporate Governance – Remuneration*.

10. RISK COMMITTEE

At its meeting on 22 December 2017, the Board of Directors resolved to establish the Risk Committee, assigning to it the functions provided for in the By-Laws, the Corporate Governance Code and applicable Supervisory Provisions.

The most recent Regulations of the Risk Committee were approved by resolution of the Board of Directors of 16 January 2018.

Composition and operation

The current Risk Committee consists of five members of the Board of Directors, all non-executive and the majority of whom are independent: Marco Giorgino (Chairperson, independent), Angelo Riccaboni (independent), Roberta Casali (independent), Roberto Lancellotti (independent), Antonino Turicchi.

In addition to the non-executive and independent requirements, the necessary accounting, financial and risk management skills are also represented within the Committee.

The Committee accesses the business information required for it to carry out its duties and has sufficient financial resources to ensure operating independence, with the use of a specific budget. The Committee may also engage external consultants, with costs borne by the Bank as part of its own budget, and, where necessary, liaise directly with the internal audit, risk management and the compliance functions.

The Chairperson of the Board of Statutory Auditors or another statutory auditor designated by him/her permanently participates in the work of the Committee, although the other statutory auditors are also allowed to participate. The Chairperson of the Board of Directors has a permanent invitation to attend the Committee meetings.

The Chairpersons of the other Board Committees are invited to attend the Risk Committee's meetings.

The CEO, General Manager and Director in charge of the Risk Management and internal controls system - positions that are currently held by the same person - may be invited to attend the Committee's meetings where it is deemed appropriate for the issues under discussion.

The Bank's Chief Risk Officer, Chief Audit Executive and Compliance Officer are officially and regularly kept informed of the Committee's meeting agenda. In addition to receiving the Committee's invitation to attend the meetings, the Chief Risk Officer, Chief Audit Executive and Compliance Officer may also choose to attend the meetings at their own discretion.

Having given advance notice to the Committee's Chairperson, the Chief Risk Officer, Chief Audit Executive and Compliance Officer are entitled to add issues to the agenda and subsequently present them to the Committee for proactive debate.

In 2018, the Committee held 25 meetings, with an average duration of approximately 4 hours and 30 minutes. The minutes of the meeting were duly recorded by the secretary. On average, 93% of the members participated in the meetings.

No schedule of meetings has been prepared for 2019 since the Chairperson will convene a meeting whenever there are issues to be discussed that fall under the Committee's area of activity. In the initial months of 2019, the Committee met 5 times (15 January, 30 January, 6 February, 27 February and 6 March).

The table summarises the Committee's composition from 1 January 2018 – 31 December 2018, as well as information on meeting attendance of members.

Members	Office	List (M/m)**	Non-executive	Independence Code	Independence TUF	(*) %
Marco Giorgino (1)	Chairperson	m	X	X	X	100
Roberta Casali (2)	Member	n.a.	X	X	X	80
Roberto Lancellotti	Member	M	X	X	X	100
Angelo Riccaboni	Member	M	X	X	X	96
Antonino Turicchi	Member	M	X			92
Members terminated in 2018						
Maria Elena Cappello (3)	Chairperson	M	X	X	X	87
Stefania Petruccioli (4)	Member	m	X	X	X	93

(1) *Committee Chairperson as of 2 August 2018.*

(2) *Committee Member as of 2 August 2018.*

(3) *Committee Member and Chairperson up to 2 August 2018.*

(4) *Committee Member up to 2 August 2018.*

(*) *Attendance of the Board and Committees at meetings (no. of presences/ no. of meetings held during the period that the director was in office, expressed as a percentage).*

Functions attributed

The Committee supports the Board of Directors in issues involving risks and the internal control system, with particular attention paid to the activities that are instrumental and required for the Board of Directors to make a correct and effective determination of the Risk Appetite Framework (“RAF”) and the risk governance policies.

Pursuant to the Supervisory Provisions on internal controls, the Committee:

- identifies and proposes, following the contribution made by the Appointments Committee, the managers of the company control functions to appoint and shall express its opinion for the revocation of any appointment;
- expresses its opinion prior to the determination of the remuneration structure of the Managers in charge of the Corporate Control Functions, and their annual allowance for this position;
- examines in advance the program of operations (including the audit plan) and the annual reports of the control functions addressed to the Board of Directors;
- expresses its assessments and opinions to the Board of Directors regarding compliance with principles of the internal control system and corporate organization and the requirements that must be fulfilled by the control functions, bringing to the attention of the body any weak points and the consequent corrective actions to be adopted; to this end it will assess the proposals of the Chief Executive Officer and/or General Manager;
- contributes, through assessments and opinions, to the definition of the corporate outsourcing policy of the control functions;
- verifies that the control functions comply with the indications and guidelines provided by the Board of Directors and will assist the latter in preparing the coordination document required by the supervisory provisions on the internal control system;
- assesses the correct use of the accounting principles for the drafting of the consolidated and separate financial statements and, to this end, will coordinate with the Financial Reporting Officer and the Board of Statutory Auditors.

With particular reference to the duties regarding management and control of risks, the committee will provide support to the Board of Directors:

- in the definition and approval of strategic guidelines and risk governance policies. For the RAF issue, the Committee provides the recommendations and assessments required in order to allow the Board of Directors to define and approve the risk appetite and risk tolerance, as required by Supervisory Provisions in regard to the internal control system;

- the verification of correct implementation of the strategies, risk governance policies and the RAF;
- in defining the policies and evaluation processes for corporate operations, including verification that the price, terms and conditions governing transactions with customers are in line with the business model and risk strategies.

The Committee will furthermore express its opinion on the adequacy of the number of staff assigned to the internal audit function for execution of its responsibilities.

Without prejudice to the competences assigned to the Remuneration Committee, the Committee ascertains that the incentives of the Bank's remuneration and incentive system are in line with the RAF.

The Committee and the Board of Statutory Auditors will exchange all the information of reciprocal interest and, where appropriate, coordinate to carry out their respective duties.

In compliance with the requirements set out in the Corporate Governance Code, it shall provide its prior opinion to the Board of Directors on the occasions when the latter:

- defines the guidelines for the internal control and risk management system, so that the main risks of the Bank and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, while also determining the level of compatibility of these risks with Bank management that is coherent with the strategic objectives that have been set;
- assesses, at least once per year, the adequacy of the internal control and risk management system against the characteristics of the Bank and the risk profile assumed, as well as its effectiveness;
- approves, at least annually, the work schedule prepared by the internal audit function, after having received the opinion of the Board of Statutory Auditors and the Director in charge;
- describes the main characteristics of the internal control and risk management system in the Report on Corporate Governance, providing its opinion on the the system's adequacy;
- after hearing the Board of Statutory Auditors, it assesses the finding reported by the external auditor in the suggestions letter, if any, and in the report on the main issues resulting from the audit.

In supporting the Board of Directors, the Committee also:

- assesses, together with the Financial Reporting Officer and having consulted the auditors and the Board of Statutory Auditors, the correct application of accounting standards and their consistency when preparing the consolidated financial statements;
- provides opinions on specific aspects regarding the identification of key corporate risks;
- examines the periodic reports, in compliance with applicable regulations, on the assessment of the internal control and risk management system, as well as the reports of particular relevance prepared by the Corporate Control Functions;
- monitors the autonomy, adequacy, effectiveness and efficiency of the Corporate Control Functions;
- may request the Internal Audit function to audit specific operating areas, giving notice of this to the Chairperson of the Board of Statutory Auditors;
- reports to the Board of Directors, on a quarterly basis, with a full account of the activities carried out during the quarter.

In regard to the above and as part of its support and assistance to the Board of Directors, in 2018 the Committee provided advice and gave recommendations in relation to

- the Audit reports received from the Internal Audit function and the Quarterly Report; the Audit Plan and the specific reports prepared by the Internal Audit function on the activity carried out and the relative results, the assessment of the control systems of the Group and the various updates made on the system itself, as well as the relative follow-up; the information provided by the company control functions required by the supervisory provisions;
- the reports received from the Chief Risk Officer Division (ICAAP Report, ILAAP Report, Executive Risk Management Report, Recovery Plan, Risk Appetite Monitoring, Pillar III

Disclosure) and the information provided by the Chief Risk Officer Division on the inspections conducted by the Supervisory Authority;

- the periodic reports prepared by the compliance function on the activities conducted, the quarterly updates carried out in the course of the year (Compliance Dashboard), the annual report on compliance of remuneration policies;
- other reports and annual plans of activity prepared by the Corporate Control Functions;
- appointment, remuneration and allowance for Managers of the Corporate Control Functions;
- proposals and notifications by the Chief Financial Officer Division (Liquidity position, Funding Plan, Group Contingency Funding Plan, Capital Plan, renewal of Banca MPS's programs for issuances on the institutional markets, etc.);
- *Group Risk Appetite Statement*, RAF, implementation of Restructuring Plan, SREP Decision;
- organisational changes to the Bank's structures and outsourcing of certain key operating functions;
- report on procedures for carrying out investment services and activities;
- Business Continuity and Business Continuity Plan; Report on the adequacy of the Business Continuity Management System, BCM testing Plan, update of internal policies;
- annual report on outsourced corporate activities;
- update of credit policies;
- publication and/or update of Group Risk Management Policies and Directives as well as remuneration and incentive policies and practices;
- NPE *Guidance* on non-performing loans;
- reports prepared by the Financial Reporting Officer;
- meetings with the independent auditors for the approval of the financial statements and half-year report;
- analysis of the Bank's major strategic projects;
- analysis, investigations and monitoring exercises concerning assessments, requests and reports made by the Supervisory Authorities (ECB, Bank of Italy, Consob, etc).

The Committee also held additional deep dive sessions on credit risk, capital allocation and risk-based reporting in the course of 2018.

The Committee also provided the Board with a quarterly update on the activities carried out. The minutes of the Committee meeting are approved and provided to the Board of Directors and the Board of Statutory Auditors.

11. RELATED-PARTY TRANSACTIONS COMMITTEE

At its meeting on 22 December 2017, the Board of Directors resolved to establish the Related-Party Transactions Committee, assigning to it the functions provided for in the By-Laws and applicable Supervisory Provisions.

The most recent Regulations of the Appointments Committee were approved by resolution of the Board of Directors of 5 May 2016.

Composition and operation

The Committee consists of five members of the Board of Directors, all of whom are independent: Angelo Riccaboni (Chairperson), Fiorella Kostoris, Stefania Petruccioli, Nicola Maione and Michele Santoro.

If a member is no longer able to meet the independence requirement, he/she will be removed from the committee.

The Chairperson of the Board of Statutory Auditors or another statutory auditor designated by him/her permanently participates in the work of the Committee, although the other statutory auditors are also allowed to participate.

The Chairpersons of the other Board Committees may also be invited to attend the Committee meetings.

The Chairperson may assess whether to invite the corporate functions that have proposed the transactions and/or conducted the negotiations, one or more representatives of management, as well as other managers of bank functions and third party entities (e.g. an independent expert) to take part in the Committee's works, in order to explain the transactions that have been submitted and/or proposed for assessment, and for particular information requirements.

In carrying out its duties, the Committee may also use the services of independent external experts, with costs borne by the Issuer.

In 2018, the Committee met 16 times and the average duration of each meeting was approximately 60 minutes. The minutes of the meeting were duly recorded by the secretary. On average, 97% of the members participated in the meetings.

No schedule of meetings has been prepared for 2019 since the Chairperson will convene a meeting whenever there are issues to be discussed that fall under the Committee's area of activity. The Committee did not meet in the initial months of 2019.

The table summarises the Committee's composition in 2018, as well as information on meeting attendance of members.

Members	Office	List (M/m) **	Non-executive	Independence as per Code	Independence TUF	(*) %
Angelo Riccaboni (1)	Chairperson	M	X	X	X	100
Fiorella Kostoris (2)	Member	M	X	X	X	94
Nicola Maione	Member	M	X	X	X	88
Stefania Petruccioli (3)	Member	m	X	X	X	100
Michele Santoro	Member	M	X	X	X	100
Members terminated in 2018						
Giuseppina Capaldo (4)	Member	M	X	X	X	100

(1) Committee Chairperson as of 2 August 2018.

(2) Committee Chairperson up to 2 August 2018.

(3) Committee Member as of 2 August 2018.

(4) Committee Member up to 4 May 2018.

(*) Attendance of the Board and Committees at meetings (no. of presences/ no. of meetings held during the period that the director was in office, expressed as a percentage).

Functions attributed

The Committee carries out the activities and duties assigned to it by the "Group Directive governing regulatory requirements regarding related parties, connected persons and the obligations of banking officers" (hereinafter the "Directive") approved by the Board of Directors on 29 November 2018, pursuant to the Consob Related Parties Regulation and the Bank of Italy Supervisory Provisions for connected parties (which has replaced the previous Global Policy). For further details on this subject, please see Section 13 below.

In particular, the Committee:

- during the approval and updating of the related-parties policy, the Committee issues a prior analytical and reasoned opinion on the overall suitability of the structures and measures established with respect to the objectives of applicable regulations. The Committee's opinion is binding for the purposes of the Board of Directors' resolution;
- assesses the transactions of minor and major importance carried out by the Bank that do not fall within the cases of exemption, issuing a reasoned opinion on the interest of the company in

carrying out the transaction, as well as the economic convenience of the transaction and the substantial correctness of the conditions applied;

- once the analysis on the existence of the requirements of interest and economic convenience of the transaction and substantial correctness of its conditions is completed, the Committee issues its opinion which can be positive/subject to observations/contrary;
- provides its opinion in the cases required by the Directive in relation to the transactions to be carried out by the subsidiaries;
- monitors the transactions carried out, including ordinary transactions of minor significance that are concluded at arm's length or standard conditions, which are subject to periodic reporting;
- issues a binding opinion, which is analytical and justified, regarding the amendments to the Articles of Association of the Bank which refer to the issue of related parties and connected parties, where required by the supervisory regulations;
- carries out a role in which it evaluates, supports and recommends on issues of organization and conducting internal controls on the overall activity of assuming and managing risks with related parties and connected parties, verifying the coherence of the activity carried out with the strategic and operating guidelines;
- in this context, on the occasion of the updating of the policies regarding controls in accordance with the applicable supervisory provisions, the Committee issues a prior binding opinion, which is analytical and justified also regarding their own appropriateness in achieving the objectives of the supervisory provisions.

The main activities carried out by the Committee in 2018 were the following:

- the issue of a prior, binding, analytical and reasoned opinion on the “*Group Directive governing regulatory requirements regarding related parties, connected persons and the obligations of banking officers*” approved by the Board of Directors on 29 November 2018;
- examination and issuing of a prior opinion on certain proposals for transactions with related and connected parties;
- analysis of negotiations, preliminary phase with adoption of complete and adequate information and issuance of a prior opinion on more significantly transactions with related and connected parties;
- examination of quarterly reports prepared by the compliance function on transactions with related and connected parties;
- examination of quarterly reports prepared by the Chief Risk Officer Division on the consolidated analysis of risks to connected parties.

Regarding the corporate structure, the Committee held additional deep-dive sessions during the preparation of the “*Group Directive governing regulatory requirements regarding related parties, connected persons and the obligations of banking officers*”.

The Committee has also reported quarterly to the Board of Directors and Board of Statutory Auditors on activities carried out. The minutes of the Committee meeting are approved and provided to the Board of Directors and the Board of Statutory Auditors.

12. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (per Article 123-*bis*, Par. 2, Letter b), of the TUF)

The new “Group Internal Control Systems governing policy” (hereinafter “Group Policy”), the last update of which was issued on 25 June 2018, represents the reference framework for internal control systems, which incorporates the principles and guidelines which must underpin the design, operation and development of a “complete, adequate, functional and reliable” control system, to ensure sound and prudent management.

The regulatory framework was designed to be compliant with the legal/regulatory framework, the Group's organisational structure and international and domestic standards and best practices.

The document implements, in its structure and contents, the Supervisory Provisions on internal control systems.

The Group Policy defines certain aspects, briefly illustrated below:

- the general principles of the internal control system;
- the internal control system governance model;
- methods of coordination and collaboration between the functions with control tasks and company bodies;
- information flows between control bodies and functions;
- relations with the Supervisory Authorities.

The Bank, in accordance with the Supervisory Provisions regarding the internal control system, implemented a system for reporting of violations (whistleblowing).

According to the whistleblowing procedure adopted, personnel may report in good faith with regard to any negligent, illegal, irregular or improper circumstances and conduct with regard to work activities deemed to be suspicious or of which they become aware during the performance of their duties.

In addition to establishing that personnel may make such reports, the internal regulations define: the scope of facts and actions that can be disclosed; the procedures and channels through which such disclosure shall be made; the main management obligations for disclosures incumbent upon the structures in charge (receipt, preliminary examination and evaluation); the safeguards in place for the whistleblower and the affected individual.

The procedure is designed in a manner which guarantees protection from retaliatory or discriminatory conduct, confidentiality of the report and protection of the personal information of the reporter and any person subject to the report throughout all phases, to guarantee a specific, independent communication channel.

12.1 GENERAL PRINCIPLES OF THE INTERNAL CONTROL SYSTEM

The Internal Control System (hereinafter, also "ICS") adopted by the Montepaschi Group comprises a set of rules, functions, structures, resources, processes and procedures which aim to ensure sound and prudent company management.

The Internal Control System plays a central role in the company organisation, i.e.:

- it represents a key element of knowledge for the company bodies to ensure they are fully aware of the situation and effective monitoring of company risks and their interrelationships;
- it directs the changes in strategic guidelines and company policies and ensures the consistent alignment of the organisational framework;
- it monitors the efficiency of operational systems and compliance with the prudential supervisory authorities;
- it helps promote a culture of risk awareness, compliance with the law and the respect of corporate values.

Consequently, the Internal Controls System takes on a strategic role for the Group and the culture of control assumes a significant position in the scale of corporate values, involving all levels of the organisation (company bodies, units, hierarchical levels, staff) in the development and application of logical and systematic methods for identifying, measuring, disclosing and managing risks.

Within the Group model, the components that characterise the control systems are:

- **the control environment:** formalisation of the roles and responsibilities in the corporate processes constitutes a necessary condition for an effective company control system. It represents the basis for all the other components, guaranteeing transparency, accountability and compliance with the principles of sound and prudent management;
- **risk control:** the risk governance process consists of the set of activities connected to the identification, valuation, management and monitoring of risks originating from the various operating segments, as well as the definition of management policies for these risks;
- **controls structure:** regarding the rules and instruments the individual company functions use to ensure adequate control activity;
- **information and communication:** information must be identified, collected and distributed in a form and time frame that allows each unit to fulfill its responsibilities. In this regard, the IT systems adopted assume a key role for ensuring “sound and prudent management”. The IT systems must guarantee a flow of information which enables all levels of the structure to adequately perform the respective management tasks and adhere to the obligations set by the internal regulations and the legal provisions;
- **monitoring:** the internal control system must be constantly monitored to ensure it functions adequately and to guarantee its design is updated where necessary.

The areas of improvement identified, with a view to integrated risk management, must be communicated to the functions with control tasks in relation to the specific areas of competence, also through mechanisms for coordination and sharing between said entities.

The areas of improvement flagged must also be subject to a systematic “follow-up”.

Regardless of the structures in which they are situated, the Internal Control System contains the following types of control:

- First-level controls, aimed at ensuring the correct performance of transactions, governed and conducted directly by the operational structures through dedicated units or incorporated into the procedures;
- Second-level controls, under the responsibility of the Risk Management, Compliance, Anti-Money Laundering and Validation Functions, are aimed at ensuring proper implementation of the risk management process, respect of the assigned operating limits and compliance with regulations;
- Third-level controls, carried out by the Internal Audit Function, are aimed at identifying violations of the procedures and of the regulations, as well as periodically evaluating the adequacy, operations and reliability of the Internal Control System, providing company management and the Supervisory Authorities with an annual assessment of its suitability.

12.2 GOVERNANCE MODEL

The Montepaschi Group governance model, in line with the Supervisory Provisions regarding banks' corporate governance, provides for the following:

- the Board of Directors, vested with strategic and management supervision functions;
- the Chief Executive Officer, vested with executive management functions, according to the powers delegated by the Board of Directors and attributed by the Articles of Association;
- The 'Director in charge of the internal control and risk management system', appointed in compliance with the Corporate Governance Code for listed companies, and responsible for setting up and maintaining an effective internal control and risk management system;
- the General Manager, vested with executive management functions. In the event of the absence or impediment of the General Manager, his/her duties will be carried out by the Senior Deputy General Manager (if appointed);
- the Board of Statutory Auditors, vested with control functions.

12.3 THE ROLES AND RESPONSIBILITIES OF COMPANY FUNCTIONS IN THE CONTROL SYSTEM

The Group's Internal Control System is organised into the following Corporate Functions:

- Corporate Control Functions, responsible for monitoring the Internal Control System both as regards specific areas of risk (Risk Management, Validation, Compliance and Anti-money Laundering) and the system as a whole (Internal Audit);
- Control Functions, with the responsibility for monitoring the internal control system as regards specific areas of competence attributed by the legislative, regulatory, statutory or self-governance provisions;
- Other Corporate Functions, responsible for the governance of processes within its competence as part of the Internal Control System.

The term “Functions with control tasks” jointly identifies the Corporate Control Functions and Control Functions.

Corporate Control Functions: Functions in charge of overseeing the control system for specific risk areas.

Considering the crossover effect and the complexity of the individual control processes, the Group model provides, in consideration of the clear assignment of the responsibility of each Control function, for the separation of the activities and the duties to the various company structures involved, based on the principle of competence. This approach makes it possible to benefit from economies of scope, reducing negative outsourcing and increasing the effectiveness of the action.

The model adopted consists of the following company control functions, in charge of overseeing the Internal Control System, for specific risk areas:

- Compliance Function;
- Risk Management Function;
- Internal Validation Function;
- Anti-Money Laundering Function;
- Internal Audit Function.

The first four functions relate to second-level controls, the Internal Audit Function to third-level controls.

Added to these are: (i) the Human Resources Function, as a second-level Control Function for the sole purpose of remuneration and exclusively for the organisational units involved in the “definition of remuneration and incentive policies”; the Human Resources/Compensation Function is also considered to be a Corporate Control Function due to its role in the definition and implementation of remuneration and incentive policies, i.e. the performance of second-level controls on the implementation of the remuneration policies approved by the Shareholders' meeting (ii) the Function of the Financial Reporting Officer, a Control Function pursuant to Law 262/2005, that is called upon to prepare the appropriate administrative and accounting procedures and certify their adequacy and effective application.

The Group regulations and individual company regulations establish the organisational model, responsibilities, processes and operating mechanisms for liaising with the Other Corporate Functions.

To ensure the Company Control Functions carries out their activities properly, the Montepaschi Group has defined specific essential requirements which must be met, valid for each function in relation to:

- appointment and revocation of managers;
- independence and authority;
- functional separation;
- resources;
- remuneration and incentive systems;
- access to corporate information;
- main activities.

Internal Audit Function

All components of the Internal Control Systems are subject to internal audit, aimed at assessing their adequacy, functionality and coherence with the Group's organisational evolution and the external legislative framework. The approach is primarily based on risk.

Within this context, the Internal Audit Function performs an independent and objective activity aimed at controlling, on the one hand, based on third-level controls, the regular performance of operations and the evolution of risks and, on the other hand, at evaluating the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the Internal Control System, bringing any possible improvements to the attention of the company bodies, with particular reference to the RAF, the risk management process, as well as the instruments for measuring and controlling these risks; based on the results of its controls, the Internal Audit Function provides recommendations to the company bodies.

The activities of the Internal Audit Function, defined in the annual audit plan, are part of a broader long-term audit plan subject to approval by the body with strategic supervisory function.

Consistently with said plan, the Internal Audit Function must:

- evaluate the completeness, adequacy, functionality and reliability of the other components of the ICS, of the risk management process and other company processes, also with regard to the capacity to identify errors and irregularities, ensuring development of the ICS in accordance with the relevant factors (external/internal) and consistently with the Supervisory Provisions regarding the internal control system;
- evaluate the effectiveness of the RAF definition process, the internal consistency of the overall structure and compliance of company operations with the RAF and, in the case of particularly complex financial structures, their compliance with the strategies approved by the company bodies;
- check the operational continuity plan;
- verify regularity of the various company activities, including any outsourced ones;
- verify the adequacy, overall reliability and security of the IT system (ICT audit).

In carrying out its tasks, the Internal Audit Function, which has access to all company data and outsourced activities, adheres to the provisions of the international standards for the profession, incorporated within the Group's internal audit standards and associated Code of Ethics of the Internal Audit Function.

The autonomy and impartiality of the function are guaranteed by relational reconciliation mechanisms with the company bodies; the independence requirements provide an organisational position, which precludes hierarchical dependence and/or influence (conditioning) by any manager of the operating structures.

The Internal Audit Function reports to the body with strategic supervision powers (Board of Directors).

For Group companies, based on the proportionality criteria, the activities are assigned to the organisational structures of the companies themselves (decentralised model) or outsourced to the Parent Company's functions (centralised model). In line with the prescriptions for professional standards for the internal auditing activity, the function is subjected at least every five years to an external assessment by a qualified company, that can certify the quality of the internal audit services provided.

The function motivates the professional growth of its own resources, allowing them to pursue appropriate certifications and professional qualifications such as that of Certified Internal Auditor (the so-called CIA), the only qualification which is internationally recognized for the profession of internal auditor that identifies a professional of the sector in an unambiguous manner. This certification is issued by the Italian Association of Internal Auditors (AIIA), which is officially recognized as the Italian affiliate of the Institute of Internal Auditors (IIA), the international reference for professional standards.

If its activities lead to anomalies, the Internal Audit Function ensures the prompt communication and adoption by the competent structures of the opportune measures, monitoring the methods/timescales for their management and mitigation. The Internal Audit Function also periodically informs the company bodies of the results of its activities and the progress status of follow-up activities; it also provides the Authorities with the necessary reports required by supervisory regulations.

Risk Control Function

The Risk Control Function takes part in defining the RAF and is involved in the the risk governance policies (constantly verifying their adequacy) and the various phases that make up the risk management process and establish operating limits on the assumption of various types of risk.

More specifically, the Risk Control Function:

- constantly verifies the adequacy and effectiveness of the risk management process and of the operating limits;
- develops integrated risk analysis and monitoring methods by planning and implementing the operational and regulatory management measurement system and verifying the compliance and adequacy of the mitigation measures;
- analyses the risks of new products and services and those deriving from the entry into new operating and market segments;
- ensures the consistency of the risk measurement and control systems with the processes and methods of evaluation of company activities, coordinating with the company structures concerned;
- constantly monitors the effective risk assumed by the bank and its consistency with the risk objectives as well as compliance with the operating limits assigned to the operating structures in relation to the assumption of various types of risk;
- verifies the correct monitoring of the trend in individual credit exposures.
- collaborates in the preparation, drafting and monitoring of the Recovery Plan;
- supports the supervision of relations with the Supervisory Authorities within the framework of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism;
- defines, coordinates and prepares risk reporting information for the corporate boards and top management.

With reference to the RAF, the Risk Control Function is responsible, among other things, for:

- analysing the Group's risk profile, through the calculation of the risks absorbed and the definition of the tolerance and capacity thresholds;
- verifying the capital adequacy within the context of the ICAAP process and the adequacy of the liquidity profile within the ILAAP process;
- governing the IT systems responsible for calculating risks, giving prior approval for any necessary change;
- monitoring performance, activating the relevant escalation processes, check the framework's overall effectiveness on an annual basis;
- defining common operating risk evaluation metrics in line with the RAF, coordinating with the Compliance Function, ICT Function and the Lack of Operational Continuity Risk Control Function (BCM);
- providing preventive opinions on the consistency with the RAF of the most significant transactions, by acquiring, if necessary, based on the nature of the transaction, the opinion of the other functions involved in the risk management process.

The Risk Control Function is also required to present the company bodies with an annual report containing the results of the activities performed. This report is also sent to the Supervisory Authorities.

Taking into account the complexity and scope of the activities carried out, the Parent Company's Risk Control Function may organise itself into specialist structures/units, reporting directly to the Manager in charge of the function, in order to perform its tasks in an efficient and effective manner

The Parent Company's Risk Control Function has a hierarchical reporting line to the strategic supervisory body (the Board of Directors) and a functional reporting line to the Chief Executive Officer.

On 12 March 2018, the Bank's Board of Directors resolved to assign the responsibility for the Risk Control Function to Mr. Leonardo Bellucci, appointed Chief Risk Officer, replacing Mr. Andrea Rovellini (former Chief Risk Officer since 2013), who was appointed to serve as the Bank's Chief Financial Officer.

With reference to foreign branches, provision is made for a local Risk Control Function, which reports hierarchically to the Parent Company's Risk Control Function.

The Group opts for a mixed Risk Control Function, based on the following:

- centralised model for Italian subsidiaries identified according to proportionality principles in relation to their complexity; to this end, the Group avails itself of a Local Referent who has a functional reporting line to the corresponding Parent Company Function, guaranteeing support whenever necessary;
- for foreign subsidiaries, the presence of an appropriate Risk Control Function which has a functional reporting line to the Parent Company Risk Control Function is provided. In order to guarantee the management and coordination of the Parent Company, it is provided that said entity's Risk Control Function is to be involved in the definition and monitoring of the objectives assigned to the corresponding function of the foreign subsidiary, in observance of the restrictions set forth in local regulations. The hierarchical positioning of the Risk Control Function is formalised in each different subsidiary regulation.

Compliance Function

The Compliance Function oversees, using a risk-based approach, the management of non-compliance risk with regard to all corporate activities, checking that the internal procedures are adequate for preventing such risk (see "Group Directive on non-compliance risk management"). The regulatory sectors for which the oversight of risks pursuant to the primary regulation ("Supervisory Body 231" and "Financial Reporting Officer", referring respectively to Legislative Decree 231/2001 and law 262/2005) is to be guaranteed by another Corporate Control Function or Control Functions are excluded from the competence area of the Compliance Function, unless otherwise provided by specific rules. In this area, should the functions above carry out operating activities of the first level in corporate processes with significant impact in terms of compliance and reputation of the group, with particular reference to customer relations, the Compliance Function carries out second-level controls.

In light of such principles, the Compliance Function is directly responsible for managing the risk of non-compliance for all the regulations falling within the scope of activities of the Parent Company and of the Group's Italian subsidiaries subject to supervision, including the Group Operating Consortium.

Exceptions are the regulatory areas "Health and Safety in the Workplace and Environmental Protection" and "Tax Compliance" for which specific forms of Specialised Oversight have been identified within the Parent Company and the individual Group Companies, in compliance with the Supervisory Provisions. In these circumstances, the Compliance Function is nevertheless responsible for the overall governance process and, in collaboration with the specialised functions in charge, for defining the methods or evaluating non-compliance risk and identifying the relative procedures, which are also subject to periodic auditing, in order to assess the ability to prevent compliance risk. Special reporting mechanisms between the Specialised Oversight units and the Compliance Function are in place for this area.

The following are among the main duties of the Compliance Function:

- identification of the regulations which are applicable to the bank and measurement/assessment of their impact on processes and procedures;
- governance of the different phases of the compliance risk management process;
- ongoing identification of the level of regulatory risk, regular assessments of business processes and the calculation of residual risk to which the Group is exposed;
- proposing organisational measures and procedures the objective of which is to ensure adequate risk monitoring for non-compliance and verification of their relative effectiveness over time;
- monitoring the compliance risks which impact business processes;

- ensuring that the internal procedures adopted are adequate for preventing risk and monitoring their proper application, with the possibility of asking the other Corporate Functions to adopt or amend them;
- second-line controls on operating processes or functions for which compliance risks are deemed significant;
- ex ante assessment of all innovative projects that the bank intends to develop in terms of their compliance with regulations, intervening also in preventing and managing conflicts of interest whether between the various activities carried out by the bank or in respect to employees and corporate officers;
- consults and supports company bodies in issues in which the risk of non-compliance is significant; collaborates in the training activity pertinent to the function, also in order to propagate a corporate culture based on the principles of honesty and correctness;

All the above without prejudice to the other duties of the Compliance Function specifically identified by other regulations such as, for example, the discipline regarding policies and practices for remuneration and incentives, transparency of transactions, correctness of relations between the bank and its customers, transactions with related parties, activities involving risk and conflicts of interest with related parties.

In exercising its own responsibilities, the Compliance Function has access to all the bank's activities, whether central or peripheral, and any significant information, also through direct contact with the personnel.

For the management of non-compliance risk, the Compliance Function has in place specific information flows toward the corporate bodies. Among these is an annual report which contains a result of the activities it has carried out, which is also submitted to the Supervisory Authority.

In the Parent Company, the Compliance Function reports directly to the management body (the Chief Executive Officer).

The Group has opted for a centralised Compliance Function model, which provides for the provision of regulatory compliance monitoring services to the Italian Group companies subject to supervision – including the Group Operating Consortium – using methods and procedures in line with the requirements of the Supervisory Authority and based on established guidelines and principles on outsourcing and the Internal Controls System. The centralisation of the Compliance Functions to the Parent Company not only results in more effective and integrated controls but also provides for the appointment of a Local Referent, for each centralised subsidiary, who will have a functional reporting line to the Parent Company's Compliance Function. The Foreign Branches will have a local Compliance Function which will have a hierarchical reporting line to the Parent Company's Compliance Function.

Internal Validation Function

The Internal Validation Function is required to constantly verify the alignment of the risk measurement systems with the company policies and the regulations of the Supervisory Authority. The Internal Validation Function is responsible for validating the advanced internal models of Pillar I as well as some of those of Pillar II identified year by year in the Validation Plan approved by the Board of Directors. It also has the task of preparing the required disclosure on the validated models.

In carrying out said activity, the Internal Validation Function:

- verifies the process of development of internal risk measurement models and the connected management and data quality processes, according to a special methodological framework developed for each risk subject to validation;
- coordinates the functions involved in the validation process which is targeted at assessing the accuracy of the estimates of the internal systems for the measurement of significant risks not used for regulatory purposes, and expressing a judgment on the regular functioning, predictive capacity and performance of the aforementioned internal systems, taking direct action in relation to those falling within the risk perimeter defined;

- monitors the correct functioning of the advanced internal risk measurement models, evaluates the adequacy of measures implemented to fill any gaps and puts the competent bodies into operation if significant delays are identified in the completion of the shared corrective actions;
- periodically informs the company bodies of the results of its activities and the progress status of follow-up activities;
- fulfils an authorisation role prior to the implementation of significant changes to the models, processes and/or procedures connected to the risks validated;
- drafts an annual validation report which summarises the results of the activities performed as well as specific validation reports relating to the risks with the advanced internal model.

Although the Internal Validation Function hierarchically reports to the Parent Company's Risk Control Function, its autonomy and independence are ensured by mechanisms facilitating relations and functional links with the Corporate Bodies having strategic supervision, management and control functions.

For risks included within the scope of validation, the Group opts for a centralised internal validation model implemented in accordance with the outsourcing contracts. To this end, the Internal Validation Function avails itself of Local Referents who guarantee support whenever necessary.

Anti-money Laundering Function

The Anti-money Laundering Function is required to constantly verify that the company procedures are consistent with the objective of preventing and counteracting the violation of external regulations (laws and regulatory provisions) and self-governance regulations regarding money laundering and financing of terrorism.

To this end, the Anti-Money Laundering Function has the aim of:

- identifying the applicable regulations and assessing their impact on the internal processes and procedures and collaborate in the identification of the internal controls and procedures targeted at preventing and counteracting current risks;
- verifying the suitability of the internal control system and the procedures adopted and propose the organisational and procedural changes necessary or appropriate for ensuring adequate monitoring of risks;
- providing consulting and assistance to company bodies and to top management; in the case of the offering of new products or services, the Anti-money Laundering Function performs the relevant evaluations in advance;
- verifying the reliability of the information system which provides data to the Single Company Database;
- transmitting the aggregate data concerning registrations in the Single Database to the Financial Information Unit on a monthly basis;
- handling, while working with the other competent Company Functions, the preparation of an adequate training plan, to provide employees and collaborators with constant updating;
- preparing flows of information to the company bodies.

The Anti-Money Laundering Function also performs the following activities:

- enhanced due diligence in cases of correspondent accounts with correspondent banks or institutions of non-EU States where there is a relationship with a high-risk customer and regarding transactions, ongoing relations or professional services with politically exposed persons;
- reporting of suspicious transactions.

The Anti-money Laundering Function submits a document to the Board of Directors for approval which defines the responsibilities, duties and operating methods in respect of the management of the risk of

money laundering and financing of terrorism. The document is constantly updated, available and easily accessible to all employees.

The Function assesses the adequacy of the internal systems and procedures regarding customer due diligence obligations as well as the systems for the the detection, evaluation and reporting of suspicious transactions, the effective identification of other situations subject to reporting requirements and the appropriate storage of documents and records required by legislation. These activities can be carried out with the help of flows of information received from the other Company Functions, through remote or on-site monitoring techniques on a sampling basis.

The Anti-money Laundering Function monitors the measures for mitigating the risk of non-compliance defined in the annual plan or which continuously originate from the governance of processes, involving the competent Company Functions for the implementation of the procedures (internal regulations, software applications, operating processes, training and controls).

On an annual basis, the Anti-money Laundering Function presents the company bodies with:

- a report on the initiatives undertaken, the failures identified, the consequent remedial actions to be taken and personnel training activities;
- the schedule of activities.

Within the Parent Company, the Manager in charge of the Anti-Money Laundering Function reports to the Manager in charge of the Risk Control Function.

The autonomy and independence of the Anti-Money Laundering Function are ensured through relational mechanisms and functional connections with the Corporate Bodies having strategic supervision, management and control. functions.

The Group has opted for a decentralised model, which requires the individual Group Companies to have a specific Anti-Money Laundering Function that is not bound to any hierarchical relationship with the Managers in charge of the operating structures and that reports to the Parent Company's Anti-Money Laundering Function. The hierarchical positioning of the Anti-Money Laundering Function of the Group companies is formalised in each different subsidiary regulation. The foreign branches will have a local AML Function which will have a functional reporting line to the Parent Company's AML Function.

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In the Group model, for specific areas of competence, other control functions are provided which are responsible for monitoring, as part of the Internal Control System:

- the Planning and Management Control Function;
- the Lack of Operational Continuity Risk Control Function;
- the Control Function Responsible for Risks regarding Workplace Health and Safety;
- the Control Function in Charge of the Correct Processing of Personal Data;
- the Control Function responsible for the risk of non-monitoring of outsourced activities;
- IT Safety Monitoring.

The policies, Group directives and company regulations define: the organisational model, responsibilities, processes, operating mechanisms for reconciliation with the other Company functions and the information flows to be produced.

For the Group companies, based on the criterion of proportionality, the activities are assigned to organisational units of the company or centralised within the Parent Company Functions. The criteria and choices by the individual companies for the various areas, must be coordinated with the respective Parent Company function, as governed by the specific regulations on the individual subject. Compliance with the laws and regulatory provisions in force at the time, the principle of proportionality (level of risk managed) and the functionality of the system of controls (attainment of objectives) must, nonetheless, be guaranteed. In the case of centralisation, specific agreements must be drawn up in line with the provisions of the "Policy governing the outsourcing of company functions".

The remaining company functions guarantee the evolution of the system consistent with the Group development and productive diversification strategies and with the need for increasingly higher levels of reliability of the processes within its competence, which may give rise to company risks connected with ordinary activities (credit, market, etc.); the trends in certain segments, the decisions to create or handle new products or the decision to develop additional business areas also encourage and shape the process of updating control activities.

12.4 ASSESSMENT OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In 2018, the Board of Directors was informed of the assessment carried out by the Internal Audit function (Chief Audit Executive Division) on the adequacy of the control systems - relative to 2017 - and the considerations in this regard expressed by the Risk Committee, which found that the processes and activities carried out by the Chief Audit Executive Division to produce such assessment were adequate. Regular and periodic disclosure is provided by the top management of the company on the areas on which the audit activities are focused.

The Board of Directors also approved the schedule of activities for 2018 of the Chief Audit Executive Division.

During 2018, the Board of Directors was also informed of the assessments made by the second level Company Control Functions in respect of 2017, each for its own specific area of reference (Annual Risk Management Report, Annual Compliance Report, Annual Validation Report and Annual Anti-Money Laundering Report) and viewed and approved the annual plans for the activities of these functions for 2018 (Risk Plan, Compliance Plan, Validation Plan and the Anti-Money Laundering Plan), as required by the regulation. The planning of activities also takes into account the findings and deficiencies identified by the Supervisory Bodies (ECB, Bank of Italy and Consob) and by the Bank's Internal Audit Function (Chief Audit Executive Division), as well as changes to domestic and international legislation. Periodic and regular information is provided to the governing bodies regarding Risk Management, Compliance, Validation and Anti-money Laundering.

12.5 RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM ON THE FINANCIAL DISCLOSURE PROCESS

The methodological model for overseeing the risk of reliability of the financial disclosure of the Montepaschi Group is set forth within the "Group Directive regarding management of compliance with the provisions for Law 262/2005 (Savings Law)" and was developed in accordance with the "CoSo Framework" and "COBIT Framework" methodologies, for the IT component, both of which are generally accepted references internationally.

This model, which is integrated into the overall Internal Control System, aims to guarantee reliability, accuracy, reliability and timeliness of the financial disclosures and therefore helps to strengthen governance of the controls.

The Montepaschi Group is required to apply the regulatory provisions set forth in Italian Law 262/2005, within both the separate financial statements of BMPS and the Group consolidated financial statements. To this end, the Group companies have implemented the law and the guidelines issued by the Parent Company and have defined the roles, responsibilities and expected conduct for the respective areas of their competence.

The Group's Policy regarding the Internal Control System has defined the methods of coordination and collaboration between the functions with control tasks and the company bodies, the methods of coordination between all functions with control tasks and the flows of information between the control bodies and functions. Coordination is ensured by the role of the Appointed Director and the presence of the Committee for the Coordination of the Functions with control tasks, and by the coordinated and integrated management of "areas of improvement".

12.6 STEPS OF THE EXISTING SYSTEM IN RELATION TO THE FINANCIAL DISCLOSURE PROCESS

The reference model indicated above and the methodological approach of the Montepaschi Group are based on two fundamental premises:

- the existence of an adequate internal control system at corporate level able to reduce the risks of error and improper conduct in terms of the accounting and financial disclosures (Entity Level Control – ELC);
- oversight and maintenance of sensitive adequate processes for financial disclosures, through formalisation of the activities and the controls and verification in time of their adequacy and effective application.

The methodological approach was developed according to a succession of macro phases of work that took place prior to releasing the certification, as better detailed below:

- identification of the “sensitive” application perimeter (Companies and Accounts/Processes);
- assessment of the significant administrative and accounting processes⁽¹⁾ (*Risk & Control Assessment*⁽²⁾). The processes selected are assessed in terms of potential risk for financial disclosure purposes;
- evaluation of the information system (Information Technology General Controls – ITGC). Consists of the assessment of the collection of rules governing the technological infrastructure and software applications supporting the administrative and accounting processes. To this end, the Montepaschi Group opted to hire an independent auditor to carry out the ISAE 3402 Type II certification relative to the assessment of the design and the actual operation of the Control System within the IT domain of the service organisation (Group Operating Consortium);
- assessment of the effectiveness/actual application of the Key Controls ⁽³⁾ over the reference period carried out by the structure managed by the Financial Reporting Officer and supplemented by two ISAE 3402 certifications for administrative-accounting services. The first one, Type II, regards the following areas: Administration and Accounting, Credit Cards, Collections and Payments and Network Transactions managed by FRUENDO S.r.l. on behalf of the Montepaschi Group. The second one, Type II, involves the areas of Finance and Accounting managed by the Bank's Operations Division;
- Entity Level Control - ELC. In line with the reference framework, the Montepaschi Group's Internal Control System model makes provision for ongoing verification of the presence of adequate governance systems at the Corporate and the Group levels;
- management of the assessment results. Following the assessment and verification activities described above, any actions for mitigation are defined.

In order to further support the process described above, a sub-certification system has been implemented with the aim of increasing the awareness and responsibility of all the Group structures involved, both in terms of monitoring the quality of information produced and of certifying it to the Financial Reporting Officer.

The information flows containing the results of the activities carried out are periodically communicated to the Risk Committee and the Board of Directors by the Financial Reporting Officer, in support of the certification of the accounting information.

⁽¹⁾ The information relevance is assessed having regard to the possible effect of its omission or wrong representation on the decisions of entities informed by means of the financial statements.

⁽²⁾ In the Montepaschi Group, risk assessment pursuant to Italian Law 262/05 is placed in the “Integrated Multi Compliance” Area (Operating Risks; Italian Legislative Decree 231/01).

⁽³⁾ “Key” controls are those controls whose absence or inadequacy could, in itself, have a significant impact on the correct representation of the financial information.

12.7 ROLES AND FUNCTIONS INVOLVED IN THE FINANCIAL DISCLOSURE PROCESS

In compliance with the rules and the control process described above, an organisational model has been adopted which involves various functions and structures required to perform specific activities and roles.

– Control Function, Law 262/2005

This function supports the Financial Reporting Officer in the operating management, updating and monitoring of the compliance process of the Group, pursuant to Law 262/2005. To this end, it carries out autonomous checks in order to ascertain the effectiveness of the controls over the administrative and accounting procedures and the actual application thereof.

– Internal Audit Function

This function interacts with the Financial Reporting Officer in assessing the adequacy of the internal control systems (ELC) and the oversight of the risks relating to the administrative and accounting processes.

This same function provides the Financial Reporting Officer with useful information in terms of the facts that emerge, based on the activities carried out, with reference to the risks and the adequacy of the system of controls on the administrative and accounting process.

– Organisation Function

The Organisation Function of the Parent Company and the organisational functions of the Group companies carry out analysis and maintain the documentation (operating regulations) for the Group processes.

– Montepaschi Group Operating Consortium

The Montepaschi Group Operating Consortium manages, governs, coordinates and controls correct operation of the Group's ICT systems. In order to ensure consistency with the methodologies identified by the Financial Reporting Officer (COBIT) it employs the ISAE 3402 certification mentioned under point 12.6.

– Local 262 contact persons in the companies that are part of the perimeter

A Financial Reporting Officer is not normally appointed within each Group Company that is in the 262 perimeter; however, there is a Local Referent who supports the Financial Reporting Officer. The responsibilities of the Local Referent include the one relating to the secondary certification process, which is concluded with the formal issuing of a certification letter approved by the administrative body and addressed to the Parent Company's Financial Reporting Officer, which declares, among other things, the compliance of the data transmitted with the book results and accounting records.

12.8 DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In line with the Corporate Governance Code for Listed Companies, by resolution of 22 December 2017, the Board of Directors, at the start of its new mandate, confirmed the Chief Executive Officer Marco Morelli as the Director In Charge and re-assigned him with the same duties and functions already allocated to him for the same appointment in 2017. These include:

- identifying the main business risks, taking into account the characteristics of the activities carried out by the company and its subsidiaries, and submitting them periodically to the review of the Board of Directors;
- implementing the guidelines defined by the Board of Directors, overseeing the planning, realisation and management of the internal control and risk management system, constantly monitoring its adequacy and effectiveness;
- adjusting the internal control and risk management system to changes in the operating conditions and in the legal and regulatory framework;
- the power to request the Internal Audit function to carry out audits on specific operating areas and on the compliance of business operations with rules and internal procedures, giving simultaneous notice of

this to the Chairperson of the Board of Directors, the Chairperson of the Risk Committee and the Chairperson of the Board of Statutory Auditors;

- promptly reporting to the Risk Committee (or to the Board of Directors) on issues and problems arising during the course of his/her work or of which he/she has become aware so that the Committee (or the Board) may take the appropriate action.

In 2018, the Director In Charge held a role of coordination within the context of activities connected to the Internal Controls System. In this context, he received constant updates on the activities of the Management Committee for the Coordination of functions with control tasks, regarding the:

- constant verification of the adequacy and effectiveness of the internal control system and risk management system;
- constant monitoring of the mitigation activities identified for the management of the gaps that emerged from the verifications carried out by the supervisory bodies, whether internal to the Bank or external;
- annual plans and reports on the Internal Control System.

12.9 - THE INTERNAL AUDIT FUNCTION

The Parent Company's Internal Audit function is assigned to the Chief Audit Executive Division which performs an independent and objective activity aimed at controlling, on the one hand, based on third-level controls, the regular performance of operations and the evolution of risks and, on the other hand, at evaluating the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the Internal Control System, bringing any possible improvements to the attention of the company bodies, with particular reference to the RAF (Risk Appetite Framework), the risk management process as well as the instruments for measuring and controlling these risks; based on the results of its controls, the Internal Audit Function provides recommendations to the company bodies.

Effective from 15 November 2016, the manager in charge of the Chief Audit Executive Division, i.e. the Chief Audit Executive, is **Pierfrancesco Cocco**.

The Chief Audit Executive Division has a hierarchical reporting line to the Board of Directors, directly communicates the results of the audit activities and the evaluations to the Control Bodies (Board of Statutory Auditors and the Supervisory Body pursuant to Italian Legislative Decree 231/2001) as well as to the Chairperson of the Board of Directors, to the Risk Committee and to the Chief Executive Officer/Appointed Director. The Chief Audit Executive Division does not report directly to any operating area and has access to company data and all the activities of the Bank, including those that are outsourced.

For Group companies, based on the proportionality criteria, the activities are assigned to the Internal Audit Functions of the companies themselves (decentralised model) or outsourced to the Parent Company's functions (centralised model), through the formalisation of a Service Level Agreement.

Autonomy and independence are ensured through relational mechanisms and functional connections with the Corporate Bodies having strategic supervision, management and control functions:

- appointment/revocation of the Chief Audit Executive by the Board of Directors, on the proposal of the Risk Committee, with the help of the Appointments Committee, and having consulted the Board of Statutory Auditors;
- remuneration structure of the Chief Audit Executive to be resolved by the Board of Directors, having consulted the Board of Statutory Auditors, on the proposal of the Remuneration Committee, and the preventive opinion of the Risk Committee;
- determination of the audit plan by the Board of Directors, based on the proposal by the Chief Audit Executive Division and following examination of the Control Bodies;
- possible implementation of internal audits by the Control Bodies, the Risk Committee, the 231/2001 Supervisory Body, the Appointed Director of the internal control and risk management system and the Chairperson of the Board of Directors;

- reporting of the activities to the Control Bodies and one report assessing the control system submitted at least annually to the Board of Directors;
- composition and size of the structure by the Board of Directors, based on the report submitted by the Chief Audit Executive Division, following the opinion of the Control Bodies;
- approval by the Board of Directors of the guidelines to be followed for management of staff within the Group's internal auditing Function (recruitment, training, bonus system) and the economic resources allocated, based on the report of the Chief Audit Executive Division, following the opinion of the Control Bodies;
- the criteria for the remuneration of personnel in the Parent Company's internal auditing function, defined by the Board of Directors on the proposal of the Human Resources Function and having consulted the Risk Committee, do not compromise their objectivity and help to create a specific incentives system, different from the one provided for the other functions, consistent with the objectives of the function performed and not related to the achievement of company targets.

These aspects are shown in Regulation no. 1 - Organisation of Banca MPS, which defines the model and the organisational structure of the Bank, identifying the responsibilities assigned to the structures.

During 2018, the Chief Audit Executive Division continued the process to increase the efficiency of and rationalise both the existing structures and its methodological framework for evaluating the ICS using a SREP-oriented approach, an activity that had already begun in the previous year as a result of the areas for improvements identified by an external qualified company in the 2017 follow-up to the IA Function Quality Certification (completed in February 2015).

For the execution of its own duties, the Chief Audit Executive Division has dedicated financial resources which are quantified within the annual budget process (Budget).

In particular, in 2018 the following amounts were allocated in the budget for this structure:

- approximately Euro 290 thousand for the creation, updating and development of the information instruments in support of the audit activities, within the scope of the "ICT Master Plan", containing both the maintenance and development costs, which are estimated and managed directly by the Montepaschi Group's Operating Consortium, with the support of the external companies for specific areas;
- for activities to be used for the training of personnel, Euro 15 thousand for collective membership used for ongoing professional development;
- with a view to compliance to Bank of Italy circular 285/2013 and in order to ensure proper functioning of the internal audit in terms of confidentiality, timeliness and independence, an extraordinary provision of Euro 350 thousand has been allocated.

The function motivates the professional growth of its own resources, allowing them to pursue appropriate certifications and professional qualifications such as that of Certified Internal Auditor (the so-called CIA); the Chief Executive Officer Division has 14 internal audits with this certification, four of whom obtained it in 2018.

In the course of 2018, the Chief Audit Executive Division gave special focus to analysing, investigating and verifying the main credit, financial and operational risk management processes. The audit exercises specifically concerned the credit process (in line with recent years), the efficiency of the operating machine and IT processes, as well as activities relating to first-level controls (particularly on Credit and Investment Services) and second-level controls (Anti- Money Laundering and Compliance). Moreover, in order to support and develop a corporate risk culture, audits continued to be conducted on the various matters requested by the Board of Statutory Auditors. Finally, the activity relating to the prevention and investigation of internal fraud was also significant. All "mandatory" audits were carried out (as per regulations) as were those requested by the Supervisory Authority (first and foremost, the ECB, the Bank of Italy and Consob).

Overall, the activities conducted in 2018 were fully in line with the audit plan approved by the Board of Directors at the beginning of the year.

The commitment dedicated to the performance of follow-up activities was also significant, with the follow-up to the elimination of the criticalities flagged deemed to be a crucial factor for the efficiency/effectiveness of the ICS. The areas of improvement which were identified during the audit activities provided the basis for the risk mitigation actions of the company functions; operating implementation of such mitigation actions is the subject to systematic monitoring, periodically reported on to the Top Management.

As it is customary, the information flows to the company bodies were guaranteed in compliance with the applicable corporate governance rules and the provisions set forth in the Policy on the Internal Control System, based on defined distribution criteria.

12.10 ORGANISATIONAL MODEL per Italian Legislative Decree 231/2001

The organisational model adopted by the Bank for the prevention of risks pursuant to Italian Legislative Decree 231/2001 contains the ethical and operating rules aimed at preventing the significant offences pursuant to the aforementioned Decree.

The model is updated periodically or, as necessary, upon occurrence of pre-established cases of necessity such as the recognition of the unsuitability of the model for the prevention of offences pursuant to Italian Legislative Decree 231/2001, any significant changes to the organisational structure or processes and/or the addition of new offences within the scope of the Decree.

In compliance with the above, following the expansion of the group of predicate offences (environmental offences, private corruption, etc.) and the organisational changes made to the Bank's corporate structures, as well as legal developments and those pertaining to legal doctrine on the issue of organisational models, the Board of Directors resolved the Organisation, Management and Control Model on 14 October 2016 (hereinafter the "Model"), currently in force, which consists of the following documents:

- Risk Prevention Directive pursuant to Italian Legislative Decree 231/2001 ("*Directive 231*") published on the Bank's website at www.gruppomps.it - *Corporate Governance - Governance Model*;
- Control protocols pursuant to Art. 6 of Italian Legislative Decree 231/2001;
- Group Code of Ethics, published on the Bank's website at www.gruppomps.it - *Corporate Governance - Governance Model*.

In particular, the control protocols attached to Directive 231 set out, for each company organisational unit, the predicate offences which could theoretically be committed, the existing controls, the principles of conduct to adhere to when carrying out sensitive activities and the references to the relevant internal company regulations. The Compliance Function, in conjunction with the Knowledge Management and HR Training Service Unit, took steps to implement the new legislation (the 231 new offenses) and corporate regulations (the amendments made to the 231 Model) by updating the training course on the "Administrative liability of institutions" provided on-line to all employees/managers.

Activities are currently underway regarding the periodic updating of Model 231, which became necessary due to the changing organisational set-up of the company's structures, and in order to implement the few changes made to the scope of "predicate" offences. These initiatives are aimed at revising the Control Protocols pursuant to Article of Legislative Decree no. 231/2001.

Please note that each company belonging to the Montepaschi Group adopted its own Organisation, Management and Control Model.

In compliance with the provisions set forth in the aforementioned Decree, a Supervisory Body 231 was also established in Banca Monte dei Paschi di Siena and its duty is to monitor the operation and observance of the Model, as well as to handle its updating.

In this respect, the Bank's Board of Directors, at the meeting on 20 April 2015, confirmed the assignment of the duties of monitoring the matters set out in Italian Legislative Decree 231/2001 within an ad hoc board structure, separate from the Board of Statutory Auditors, with the characteristics (in terms of functions, activities, composition and operation method) governed by the current Operation Regulation of the Supervisory Body 231 ("SB 231" or "Body"). In particular, the Board deemed it appropriate to establish a "mixed" SB 231 composed of at least three members, two of which external professionals and a director

with independence characteristics according to the requirements of the corporate governance code for listed companies.

On 22 December 2017 the Board of Directors resolved to establish the new Body which, at the date of this Report, is made up as follows:

- Prof. Giovanni Aspes (coordinator);
- Ms. Anna Girello;
- Ms. Stefania Petruccioli (independent director).

Depending on the issues under discussion, the Bank's managers and employees as well as third parties may be called to participate in the work of the SB 231. The Body may also employ external consultants, at costs and expenses of the Bank.

The Body's Coordinator may invite the Chairperson of the Board of Statutory Auditors to its meetings, or, with the Chairperson's authorisation, have a member of the Board of Statutory Auditors attend. In order to guarantee the most comprehensive performance of the control functions assigned to the Board of Statutory Auditors by the legislation, the Coordinator of SB 231 arranges for the transmission of the minutes of the SB meetings to the Chairperson of the Board of Statutory Auditors, once approved.

In exercising its functions the SB 231 bases its actions on the principles of independence, autonomy and continuity, and has been given autonomous powers of initiative and control, including the power to request and acquire information from every level and operating sector of the Bank, through the competent Bank functions.

In fulfilment of its duties, the SB 231 carries out the following activities in particular:

- assesses the adequacy of the Model, that is, its essential capacity to prevent conducts which does not comply with the law;
- monitors the effectiveness of the Model, verifying coherence between the actual conduct and the Model, and informs the Board and the Board of Statutory Auditors of any violations of the provisions contained within the Model;
- analyses the continuous maintenance of the requirements of solidity and functionality of the Model, with specific reference to environmental changes and new risks that have emerged;
- updates the Model, presenting its proposals for amendments to the Board and verifying the implementation and actual functionality of the solutions adopted;
- pursuant to Article 52 of Italian Legislative Decree 231/2007 (the Anti-Money Laundering Law), SB 231 monitors observance of the rules regarding the counteracting of money laundering and financing of terrorism and, together with the Board of Statutory Auditors, complies with the obligations set out in said Article 52 of Italian Legislative Decree 231/2007;
- promotes initiatives for the dissemination of awareness and comprehension of the Model by all the Bank's personnel, plans and monitors the associated training activities following any modifications and/or significant integrations of the Model adopted;
- prepares an annual schedule of verification actions to be carried out, with the assistance of the Bank's internal control functions, which it informs the Board of Directors and the Board of Statutory Auditors;
- at least every six months, reports to the Board on the activity carried out in time for examination of the documentation at the time of the approval of the financial statements and the Bank's half-yearly financial report.

Each year, the Board of Directors provides the SB 231 with the financial resources it requires in order to acquire the services and consulting needed for the discharge of its institutional duties.

Pursuant to Article 6, para. 2, lett. d) of Italian Legislative Decree 231/2001, the SB 231 is required to comply with the disclosure requirements set forth in the Model, particularly regarding the communication of information on the perpetration or attempt to perpetrate crimes in the interest of or for the benefit of

the Bank as indicated in the Decree itself, in addition to any violations of rules of conduct as provided in Model 231. To protect its full autonomy and confidentiality, the communication can be made directly to the SB 231, through the appropriate channel provided via the Bank's Intranet portal.

The SB 231 is also in charge of providing guidance for the creation and updating of the Models for the Montepaschi Group companies and coordinating the related Supervisory Bodies. During the year the SB 231 received from the various "Supervisory Bodies 231" of the Group Companies periodic reports regarding the controls carried out on the compliance and adequacy of their own Organisational Models 231/2001.

12.11 INDEPENDENT AUDITORS

The Shareholders' Meeting held on 29 April 2011, upon proposal by the control body, granted the mandate to carry out the statutory audit of the accounts to Ernst & Young S.p.A., approved the consideration payable to the independent auditors for the entire duration of the mandate and the criteria for any adjustment of this consideration over the course of the mandate. The duration of the mandate is nine financial years with expiry upon approval of the 2019 financial statements.

12.12 FINANCIAL REPORTING OFFICER

As known, Article 154-*bis* of the TUF provides that the corporate organisation of companies listed in Italy shall include the figure of the Financial Reporting Officer who is in charge of preparing the company's accounting documents.

According to the applicable provisions of law, the Bank's By-Laws provides that the Board of Directors, upon the proposal of the General Manager and the mandatory opinion of the Board of Statutory Auditors, must appoint a Financial Reporting Officer, to be selected from among the company Managers with proven accounting and finance experience, conferring upon this person appropriate powers and instruments for the exercise of the duties attributed pursuant to the law.

The Financial Reporting Officer prepares appropriate accounting administrative procedures for the drawing up of the financial statements and confirms, with a special report attached to the financial statements and the consolidated financial statements, the adequacy of the internal control system, in relation to the administrative and accounting procedures and their actual application during the period to which the accounting documents refer.

This confirmation is also provided to the Board of Directors.

For the documents, communications and accounting disclosures (including interim) disclosed to the market, this Financial Reporting Officer also prepares a declaration confirming correspondence of the disclosures with the accounting records, the accounting books and the documents.

In implementation of the provisions of the law, the Board of Directors has also approved, through a specific Directive, an internal model for the evaluation of the adequacy of the internal control system for administration and accounting and the verification of its effectiveness; this model takes as a reference the main frameworks at the international level (COBIT and CoSo Reports).

As part of this Directive and for the aforementioned purposes, the Financial Reporting Officer has been vested with appropriate powers and instruments. These include the ability both to organise an adequate structure within his area of activity, as well as to prepare specific dedicated budgets, informing the Board of Directors through ordinary human resources and finance management processes.

The current Financial Reporting Officer is **Mr. Nicola Massimo Clarelli**, appointed by the Board of Directors with effect as of 26 November 2016.

A brief Curriculum Vitae of Mr. Clarelli is provided below, which outlines his expertise and experience, graduating with honours from the University of Naples with a Business Administration Degree From 1998 to 2003, he was supervisor in the Auditing area of Arthur Andersen S.p.A. - Financial Services Industry, where he headed multi-disciplinary teams in the auditing of corporate and consolidated financial statements of major banking groups. From 2003 to 2011, he was senior manager at Deloitte Consulting - Strategy & Operations. He has been a chartered accountant and auditor since 2006. Mr. Clarelli joined BMPS in 2011

as Head of Budget & Accounting, responsible for the preparation of the Bank's standalone and consolidated financial statements. In 2015 he was appointed Head of the Administration and Accounts Area.

The Financial Reporting Officer has issued the confirmations and declarations required, while maintaining, as part of his own activity, all those contacts and relations with other external and internal control body, such as the Board of Statutory Auditors, the Independent Auditors, the Supervisory Authorities, the Risk Committee, the Committee for the Coordination of functions with Control tasks and the Chief Audit Executive Division.

12.13 METHODS OF COORDINATION AND COLLABORATION BETWEEN FUNCTIONS WITH CONTROL TASKS AND COMPANY BODIES

The Parent Company, within the context of the Group's management and coordination activities, equips the Group with a common system of internal controls which permits effective control of both the Group's strategic decisions as a whole and of the management balance of the individual components.

Within this context, the Parent Company carries out the following controls:

- strategic, on the evolution of the different areas of activity in which the Group operates and of the risks incumbent on the activities performed;
- management, targeted at ensuring that the conditions for economic, financial and capital balance are maintained by both the individual companies and the Group as a whole; to this end, the Parent Company oversees the preparation of plans, programmes and budgets (company and Group) and, through an analysis of the periodic situations, of interim accounts, of the separate financial statements of the individual companies and of the consolidated financial statements;
- technical-operational, aimed at assessing the various risk profiles contributed to the Group by the individual subsidiaries as well as the overall risks of the Group.

Within the common system of internal controls of the Group, the Parent Company oversees and defines:

- the formalised procedures for coordination and relationships between the companies in the Group and the Parent Company for all areas of activity;
- the mechanism for the integration of information systems and data management processes, also in order to ensure not only the reliability of the data collected on a consolidated basis, but also to reach the IT security and business continuity objectives defined for the entire Group and the individual components;
- the periodic information flows which allow the effective exercise of the various forms of control over all members of the Group;
- the procedures that guarantee, at centralised level, an effective common process of management of Group risks at consolidated level;
- systems for monitoring cash flows, credit relations (in particular the provision of guarantees) and the other relations between Group entities.

The Parent Company is also responsible for formalising and disclosing to all Group companies the criteria which safeguard the various phases that make up the risk management process in order to oversee the Group's achievement of common objectives.

In order to assess the effectiveness of the ICS, the Parent Company's Internal Audit function periodically conducts on-site checks on the components of the Group, taking account of the relevance of the different types of risk assumed by the different entities.

The company bodies and Functions with Control Tasks promote the most effective and efficient solutions targeted at developing potential synergies between themselves for the management of risks, and in order to foster dialogue between them, in observance of the respective competencies and the principles of independence and separation.

Within the Internal Control System of the Group, coordination of the various components is ensured:

- by the role of the Appointed Director, who is responsible for establishing and maintaining an effective internal control and risk management system;
- by the Committee for the Coordination of Functions with control tasks, which is responsible for coordination activities between these functions and implementing them a continuous basis;
- by the collaboration between the Functions with Control Tasks, and between the latter and the Control Functions, also through interaction and participation in Management Committees, for the integrated management of the risks to which the Group is exposed;
- by the coordinated management of the areas of improvement originating from the Company Control Functions, the Control Functions and the Supervisory Authorities, with the aim of assessing their relevance and, subsequently, defining the overall intervention strategies;
- by the coordination in reporting activities, interrelationships and communication with the Supervisory Authorities regarding the Internal Control System;
- by reporting tools able to ensure:
 - constant, extensive and homogeneous information regarding the risk profiles the Bank is exposed to and the methods used to monitor these;
 - that the anomalies identified are promptly brought to the knowledge of the appropriate levels (company bodies, if significant) so that they can take the necessary corrective actions in a timely fashion;
 - the complete mapping and unique taxonomy of the company processes and risks, adequately structured and meets the needs, qualitatively speaking, of effectiveness and efficiency required by the individual functions able to allow constant and updated alignment of the processes within the Group and the adoption of a common language;
 - valuation metrics, which though different between company functions with control tasks, nevertheless guarantee the dissemination of a common risk management language.

Furthermore, in order to ensure coordination between the Company Control Functions and the Parent Company Control Functions and the other companies belonging to the Group, the Parent Company established the “Committee for the coordination of functions with control tasks”.

The role of Committee Coordinator was assumed by the Chief Audit Executive, in line with the provisions of Regulation no. 1 - Organisation of Banca MPS.

The Director in charge of the internal control and risk management system is constantly kept informed also by receiving the minutes of the aforementioned Committee.

The Committee has been set up in order to act as a link and a comparison between the various Functions with Control Tasks in order to:

- share operating and methodological aspects to identify possible synergies and avoid potential overlapping and duplication of activities;
- define the necessary phases and timescales for governing overall planning and reporting activities in relation to company bodies;
- monitor the annual plans of the functions with control tasks;
- coordinate the different ICS project initiatives with the aim of optimising the actions by identifying possible synergies, overlapping and areas for rationalisation in terms of costs/benefits;
- share “areas of improvement” deriving from all functions with control tasks and the Supervisory Authorities, with the aim of assessing their relevance and subsequently defining the overall intervention strategies with a view to integrated gap management;
- periodically monitor the process for the resolution of the anomalies identified and formalised by said functions to the central functions.
- resolve any conflicts on the attribution of ownership for the removal of gaps.

In the course of 2018, participation in the Committee was also extended to the first-level Corporate Control Functions (located within the CCO and CLO Divisions, as well as the Integrated Security Area) in order to ensure overall coordination at the ICS level.

The circulation of information between the company bodies and the functions with control tasks represents an essential condition for the actual achievement of the objectives pertaining to the efficiency of the management and effectiveness of the ICS. In addition, the preparation of adequate information flows and in times which are consistent with the relevance and complexity of the information ensures that the different levels of responsibility within the company organisation are fully exploited. To this extent, the Group is equipped with a mapping of information flows targeted at ensuring “valuable interaction in exercising duties (guidance, implementation, verification and evaluation)” between the entities that comprise the Group’s ICS. Within said mapping, the following are identified:

- the vertical flows, or structured and formalised information, exchanged between the company bodies and the functions with control tasks;
- the horizontal flows, or structured and formalised information, exchanged between the Company Control Functions and the other Control Functions, both between functions with control tasks and the committees with management duties.

For each information flow identified, the frequency and expiry (if applicable) is also defined.

Relations with the Supervisory Authority are managed by the individual companies of the Group and by the Parent Company to the extent of their respective responsibilities; in particular, the *Regulatory Relationship Staff Unit* has managed relations with the Single Supervisory Mechanism, playing a role of interface and coordination between the Bank and the ECB's Joint Supervisory Team (JST). To this extent:

- the reports provided by laws or regulations are drawn up by the Company Function which is entrusted with the relevant responsibility/duty. Whenever these relations contain information of a capital, economic or financial nature, the owner function must verify its compliance with the data contained in the documents and communications of the company already circulated to the market and certified by the Disclosure Reliability Risk Control Function (Financial Reporting Officer);
- for matters that are significant in terms of the risk of non-compliance, the Compliance Function must be involved;
- for matters that are significant in terms of the quantification of risks, the involvement of the Risk Control Function (Risk Management) is required;
- all reports produced by functions other than the Internal Audit Function are made available to the latter;
- Internal Audit has full visibility over the Group's correspondence with the Supervisory Bodies (e.g. requests for information, supervisory meetings, further analyses, etc.) including any inspection visits by them. The Internal Audit functions of the Group companies must inform the Parent Company Internal Audit Function whenever the requests made by the Supervisory Authorities generate impacts including at the Group level or involve an issue of significant interest for said party.

In compliance with the obligations set out in the Supervisory Provisions regarding internal control systems, the Parent Company coordinates and sends the following reports annually to the Supervisory Authorities, for all the banks of the Group:

- on the activities performed by the Risk Control (Risk Management), Compliance and Internal Audit functions (the report by the latter includes their assessment of the Internal Control System);
- on the outsourced activities (drafted by the Internal Audit Function);
- on the assessments made on Group companies.

In 2018, the above reports, along with the Report on the activities conducted by the Anti-Money Laundering Function, were approved by the Board of Directors and submitted to the Bank of Italy by the General Secretariat and to the European Supervisor by the Staff Regulatory Relationship unit.

13. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

On 29 November 2018 the Board of Directors approved the "Group Directive governing regulatory requirements regarding related parties, connected persons and the obligations of banking officers" (hereinafter "*Directive*") which incorporates in a single document the provisions that apply to the Group regarding the regulation of conflicts of interest pursuant to:

- Consob's Related Parties Regulation, implementing the power attributed to Consob by article 2391-*bis* of the Civil Code in relation to the transparency and substantive and procedural correctness of transactions with related parties entered into by listed companies;
- to Bank of Italy's Supervisory Provisions on Connected Persons, implementing the power attributed to the Bank of Italy by article 53 of the TUB in relation to the conditions and limits for the banks' assumption of risks from the engaging into activities with those who can exercise, directly or indirectly, an influence over the management of the bank or the banking group as well as entities related to them;
- art. 136 of the TUB on the obligations of bank executives¹⁴.

The Directive was approved with the prior favourable opinion of the Related-Party Transactions Committee and the Board of Statutory Auditors.

The Directive sets out the principles and rules for the Montepaschi Group for the monitoring of risk deriving from situations involving a possible conflict of interest with certain persons close to the Bank's decision-making centres; in particular, it establishes, among the other provisions, the composition and operation of the aforementioned Committee, the perimeter of related parties and connected parties, the obligations connected with the authorisation process of transactions with the said parties, the decisions regarding the exceptions applicable to such transactions (exclusion of the prior opinion of the Committee).

With specific reference to the provisions governing the obligations of bank officers, in line with the resolution adopted by the Board of 4 June 2013, the Policy applies the procedure pursuant to article 136 of the TUB to the following obligations undertaken with the bank in which the officer performs his administration, management or control duties: (i) obligations undertaken directly or indirectly by the officer himself; (ii) by companies of which the officer has unlimited liability; (iii) by the joint stock companies of which the officer is the sole shareholder (with unlimited liability); (iv) by companies controlled by the officer; (v) by the spouse of the officer under community property rights; (vi) by the dependent children of the officer, without prejudice to the fact that the officer can indicate other companies or entities in which he has overriding interests, even if indirectly, and which he therefore considers should be prudentially subject to the law in question.

The Directive sets out the rules applicable to the Montepaschi Group, aimed at ensuring ongoing compliance with prudential limits and decision-making procedures as well as preventing and managing potential conflicts of interest within any relationship with a connected party.

In compliance with Consob's Related Parties Regulation and the Bank of Italy's Supervisory Provisions on Connected Persons, the Directive is published on the Bank's website and can be found at the following link <https://www.gruppomps.it/corporate-governance/operazioni-con-le-parti-correlate.html>.

The *Directive* has also been published on the company's website and sent to the subsidiaries for implementation.

The most significant cases of transactions with related parties carried out by the Bank in 2018 are described in detail in Part H of the Notes to the Financial Statements.

In 2018, pursuant to Article 5 of Consob's Related Parties Regulation and in compliance with Annex 4 of said Regulation, disclosure documents were prepared and published on four major transactions with related parties, concerning respectively: i) "Reduction of credit lines outstanding with Leonardo S.p.A. in order to fall back within the regulatory limits applicable to related persons" (published on 17 September 2018); ii)

⁽¹⁴⁾ Art. 136 of the TUB, as amended by Legislative Decree 179 of 18 October 2012, converted into Law no. 221 of 17 December 2012 and art. 1, par. 48, letter. a) of Legislative Decree no. 72 of 12 May 2015.

“Purchase of class A and class B asset-backed securities issued by Casaforte S.r.l. pursuant to and for the purposes of Article 5 of Law no. 130 of 30 April 1999, on 22 December 2010 and held by MPS Capital Services Banca per le Imprese S.p.A. (published on 28 September 2018); iii) “Approval of framework resolution relating to the operations of Banca Monte dei Paschi di Siena S.p.A. with Sace S.p.A.” (published on 6 December 2018); iv) “Approval of framework resolution relating to the operations of Banca Monte dei Paschi di Siena S.p.A. with Cassa Depositi e Prestiti S.p.A. as part of the agreements entered into between Cassa Depositi e Prestiti S.p.A. and the Italian Banking Association (published on 21 December 2018).

For the purposes of the above regulations, the Bank has put in place, with the cooperation of all the representatives and the other related parties, the necessary requirements for maintaining a complete and updated archive of significant parties pursuant to the law on transactions with related parties and associated parties and article 136 of the TUB.

As conflicts of interest could arise between customers and the Bank, other group companies, the Bank’s own managers or employees, other persons that have a relationship with the Bank, whenever any service and investment activity or ancillary service or combination thereof is provided, pursuant to the external regulations that are applicable, the Bank has adopted reasonable measures for the handling of such conflicts, in order to prevent abuse and protect its customers.

On the issue of personal transactions in the provision of investment services (article 19 of the Intermediaries’ Regulation, adopted by resolution no. 20307 of 15 February 2018), the Board of Directors has defined principles and rules in the specific “Policy on personal transactions in the provision of investment services”, which outlines the general rules of the Group to ensure compliance with the rules by the relevant parties, or those involved in activities that could give rise to conflicts of interest when investment services are carried out or that have access to privileged or confidential information. The personal transactions carried out by these persons, whether within the Group’s banks or through third party intermediaries, are filed in a specific electronic “Registry”.

Also significant in terms of this issue are certain provisions of the By-Laws which provide for particular information flows in cases of interests of the members of the internal administration, management and supervisory bodies or which could involve the independence of directors and statutory auditors.

In fact, Article 17 of the By-Laws establishes that the Board of Directors is to report promptly to the Board of Statutory Auditors on the business activities carried out and on the main economic and financial transactions carried out by the Company, also through its Delegated Corporate Bodies, and by its subsidiaries; in particular it must report on any transactions in which the Directors have an interest on their own account or on behalf of a third party. This report is made verbally, at least on a quarterly basis, when the Board of Directors meets or by written notice to the Board of Statutory Auditors. The obligation of each Director to inform the other directors and the Board of Statutory Auditors of any interest he/she may have in a specified transaction of the Company on his/her own account or on behalf of third parties and to refrain from any resolutions in which he or she has a conflict of interest, on their own behalf or on behalf of a third party, pursuant to the applicable legislation, remains unaffected.

Article 19 of the By-Laws also establishes that, in addition to complying with the provisions of Article 136 of the TUB, the members of the Board of Directors must inform the Board of Directors and the Board of Statutory Auditors of any business in which they are personally involved or which relates to entities or companies of which they are directors, auditors or employees, except for companies of the MPS group unless this is a Group company and must refrain from any resolutions in which they have a conflict of interest, on their own account or on behalf of any third party, pursuant to the applicable legislation.

14. APPOINTMENT OF STATUTORY AUDITORS

The Board of Statutory Auditors is composed of three Statutory Auditors and two Alternate Auditors.

The members of the Board of Statutory Auditors are appointed on the basis of lists submitted by the Shareholders, in compliance with the following paragraphs. The lists are divided into two sections: one for the appointment of the Statutory Auditors and one for the appointment of the Alternate Auditors. The candidates must be listed by progressive number and their number must not exceed the number of members to be elected. The lists with a number of candidates equal to or above three must include candidates of different gender in the first two places of the list under the section of the candidates for the

office of Statutory Auditors, as provided for in the notice of call of the Shareholders' Meeting, in compliance with current regulation on gender balance. If the section of the Alternate Auditors of the above lists has two candidates, they must be of different gender.

The lists submitted by the shareholders must be filed at the company's registered office at least twenty-five days prior to the date set for the Shareholders' Meeting and published in accordance with applicable regulations.

Only shareholders that, either individually or together with other shareholders, collectively hold shares representing at least 1% of the Company's share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage required by applicable regulations are entitled to submit lists.

Each list shall be filed at the Company's registered office, within the deadline for their filing, together with the documents specified in the notice calling the meeting, including: (i) information concerning the identity of the shareholders who submitted the lists, indicating the total shareholding percentage, in addition to the certificates proving ownership of the shareholding; this right shall be determined taking into account the shares registered to the shareholder on the date on which the lists are filed; (ii) declarations by the candidates in which they accept their candidacy and certify, under their own responsibility, that there are no reasons for ineligibility and incompatibility, including the limit on the number of offices they may hold (as per Article 24, paragraph 11 of the By-Laws) as well as the fact that they meet the requirements prescribed for the office which may be laid down by applicable law and regulations; and (iii) the curricula vitae showing the personal and professional characteristics of each candidate, indicating the management and control positions held in other companies. In addition, in the case of submission of a list by shareholders other than those holding, also jointly, a controlling interest or a relative majority share, the list must also be provided with a statement of the shareholders submitting it, proving that there are no connections, as defined by applicable laws and regulations, with the shareholders holding, also jointly, a controlling interest or relative majority share. Lists submitted that do not comply with the statutory provisions cannot be voted.

The documentation proving ownership of the minimum shareholding required to submit lists may be produced after the filing of the lists but within the term provided for the publication of the lists.

If, upon the deadline scheduled for the filing of the list, only one list, or only the lists submitted by shareholders who - according to applicable laws and regulations - are connected with one another, has/have been filed, other lists may be submitted until the subsequent deadline provided for by regulations in force. In this case, the aforesaid percentages for the submission of the lists are reduced by half.

Each shareholder entitled to vote may vote only one list.

The members of the Board of Statutory Auditors are appointed as follows:

a) the first two candidates of the list which has obtained the majority of votes and the first candidate of the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the parties who submitted or voted the list ranking first by number of votes shall be elected as Statutory Auditors;

b) the first candidate of the list which has obtained the majority of votes and the first candidate - or the second candidate if the first is of the same gender as the first candidate of the list which has obtained the highest number of votes - of the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the parties who submitted or voted the list ranking first by number of votes shall be elected as Alternate Auditors;

c) in the case of parity of votes between the first two or more lists, the Shareholders' Meeting shall hold a new voting, voting only the lists with equal votes. The same rule shall apply in the case of parity between the lists ranking second by number of votes which are not related, directly or indirectly, pursuant to applicable laws and regulations, to the parties who submitted or voted the list ranking first by number of votes;

d) if an elected candidate cannot accept the appointment, the first non-elected candidate in the list of the candidate who did not accept shall be appointed;

e) the Statutory Auditor taken from the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the shareholders who submitted or voted the list ranking first by number of votes shall be elected Chairperson.

In the event of death, resignation or termination of the Chairperson of the Board of Statutory Auditors, the Alternate Auditor taken from the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the parties who submitted or voted the list ranking first by number of votes shall hold the office of Chairperson, until the Board of Auditors is integrated in compliance with Article 2401 of the Italian Civil Code.

In the event of death, resignation or termination of a Statutory Auditor, he/she shall be replaced by an alternate belonging to the same list as the Auditor being replaced.

Based upon the above appointment criteria for the Alternate Auditors, in the event that gender balance is not complied with, the Alternate Auditor of the least represented gender shall take office regardless of whether he/she is included in the same list as the Auditor being replaced.

In order to appoint Auditors who have not been appointed for any reason whatsoever according to the above-mentioned process, the Shareholders' Meeting resolves by the majority provided for by law, without prejudice to the principle of necessary representation of minority shareholders and the principle of gender balance provided for by legislation in force.

The appointment of Statutory Auditors for the purpose of completing the Board pursuant to Article 2401 of the Italian Civil Code is resolved upon by the Shareholders' Meeting by relative majority. However, it is understood that the principle of necessary representation of minority shareholders shall be complied with and the principle of gender balance provided for by legislation in force.

Individuals who find themselves in situations of incompatibility and do not meet the requirements provided for by applicable regulations, cannot be appointed as Statutory Auditors or, if appointed, fall from office. Any limits to the plurality of offices held as stated by applicable regulations remain unaffected. Any limits to the plurality of offices held as stated by applicable regulations remain unaffected. Auditors are not allowed to hold office in banks other than those belonging to the Monte dei Paschi di Siena Banking Group and the banks jointly controlled.

Auditors are not allowed to hold office in corporate bodies other than the control corporate bodies in other companies of the group or of the financial conglomerate as well as in companies where the Bank also indirectly holds a strategic shareholding.

At least one Statutory Auditor and at least one Alternate Auditor, appointed according to the list voting procedure, shall be registered in the Register of Chartered Accountants and have carried out statutory auditing for at least three years.

A maximum number of two Statutory Auditors and one Alternate Auditor who do not meet the above-mentioned requirements, may be appointed if they have an overall experience of at least three years in:

- a) administration or control tasks or a managerial role in a joint stock company with a share capital of no less than EUR two million, or
- b) professional work or university teaching in law, economics, finance, credit, insurance or technical and scientific subjects strictly related to the Company's activities, or
- c) a managerial position in public entities or institutions working in the field of credit, finance and insurance or in fields strictly related to the Company's field of business. It is understood that the strictly related subjects and fields are those linked to the company purpose.

15. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-bis, Par. 2, Letter d) and d-bis of the TUF)

The Board of Statutory Auditors was appointed by the extraordinary and ordinary Shareholders' Meeting of 18 December 2018 and shall remain in office until the Shareholders' Meeting called to approve the 2019 financial statements. Two lists were presented for its appointment:

List no. 1 - submitted by the controlling shareholder, the Ministry of Economy and Finance, containing the candidates to the office of:

- Standing Auditor: Raffaella Fantini and Paolo Salvadori;

- Alternate Auditor: Carmela Regina Silvestri

List no.2 - submitted by Generali Investments Europe S.p.A. – Società di gestione del risparmio, on behalf of the shareholders Genertellife S.p.A., Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A., containing the candidates to the office of:

- Standing Auditor: Elena Cenderelli;
- Alternate Auditor: Daniele Federico Monarca.

On 23 November 2017, the Board of Directors, in compliance with Article 148, para. 2 of the TUF and Article 144-quinquies of the Consob Issuer Regulation and considering the recommendations contained in Consob's Notification DEM/9017893 of 26 February 2009, assessed and declared that, to the Bank's knowledge, there existed no material relationships of affiliation within the lists submitted.

Results of the shareholders' votes were as follows:

- **List no. 1:** total votes 781,299,793, accounting for 90.730718% of the shares entitled to vote;
- **List no. 2:** total votes 79,355,552, accounting for 9.215395% of the shares entitled to vote;

The following persons were elected to the office of Standing Auditor: Elena Cenderelli (Chairperson), from list no. 2, ranked second by number of votes; Raffaella Fantini and Paolo Salvadori, from list no. 1. The following persons were elected to the office of Alternate Auditor: Carmela Regina Silvestri (who resigned as of 9 May 2018), from list no. 1, who obtained the highest number of votes and Daniele Federico Monarca, from list no. 2.

* * *

For information regarding the *curriculum vitae* of the members of the Board of Statutory Auditors in office, please refer to the Bank's website at www.gruppompis.it – *Corporate Governance – Board of Statutory Auditors*.

None of the members of the Board of Statutory Auditors is related to other members of the Board of Statutory Auditors, members of the Board of Directors, the Financial Reporting Officer, the General Manager or the main executives of the company.

The number and the type of duties covered by the Statutory Auditors is in line with the regulations governing the limits on the maximum number of positions for members of Control Bodies, as set forth in Title V-*bis*, Section V, Item II of the Consob Issuer Regulation.

The Board of Statutory Auditors assessed its composition against the independence criteria laid down in the Corporate Governance Code for directors and pursuant to Article 148 of the TUF. The results of the assessment were communicated to the Board of Directors, as required by the Code itself.

For the structure of the Board of Statutory Auditors, *please* refer to Table no. 3.

* * *

In 2018, the Board of Statutory Auditors met 71 times and the average duration of the meetings was 3.5 hours.

For 2019, a schedule of the Statutory Auditors' activities has been compiled, as has a preliminary calendar of the Board meetings. As at the date of this Report, a total of 18 meetings of the Board of Statutory Auditors had been held.

Pursuant to the applicable Corporate Governance Code (application criterion 8.C.5), any BMPS auditor who, on his own behalf or that of third parties, has any interest in a specific transaction of the Issuer, shall immediately and exhaustively inform the other auditors and the Chairperson of the Board of Directors regarding the nature, terms and conditions, origin, and scope of this interest.

In 2018, in order to adequately perform its supervisory tasks pursuant to the principles of correct administration, the Board of Statutory Auditors participated in the only shareholders' meeting held as well as the 23 meetings of the Board of Directors which took place in the course of the year (with a 100% participation percentage), examining beforehand all the issues discussed at the aforementioned meetings and, when considered necessary, these issues were investigated further and clarifications were obtained also by requesting more information from the bodies of the Bank or the competent functions.

The Board of Statutory Auditors assessed the correct application of the criteria and procedures adopted by Board of Directors to assess the independence of its members in 2018, following the appointment of the new directors by resolution of the Shareholders' Meeting of 18 December 2017 and, in 2019, following the resolution adopted by the Board of Directors on 7 February.

The Board has constantly worked with the internal audit function, both to receive the necessary assistance for the execution of its own audits, and as the recipient of all the inspection reports received based on the agreed distribution criteria, containing the outcomes of the assessments that this function carried out during the year. The Statutory Auditors were thus able to assess the reliability and efficiency of the internal control system adopted by the Bank, not only based on its own corporate setup, but also as a structure overseeing a banking group.

Ongoing and timely information was also exchanged with the Risk Committee, also thanks to the fact that, as provided in the latter committee's Regulation, the Chairperson of the Board of Statutory Auditors or a Statutory Auditor appointed by the latter, among others, also participates in the work of this committee.

The Board frequently attended the meetings of the Risk Committee, the Committee for Transactions with Related Parties, the Appointments Committee, the Remuneration Committee with at least one of its representatives.

The Board paid also particular attention so that the transactions carried out with individuals with administration, management and control functions within the Bank and the Group companies were always carried out in compliance with article 136 of the TUB and the Supervisory Instructions and, in any case, were the object of a resolution made with the unanimous vote of the administrative body and all the Statutory Auditors, without prejudice to the obligations set forth under article 2391 of the Civil Code on Directors' interests.

The Statutory Auditors also verified that the transactions with related parties took place in compliance with the criteria of transparency and substantive and procedural correctness as indicated in the reference legislation, and that they were concluded as part of ordinary operations on an arm's length basis and resolved on the basis of assessments of mutual economic advantages and in the interests of the Bank.

The Board also supervised the Issuer's administrative and accounting system through assessments conducted either directly or through the periodic exchange of information with the independent auditors, Ernst & Young S.p.A.. As part of its own verification of the independence of the aforementioned independent auditors, and with regard to compliance with the applicable laws, the Board of Statutory Auditors did not find any critical aspects, nor did it receive any reports in this regard from Ernst & Young S.p.A..

The Board of Statutory Auditors also carried out the functions of the Committee for Internal Control and Audit required in public entities by the aforementioned Legislative Decree 39/2010, amended by Legislative Decree 135/2016, supervising the financial disclosures process and analysing the contents of the work plan provided by the aforementioned independent auditors, verifying its adequacy in terms of the size and organisational and business complexity of said Bank.

Finally, it is to be noted that amongst other things, the Statutory Auditors verified the Bank's organisational structure also in terms of the size and characteristic of its company purpose. To this end, they conducted special audits with Top Management, the domestic network and through meetings held with the Managers of the various company structures.

The Parent Company's Board of Statutory Auditors also exchanged information with the corresponding bodies of certain subsidiaries regarding their systems of administration and control and the general performance of company activities.

In compliance with the Supervisory Provision for Banks (Bank of Italy Circular no. 285) and with its own regulations, the Board of Statutory Auditors underwent the self-assessment process for 2018, using the support of an external advisor (the independent consulting firm Management Search S.r.l., an expert in corporate governance and board effectiveness) in carrying out the various activities.

The self-assessment was conducted by filling in specific questionnaires and through direct interview with the Statutory Auditors by the consultants.

At the end of its analysis, the advisor produced a document containing the results of the assessment, from which it emerged that no specific areas of improvement had been identified in relation to operations of the Board of Statutory Auditors.

16. RELATIONS WITH SHAREHOLDERS

Over time, the Bank has focused on establishing an active relationship with all shareholders, providing for specific corporate functions dedicated to overseeing these relationships and the Bank's correct positioning within the market. These functions include:

- the Investor Relations Service Unit – email: investor.relations@mps.it - tel. +39.0577.299350, which handles relations with the main investors and operators of the domestic and international financial community. Ms. Elisabetta Pozzi is responsible for the Service Unit;
- the Group General Counsel Division – email address: settore.societario@mps.it - tel. +39.0577.293135, fax +39.0577.294109. Mr. Riccardo Quagliana is the manager in charge of this Division.

For timely and easy access to information that is important for its shareholders, including information on corporate governance, financial statements and highlights, presentations, ratings, press releases, corporate events and presentations, the Bank uses its own website to provide on-line information in both Italian and English.

In particular, to promote relations with shareholders and the major investors, the website www.gruppomps.it – now includes the section *Corporate Governance – Shareholders' Meetings and Board of Directors*, which contains all the documentation that is required so that shareholders can exercise their rights in an informed manner.

Pursuant to article 135-*undecies* of the TUF, at each shareholders' meeting the Bank designates a representative to whom the shareholders can confer, at no expense, within the end of the second day on which the market is open prior to the date set for the shareholders meeting, a power of attorney with voting instructions for some or all of the proposals on the agenda. This power of attorney will be applicable only to the proposals in relation to which voting instructions have been given and shall be granted by signing a special form, the content of which is governed by the Issuer Regulation.

In this regard, it should be noted that as on 10 February 2014, a memorandum of understanding was signed by Banca Monte dei Paschi di Siena S.p.A. and the Small Shareholders Associations “Azione MPS” and “Associazione Buongoverno MPS” and the Coordinamento Nazionale delle Associazioni di Piccoli Azionisti the national coordination of small shareholders association, CONAPA. The memorandum provides a significant precedent in the relationship between listed companies and the shareholder base, in terms of a productive dialogue with small shareholders through the association they belong to. In compliance with the existing regulatory provisions and the respective institutional and functional autonomies, a joint analysis stage is being planned for the identification of the steps still to be taken, including amendments to the By-Laws aimed at facilitating voting by the employees who are shareholders, as provided by article 137 of the Consolidated law on finance (TUF).

To date, the Bank can provide its customers with participation certifications for its own shareholders' meetings as well as those of other listed companies, via internet banking.

17. SHAREHOLDERS' MEETINGS (per Article 123-*bis*, Par. 2, Letter c), of the TUF)

The Issuer's Shareholders' Meetings are regulated by the applicable laws and regulations as well as the By-Laws.

The current Shareholders' Meeting Regulation, approved by the Shareholders' Meeting of 29 April 2013, is published for each meeting at <https://www.gruppomps.it/corporate-governance/assemblea-azionisti/archivio-assemblee.html>, and filed at the company's registered office and with Borsa Italiana S.p.A..

The Shareholders' Meeting Regulation governs the conduct to be adopted to ensure the orderly and efficient running of the meeting and guarantee that shareholders can exercise their right to take the floor and make a

reply within the powers granted to the Chairperson of the Shareholders' Meeting for the smooth and effective running of the meeting itself.

Shareholders wishing to take the floor at the Shareholders' Meeting and make a statement on any of the items on the agenda are invited to fill out a "Shareholders' Request" form, providing their personal details. The Request is to be deposited in the "Shareholders' Requests" station using the voting device (or "radiovoter") given to each shareholder entitled to vote or their duly appointed representative, in which a voter identification code and the number of voting shares represented has been stored.

The Chairperson has plenary powers to lead and direct the discussion and exercises these prerogatives having regard to the interest to guarantee the swiftness of the Meeting's vote, ensuring - where necessary, - that the length of the Shareholders' Meeting's business does not prejudice the ability to participate and to express the vote, and that regular course of the Shareholders' Meeting is not disturbed. The Chairperson establishes the methods for formulating the request to participate, the maximum duration, and the order of participation. At the start of the meeting, the Chairperson gives notice of the publication of the notice of call and filing of all the documents required by applicable laws with the company's registered office and Borsa Italiana S.p.A, so they are available to the public.

The BMPS By-Laws establish that shareholders with voting right who provide proof of their entitlement may participate in the Shareholders' meeting.

Shareholders with voting right may be represented by a proxy-holder during Shareholders' Meetings in compliance with the provision of the law and are entitled to grant proxy also by electronic means in compliance with the procedures established by applicable law.

The proxy may be electronically notified also using the special section of the Company's website at www.gruppomps.it – *Corporate governance – Shareholders' Meetings and Board of Directors* or through the Internet Banking Customer Area or by certified electronic mail to bancamps.settoreaffarisocietari@postacert.gruppo.mps.it or by fax to +39/0577/296396.

Shareholders that represent, even jointly, at least one fortieth (1/40) of the share capital may request, within the time-limits laid down by law, that the items on the agenda be supplemented, indicating the additional items proposed by them in their request, or may submit resolution proposals on items already on the agenda. In this case, the requesting shareholders must submit a report, according to the terms and procedures provided for by law, indicating the reasons for their request and the documents concerning their entitlement to participate in the Shareholders' meeting.

Notice of any supplements to the list of items to be dealt with by the Shareholders' Meeting and of the submission of additional resolution proposals on issues already on the agenda following the request under this paragraph, is given in the same forms required for publishing the notice of call, within the terms laid down by law.

Any integration to the list of items to be dealt with is not allowed for items upon which the Shareholders' Meeting resolves by law upon the directors' proposal or on the basis of a plan or a report prepared by them other than those provided for by Article 125 ter, para. 1 of the TUF.

The Shareholders' Meeting is normally convened in Siena; it may also be convened in a location other than the registered office, as long as in Italy.

All key information for shareholders and stakeholders in general can be found on the company's website at www.gruppomps.it.

18. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (per Article 123-bis, Par. 2, Letter a) of the TUF
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For any further corporate governance practices adopted by the Bank, please refer to the previous sections of this Report.

As fully illustrated in the Report, in implementing the regulatory provisions pursuant to Legislative Decree 231/2001, the Bank adopted the Organisational Model referred to in Article 6 of the aforesaid Decree and continues to monitor all regulatory developments in this area so that the Model is kept updated.

For non-financial information regarding environmental and social issues or issues relating to personnel, the respect of human rights or the fight against corruption, please refer to the Consolidated Non-Financial Statements, prepared pursuant to Legislative Decree no. 254 of 30 December 2016 and published on the website www.gruppomps.it – *Group – Sustainability – Reports*.

19. CHANGES SINCE THE CLOSING DATE OF THE REFERENCE YEAR

The changes in the corporate governance structure as from the closing date of the Financial Year have been included in this Report.

TABLES

**Table no.1: STRUCTURE OF THE BOARD OF DIRECTORS
(1 January – 31 December 2018)**

Office	Members	Year of birth	Date of first appointment *	In office from	In office until shareholders' meeting called to approve the financial statements	List (M/m) **	Operations	Non-executive	Independence Code	Independence pursuant to TUF	Number of other offices ***	(*)
Chairperson	Stefania Bariatti	1956	16/04/2015	21/12/2017	2019	M		X		X	1	100
Deputy Chairperson	Antonino Turicchi	1965	16/04/2015	21/12/2017	2019	M		X			4	93
Chief Executive Officer (A) (●)	Marco Morelli	1961	20/09/2016	22/12/2017 (1)	2019	M	X				0	100
Director	Maria Elena Cappello	1968	16/04/2015	21/12/2017	2019	M		X	X	X	3	86
Director (2)	Roberta Casali	1966	12/07/2018	12/07/2018	Next shareholders' meeting	N		X	X	X	1	100
Director	Marco Giorgino	1969	21/12/2017	21/12/2017	2019	m		X	X	X	4	100
Director	Fiorella Kostoris	1945	16/04/2015	21/12/2017	2019	M		X	X	X	0	93
Director	Roberto Lancellotti	1964	21/12/2017	21/12/2017	2019	M		X	X	X	1	100
Director	Nicola Maione	1971	21/12/2017	21/12/2017	2019	M		X	X	X	1	100
Director	Stefania Petruccioli	1967	21/12/2017	21/12/2017	2019	m		X	X	X	5	93
Director	Salvatore Fernando Piazzolla	1953	21/12/2017	21/12/2017	2019	M		X		X	0	93
Director	Angelo Riccaboni	1959	21/12/2017	21/12/2017	2019	M		X	X	X	0	100
Director	Michele Santoro	1955	21/12/2017	21/12/2017	2019	M		X	X	X	0	100
Director	Giorgio Valerio	1966	21/12/2017	21/12/2017	2019	m		X	X	X	2	100
Directors who resigned during the period under review												
Director	Giuseppina Capaldo	1969	21/12/2017	21/12/2017	04/05/2018 (resignations)	M		X	X	X	2	86
Minimum participation in the capital required for submission of lists for the final appointment:: 1%												

NOTES

- (A) The symbol indicates the main Bank manager (Chief Executive Officer - CEO).
- (●) The symbol indicates the Director in charge of the internal control and risk management system.
- (1) In office as Director as of 21 December 2017 and appointed to office of Chief Executive Officer by the Board of Directors of 22 December 2017.
- (2) Appointed by co-optation of the Board of Directors of 12 July 2018, in office until the next shareholders' meeting.
- * Date on which the director was first appointed to the Issuer's Board of Directors. The Shareholders' Meeting of 18 December 2017 renewed the Board. The resolution became effective as of 21 December 2017, date on which the amendments to the By-Laws approved by the same Shareholders' Meeting were entered in the Companies Register.
- ** This column indicates M/m depending on whether the member was elected from a list voted by the majority (M) or the minority (m). N/a means that the appointment was made without list vote.
- *** This column shows the number of offices that a director or statutory auditor holds in other listed companies, in regulated markets, including abroad, in financial, banking, insurance companies or companies of a significant size. A list of these companies, with reference to each director, is attached to this Report, with a specification as to whether the company in which the office is held is part of the group which the Issuer is part of, or not.
- (*) This column shows the percentage of attendance at meetings of the Board and the committees (no. of presences/no. of meetings held during the period that the individual was in office, expressed as a percentage).

Table no. 2: OFFICES HELD BY BANCA MONTE DEI PASCHI DI SIENA DIRECTORS IN LISTED COMPANIES IN REGULATED MARKETS, INCLUDING FOREIGN, IN BANKING, INSURANCE OR FINANCIAL COMPANIES OR COMPANIES OF A SIGNIFICANT SIZE

(directors in office from 1 January 2018 – 31 December 2018)

DIRECTOR	LIST OF OFFICES	COMPANIES BELONGING TO THE MPS GROUP	
		YES	NO
Stefania Bariatti – Chairperson	Deputy Chairperson of the Board of Directors of SIAS S.p.A.		X
Antonino Turicchi - Deputy Chairperson	Board Member of Autostrade per l'Italia S.p.A.		X
	Board Member of Leonardo S.p.A.		X
	Director of the VII Division - Finance and privatisations, within the Treasury Department of the Ministry of Economy and Finance		X
	Chairperson of the Board of Directors of STMicroelectronics Holding N.V.		X
Marco Morelli – Chief Executive Officer (as of 22 December 2017)	-		
Giuseppina Capaldo (who resigned as of 4 May 2018)	Board Member of Ferrari N.V.		X
	Board Member and member of the control, risk and related-parties committee of Salini-Impregilo S.p.A.		X
Maria Elena Cappello	Board Member of Prysmian S.p.A.		X
	Board Member and member of the Sustainability Committee of Saipem S.p.A.		X
	Board Member and member of the Related Parties Committee of TIM S.p.A.		X
Roberta Casali (in office as of 12 July 2018)	Board Member and member of the Independent Directors Committee and referent of the Audit, Compliance and Risk Management Board of Antirion SGR S.p.A.		X
Marco Giorgino	Chairperson of the Board of Directors of Vedogreen S.r.l.		X
	Board Member of Real Step Sicaf S.p.A.		X
	Board Member of Luxottica S.p.A.		X
	Standing Auditor of RGI S.p.A.		X
Fiorella Kostoris	-		
Roberto Lancellotti	Board Member of Datalogic S.p.A.		X
Nicola Maione	Chairperson of the Board of Directors of ENAV S.p.A.		X
Stefania Petruccioli	Board Member of Dé Longhi S.p.A.		X
	Board Member of Interpump Group S.p.A.		X
	Board Member of RCSMediaGroup S.p.A.		X
	Board Member of F2A S.p.A.		X
	Board Member of Comecer S.p.A.		X
Salvatore Fernando Piazzolla	-		
Angelo Riccaboni	-		
Michele Santoro	-		
Giorgio Valerio	Board Member and member of the controls and risk committee, the appointments and remuneration committee and the related-parties committee of Massimo Zanetti Beverage Group S.p.A.		X
	Board Member of ALP.I. S.p.A.		X

**Table no.3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS
(1 January 2018 – 31 December 2018)**

Board of Statutory Auditors									
Office	Members	Year of birth	Date of first appointment *	In office from:	In office until shareholders' meeting called to approve the financial statements	List **	Independence as per Code	***	Number of other offices held ****
Chairperson	Elena Cenderelli	1947	16/04/2015	21/12/2017	2019	m	YES	100%	//
Standing Auditor	Raffaella Fantini	1969	21/12/2017	21/12/2017	2019	M	YES	99%	//
Standing Auditor	Paolo Salvadori	1947	27/04/2012 (1)	21/12/2017	2019	M	YES	89%	//
Alternate Auditor	Daniele Federico Monarca	1959	21/12/2017	21/12/2017	2019	m	YES	n.a.	//
Directors who resigned during the period under review									
Alternate Auditor	Carmela Regina Silvestri	1967	16/04/2015	21/12/2017	resignations at 09/05/2018	M	YES	n.a.	//
Minimum participation in the capital required for submission of lists for the final appointment:: 1%									

NOTES

* Date of first appointment means the date on which the statutory auditor was appointed for the first time ever to the Board of Statutory Auditors of the Issuer.

** This column indicates M/m depending on whether the member was elected from a list voted by the majority (M) or the minority (m).

*** This column shows the percentage of attendance of statutory auditors in the meetings of the Board of Statutory Auditors (no. of attendances/no. of meetings held during the period that the individual was in office).

**** This column indicates the number of offices held, as a director or statutory auditor, by the individual that are significant pursuant to art. 148-*bis* of the TUF. The full list of offices is published by Consob on its website pursuant to art. 144-quinquiesdecies of Consob Issuer Regulation.

(1) Chairperson of the Board of Statutory Auditors from 28 April 2012 to 16 April 2015.