English translation for courtesy purposes only. In case of discrepancies between the Italian version and the English version, the Italian version shall prevail.

BANCA MONTE DEI PASCHI DI SIENA S.P.A.

ORDINARY SHAREHOLDERS' MEETING

12 April 2017 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON ITEM 3) OF THE AGENDA

prepared pursuant to article 125-ter of Italian Legislative Decree no. 58 of 24 February 1998,

as subsequently amended.

PROPOSAL, IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED LAW ON FINANCE), FOR APPROVAL OF THE "PERFORMANCE SHARE" PLAN FOR PERSONNEL OF THE MONTEPASCHI GROUP; INHERENT AND CONSEQUENT RESOLUTIONS.

POINT 3) ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING

REPORT BY THE BOARD OF DIRECTORS IN ACCORDANCE WITH ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

Dear Shareholders,

You have been called to the Shareholders' Meeting to decide on the following topic put on the agenda as an ordinary item:

3) PROPOSAL, IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED LAW ON FINANCE), FOR APPROVAL OF THE "PERFORMANCE SHARE" PLAN FOR PERSONNEL OF THE MONTEPASCHI GROUP; INHERENT AND CONSEQUENT RESOLUTIONS.

Whereas

The Group Remuneration Policies - as appeared in the 2017 Remuneration Report which was submitted to the necessary prior approval of the Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. ("**Bank**" or "**BMPS**") - provide, in accordance with specific provisions issued by the Bank of Italy, that a portion of the variable remuneration of "Identified Staff" (i.e. those whose activities have an impact on the risk profile of the Group) shall be paid in financial instruments, and more specifically, shares or related instruments. As per the prior year, we therefore submit for approval by the Shareholders' Meeting, **an annual performance share plan** to use for the above-mentioned purpose, for a total value of **Euro 2.0 million** ("**2017 Performance Share Plan**" or the "**Plan**").

The characteristics of the Plan are in line with those provided for by applicable remuneration laws, more specifically the Supervisory Provisions of the Bank of Italy of 18 November 2014 regarding remuneration and bonus policies and practices (see Bank of Italy Circular, no. 285 of 17 December 2013 - Supervisory Provisions for banks - Title IV, Chapter 2, *Remuneration and bonus policies and practices*). It has the characteristics described below and which will be described in further detail in the disclosure that will be made available to the public, along with this report in accordance with article 84-bis of the Consob regulation adopted with its resolution no. 11971 of 14 May 1999, as subsequently amended (the "**Issuers' Regulations**").

In the first place, as of the date of this report, the Bank does not own any treasury share and the legal requirements needed to decide on the acquisition of treasury shares do not apply. Therefore this Plan is based on the allocation of financial instruments on an artificial basis (i.e. amounts of money provided as variable remuneration, intended as amounts paid as incentive for early termination of the employment relationship, only for the component that exceeds the cost of the notice period, or for the early termination of office, the so-called Severance, the fluctuation of which will depend on the market value of the ordinary shares of the Bank).

It is also noted that, since Severance amounts are considered to be variable components of remuneration, the recognition and disbursement of any such amounts shall take place only in the presence of the relative prerequisites in accordance with the regulations, even regulatory, applicable at the time in question and in accordance with any guidelines by the relative authorities.

In accordance with prevailing laws and regulations, the Plan described in this report requires, as described in more detail below, the approval of the Bank's Remuneration Committee, the approval of the Board of Statutory Auditors in accordance with article 2389 of the Civil Code, and subsequent approval by the shareholders' meeting of this report prepared for the benefit of the shareholders to support the necessary resolutions.

1. Beneficiaries

The beneficiaries of the Plan are the Directors of the Montepaschi Group and the employees included within the scope of "Identified Staff" of the Group, identified by the delegated bodies based on the criteria established by the regulations in force at the time, which, based on the Circular and on the Group's Remuneration Policies, are the recipients of amounts determined upon mutual agreement for early termination of the employment relationship or early termination of the office subject to a component in financial instruments.

Specifically, to date (subject to changes to the current Plan), these include the following Directors:

- the Chief Executive Officer of the Bank (Marco Morelli)
- the Chief Executive Officer of MPS Capital Services S.p.A. (Giampiero Bergami)
- the Chief Executive Officer of Widiba S.p.A. (Andrea Cardamone).

Among the employees, to date (subject to changes in the current Plan), the Potential Beneficiaries of the Plan include individuals with Senior Management responsibilities, who have regular access to inside information and can make management decisions that may impact the Bank's evolution and future prospects as set out in article 152-sexies, paragraph 1 c)-c.2 of the Issuers' Regulations (namely, in addition to the Bank's CEO, the "Key Executives" identified, in accordance with the regulations in force, as the Division managers).

2. Reasons behind adoption of the Plan

The Plan aims to enable the Bank and its subsidiaries to comply with the provisions of the Circular where they dictate that Severance should be paid out in part through financial instruments (in this case, through the payment of sums of money linked to the performance of shares of Banca Monte dei Paschi di Siena). Specifically, therefore, the Plan permits alignment with the provisions of the regulations on the disbursement of amounts determined upon mutual agreement for early termination of the employment relationship (only for the component that exceeds the cost of the notice period) or early termination of office.

At the same time, it aligns the interests of management with the interests of the shareholders to create medium-term value.

3. Governance of the Plan

Under the Plan, the Board of Directors is granted all the powers necessary to implement it, including but not limited to approving the proposals of the competent bodies with regard to:

- allocation of performance shares to managerial members of the Board of Directors;
- the Plan Regulations and any updates.

To the extent permitted by the regulations, even regulatory, in force at the time, the Board of Directors may delegate its powers to the CEO or other Director(s), with the support of the Chief Human Capital Officer Division, and/or confer specific powers to perform any activity related to administration of the Plan.

4. Allocation procedures

The Plan provides for allocation of a specific monetary amount linked to the performance of the Shares, to give to the Beneficiary as mutually agreed for early termination of the employment relationship (for the portion exceeding the cost of the notice period) or upon early termination of office.

In addition, in line with the 2017 Remuneration Policies, subject to prior approval of the Shareholders' Meeting, verification of the so-called ***malus*** conditions is envisaged for each allocation, as identified by the Remuneration Policies in effect at that time.

As set forth in the Circular and the Remuneration Policies, the Bank and its subsidiaries reserve the right to apply ex post correction mechanisms intended, among other things, to reflect corporate performance levels once the risks actually taken have been accounted for, and to take into consideration individual behaviours.

Moreover, a clawback provision applies to incentives granted and/or paid to individuals who have conspired to cause damage to the integrity of the Bank's and Group's assets, income, finances or reputation, or have committed fraudulent conduct or gross negligence. These measures shall also apply in the event of a breach of the obligations referred to in article 26 of Legislative Decree No. 385 of 1 September 1993 (the "**TUB**") (*Corporate Officers*) or when the individual is a concerned party within the meaning of the provisions in article 53, paragraphs 4 et seq. of the TUB, or of remuneration and incentive obligations.

With reference to the criteria and restrictions regarding use of the performance shares when the severance package applies, the Plan provides that the remuneration given must be agreed in accordance with the criteria established by the Shareholders' Meeting, taking account, inter alia, of the duration of the work relationship.

The management of any exceptions to the above lies with the corporate bodies, according to the powers of the Board of Directors, the Remuneration Committee and the CEO, in accordance with the provisions set out in the Remuneration Policies. They are subject to any decisions made by a competent third party (such as a legal authority and/or arbitration board and/or reconciliation board).

5. Characteristics of the instruments provided

As noted, the Plan only provides for allocation of performance shares, i.e. the provision of a sum of money related to the performance of the BMPS shares. No credit instruments will therefore be given.

Please note that the reference date to calculate the number of synthetic shares provided to each beneficiary - determined based on the arithmetic mean of prices recorded over the last months pursuant to the TUIR - will be that of subscription (the so-called “protected date”) of the Severance agreements or the date specified in the Individual Communications.

6. Funding

The maximum value of the variable performance shares remuneration provided for under the Plan amounts to **Euro 2.0 million**. This funding was put into the financial plans approved by the Bank and communicated to the market.

7. Changes and amendments to the Plan

There are no specific procedures provided for any changes that may be made to the Performance Share Plan apart from those related to the functions exercised by the corporate bodies.

If there are extraordinary events with a significant impact on the economic/equity performance of the Group, or changes to the law, the Board of Directors shall make, independently and without further approval from the Bank’s Shareholders’ Meeting, any changes and additions to the Plan as it deems necessary or appropriate to maintain the substantial and financial contents of the Plan unchanged to the extent permitted by the legislation and provisions applicable at the time.

8. Accounting and tax aspects

The accounting standards provide that allocation of performance shares related to the variable remuneration of the personnel will be accounted for on the income statement as a cost in function of the services provided in the reference period (service condition). The cost is equal to the value of the payment at the time of allocation, adjusted for the probabilistic elements related to the Plan (actuarial parameters, etc.). In the event of complete implementation of the Plan, the cost of the variable remuneration in shares, as noted above, is estimated at about **Euro 2 million**. This cost does not take account of the share volatility during the holding period, and must be allocated over the entire vesting period that is expected to close upon activation of the Plan, once the necessary conditions have been met (it being understood that payment of the deferred amounts will be subject to the conditions provided for, inter alia, under point 4) above. The performance shares will be subject to taxation and social security contributions in accordance with prevailing law in the country of tax residence of each Beneficiary. For better Plan structuring, it is also envisaged that the CEO be specifically vested with the authority to devise an appropriate “hedging” strategy to protect the Group against the risk of volatility of the shares used as fundamental parameter for payment of the sums in the cases provided for by the Plan. The estimated annual cost of such hedging strategy will be approximately 2% per year of the value of the shares.

9. Other information

The Plan does not receive any support from the Special Fund for the promotion of employees’ profit sharing, referred to in article 4, paragraph 112 of Law no. 350 of 24 December 2003.

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Dear Shareholders,

Please approve the proposal on the agenda, and therefore make the following resolution:

"The Ordinary Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A., having heard the motion by the Board of Directors,

APPROVES

(i) the adoption of a plan that, in line with current legislation, shall provide for the granting of performance shares to selected members of the Group's employees, under the terms and in the manner described above and in the information document provided in accordance with the applicable regulations in view of today's General Meeting;

(ii) vesting of the Board of Directors, Chairman and CEO, separately from each other, with express authority to sub-delegate, the broadest powers required or useful to:

a) implement this resolution and provide information to the market, prepare and/or finalise any document necessary or useful to implement the Performance Share Plan, and adopt any further measure that is necessary, or simply useful, for the implementation of the resolution;

b) make any change and/or addition to this resolution and to the documents that constitute an integral part hereof (without altering their substance), as necessary to adjust them to any new intervening legal provisions, regulations, corporate governance codes or guidelines of regulatory agencies and/or supervisory authorities."

Siena, 10 March 2017

On behalf of the Board of Directors

Mr Alessandro Falciai

Chairman of the Board of Directors