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

SHAREHOLDERS' MEETING

24 November 2016 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 3. ON THE AGENDA - Extraordinary session

drawn up pursuant to article 125-ter of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented, and pursuant to article 72 of the Regulation adopted by Consob by resolution no. 11971 of 14 May 1999, as subsequently amended.

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ITEM 3. ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 125-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND PURSUANT TO ARTICLE 72 OF THE REGULATION ADOPTED BY CONSOB BY RESOLUTION NO. 11971 OF 14 MAY 1999

Dear Shareholders,

The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (the “**Bank**” or the “**Company**” or “**BMPS**”) have called you to, among other things, take part in an Extraordinary Meeting in Siena, Viale Mazzini 23, on 24 November 2016 at 9.30 a.m., on a single call, to discuss and resolve upon the following agenda of the extraordinary meeting:

3) Proposal to grant to the Board of Directors the power, pursuant to Article 2443 of the Italian Civil Code - to be exercised not later than on 30 June 2017 - to increase the share capital for consideration, even in a divisible form, in one or more issues and in one or more tranches, with the exclusion or limitation of the pre-emptive right pursuant to Article 2441, paragraph 5, of the Italian civil code, for an overall amount up to EUR 5,000,000,000 (5 billion), including any premium. Consequent amendments to the Articles of Association. Connected and consequent resolutions. Grant of powers.

This Explanatory Report of the Board of Directors (the “**Report**”), drawn up pursuant to article 125-*ter* of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented (the “**Unified Financial Act**” or “**UFA**”), and pursuant to article 72 of the Regulation adopted by Consob resolution no. 11971 of 14 May 1999, as subsequently amended (the “**Issuers’ Regulation**”) and as provided for by Annex 3A of the Issuers’ Regulation, aims to explain the proposal to attribute to the Board of Directors the power to increase the share capital (the “**Delegation**”) for consideration, also in a divisible form, in one or more issues and in one or more tranches, with the exclusion or limitation of the pre-emptive right (*diritto di opzione*), pursuant to article 2441, paragraph 5, of the Italian

civil code, by an overall amount of up to EUR 5,000,000,000 (5 billion), including the premium, if any, through the issue of no-par value ordinary shares up to the maximum number to be determined by the Board of Directors according to their issue price (the “**Capital Increase**”).

The Capital Increase aims to enhance the Bank’s capital in the framework of the broader transaction - recently announced to the market on 24 October 2016 - including, among other things, the de-recognition of the non-performing loan portfolio of the BMPS group. Furthermore, in line with the information preliminarily served to the ECB, the Bank has considered within the framework of the transaction the increase up to 40% of the average coverage level of the unlikely to pay and past due exposures. For these purposes, as well as evaluating the new information objectively available, the Bank will consider possible updates of the management process of the exposures classified under the abovementioned categories in light of the Business Plan 2017-2019 approved on 24 October 2016 (the “**Plan**”).

1. Rationale for the Capital Increase

As mentioned above, in light of the structure currently envisaged, the proposed Capital Increase is an essential and necessary part of the abovementioned transaction.

The Capital Increase is deemed necessary in order to meet the envisaged capital requirements of the Bank resulting from the implementation of the measures, also adopted within the context of the said transaction, in order to solve the problem of the BMPS group non-performing exposures, granting the Bank with a sound financial structure, and namely:

- the transfer and the derecognition of the non-performing exposures portfolio of the BMPS group - excluding the non-performing exposures leasing portfolio (which will be transferred as part of another transaction) and the non-transferable non-performing exposures as well as those arising after 30 June 2016 - through a securitisation transaction pursuant to Law no. 130/1999;
- the assignment of the securities representing the junior notes resulting from the above-mentioned securitisation (for more information on this matter, please see the Directors’ explanatory report on item 1 of the ordinary part of today’s

Meeting), to those who will be shareholders of the Bank as at the coupon-detachment date (*data di stacco del relativo diritto*). In accordance with the plan pursued by the Board of Directors, this assignment is addressed to those who will be shareholders immediately prior to the execution of the Capital Increase (therefore, according to such plan, the shares subscribed in the context of the Capital Increase shall not benefit from it).

Furthermore, as specified above, within the framework of the transaction the Bank has considered also the increase up to 40% of the average coverage level of the unlikely to pay and past due exposures.

As already announced to the market, the implementation of the abovementioned measures would lead to an estimated capital requirements of EUR 5 billion, to be met through the Capital Increase, so as to preserve the Bank's capital adequacy upon completion of the transaction.

Please note that the beginning and the implementation of the transaction - and, therefore, of each envisaged measure, including the Capital Increase - satisfies the requirements and the recommendation of the ECB which pointed out the strict necessity for the Bank's future to implement and announce a reliable and structural solution to the problem of the non-performing exposures of the BMPS group.

Bearing this in mind, please also note that, should the transaction be implemented in all respects (including the derecognition of the non-performing exposures and the Capital Increase), this will allow the Bank, among other things, to achieve the targets specified by the ECB in the draft decision sent to the Bank on 23 June 2016 concerning compliance with certain requirements relating to, in particular, non-performing exposures and liquidity. The contents of the draft decision were announced to the market by a press release dated 4 July 2016.

2. Terms and conditions of the Capital Increase and of the Delegation. More specifically: the exclusion or limitation of the pre-emptive right (*diritto di opzione*)

As specified above, the Capital Increase aims at enhancing the capital of the Bank in the context of the broader transaction.

In relation to the preliminary resolution adopted by the Board of Directors and announced to the market on 29 July 2016, in light of the circumstances occurred thereafter (and of the related analysis), the Board of Directors decided to propose to the Bank's shareholders a Capital Increase structure deemed more suitable in terms of feasibility to foster as much as possible the successful completion of the recapitalisation and, therefore, of the overall transaction.

More specifically, the Board of Directors deemed that the grant of pre-emptive rights (*diritto di opzione*) to the Bank's current shareholders was not feasible considering the current conditions in which the launch of the Capital Increase is expected to be executed. Indeed:

- a) the analysis carried out with the relevant Authorities outlined that, in the event of capital increases with pre-emptive rights (*diritto di opzione*) whose completion (as in this case) is subject to and connected with the successful execution of other transactions (and similar to what happens in the event of an indivisible capital increase), the beginning of a rights offering is technically feasible only if all the uncertainties concerning the execution of the capital increase are removed prior to the beginning of rights trading. Indeed, should the conditions for the execution of the capital increase not occur by the expiry of the offering period, then the option rights exchanged on the market would have been without any value and it would be necessary to restore *ex tunc* all the positions in financial instruments which were modified as a result of the detachment of the right (*stacco del diritto*): such activity would be substantially impossible. In order to prevent these circumstances, it was considered whether the bank syndicate underwriting the Capital Increase could subscribe any unsubscribed shares on a firm commitment basis (*sottoscrivesse a fermo*), assuming an unconditional undertaking to subscribe prior to the beginning of rights trading;
- b) however, such an undertaking was considered, including in light of the reasons explained below, as unsuitable for the bank syndicate which executed with BMPS the pre-underwriting agreement, as announced on 29 July 2016;
- c) the continued uncertainty and volatility of the market does not allow the Bank to

carry out a capital increase of the size currently envisaged without an underwriting agreement. Consequently, in light of the need to implement the transaction, after careful consideration a decision was taken, together with the underwriting banks, to carry out a capital increase with the exclusion of the pre-emptive rights (*diritto di opzione*) (a scenario which was achieved by executing a new pre-underwriting agreement that replaced the previous agreement, as explained below in Paragraph 7);

d) the preliminary feedback of institutional investors, received from the banking syndicate, pointed out two main issues:

(i) the first one concerns the size of the Capital Increase: it was pointed out that the market situation might make it difficult to raise the envisaged amount through mere subscription offers (whether to institutional or retail investors). Also in light of the above, the Board of Directors, given the current market conditions and in order to improve the chances of a successful execution of the Capital Increase and, therefore, of the broader transaction, has considered the option to combine a subscription offer as mentioned above with other transactions, and namely:

(1) a potential liability management transaction - subject to, among other things, the obtainment of the required regulatory clearances - aimed at:

(x) the potential purchase by the Bank of financial instruments (subordinated Tier 1/Tier 2 and senior) issued or guaranteed (whether directly or indirectly) by the Bank with an obligation for those who accept this offer to apply the amount so received to subscribe the Bank's new shares issued in the Capital Increase, and (y) potentially granting the holders of certain financial instruments issued by third parties - but convertible into the Bank's shares - with an incentive for the conversion, which must be applied to the subscription of the Bank's new shares issued in the Capital Increase, which would be assigned to the holders of said financial instruments as a result of their conversion into equity and in addition to the shares the holders would be entitled to receive,

on the basis of the securities regulations.

The above-mentioned transactions would allow the purchase, or conversion into the Bank's ordinary shares, of financial instruments that are burdensome for the Bank, resulting in a positive economic and/or capital effect and in a reduction of the amount of the Capital Increase to be carried out by means of the subscription offer;

- (2) a private placement to be reserved to qualified and/or institutional investors willing to subscribe for the shares of the Capital Increase, including for a substantial amount, so that they may contribute to the successful execution of the Capital Increase.

The transactions mentioned under paragraphs (1) and (2) above, which are material for the success of the Capital Increase, are incompatible with a capital increase that would have included the granting of pre-emptive rights (*i.e.* a rights issue);

- (ii) the second issue refers to the unwillingness expressed by institutional investors to make important investment decisions relating to Italian companies prior to the outcome of the constitutional referendum, which has been scheduled to take place on 4 December 2016. Considering these circumstances, the Board of Directors verified the possibility to launch the Capital Increase immediately after such date, maintaining the Company's target for the transaction completion as within the end of this year or the shortest timeframe technically feasible. However, the analysis carried out with the relevant advisors, the competent Authorities and the banks of the syndicate made clear that it would not be possible to complete a capital increase granting pre-emptive rights (*diritto di opzione*) within that time frame. This is particularly true considering that during the week 27 - 30 December 2016 the transactions carried out in the financial markets are normally limited.

In the context mentioned above, the limitations (including with respect to timing) associated with a capital increase with a grant of pre-emptive rights (*diritto di opzione*)

were considered by the Board of Directors as not compatible with the current market conditions and political environment, both of which are affected by uncertainty and volatility. Rather, current conditions necessitate the fastest and most flexible tools in order to meet the investors' demand, raise further capital and thus achieve the essential targets, connected to the corporate interest, that the overall transaction - and the Capital Increase which is an essential part thereof - aims to pursue.

In light of the above, the Board of Directors deemed in the corporate interest and appropriate - in order to foster the successful implementation of the Capital Increase and, therefore, of the overall transaction - to propose to the shareholders to grant a delegation for the Capital Increase entailing (as first option) the exclusion of the pre-emptive right (*diritto di opzione*).

In any case, considering the particular complexity, structure and importance of the transaction and its various parts, the Board of Directors deemed to request to the shareholders to grant a flexible delegation, which would allow to pursue as primary option the exclusion or limitation of the pre-emptive right (*diritto di opzione*), but also different solutions should the necessity arise. Such solutions might be determined and evaluated in light of the market conditions in which the Capital Increase will actually be executed and upon possible modifications to the context assumed as reference in the Board of Directors' current assessments, also with the purpose to pursue alternatives which may arise *medio tempore* always in the Bank's exclusive interest. In this perspective the Capital Increase might be carried out, in whole or in part, also in a divisible form.

More specifically, the Board of Directors deemed it expedient to propose to the shareholders to grant a delegation whereby the Capital Increase may be carried out, in accordance with the provisions of Article 2441 paragraph 5 of the Italian civil code, and of Article 2443 paragraph 1 of the Italian civil code:

- (a) in the context of a subscription offer to the general public (with potential preferential allocation to current shareholders up to a specified amount) and to other potential investors, among which - in particular - institutional investors (such as investment funds and pension funds) usually operating on the market; and/or
- (b) by placing the newly-issued shares with one or more qualified and/or institutional

investors (so-called private placement) such as, without limitation, banks, institutions, financial companies, investment funds and pension funds, in connection (or not) with the subscription offer, always for the purposes of the Bank's capital enhancement according to the assessments and resolutions to be adopted by the Board of Directors; and/or

(c) by reserving part of the to be issued shares for the execution of potential liability management exercises (as described above).

Furthermore, considering the need for flexibility mentioned above and in order to maximise, as far as possible, the subscription of the Capital Increase by the current shareholders, the Board of Directors decided to include in the delegation proposal the power to adopt functional measures for achieving this target. These measures may include granting pre-emption right (*diritti di prelazione*) to the current shareholders (including by reserving a tranche with possible guaranteed allocation up to a certain amount).

To the extent that the actual conditions (including market conditions) change significantly, the option to offer to the shareholders pre-emptive rights (*diritto di opzione*) over a tranche of the Capital Increase may be considered, in any case at terms and conditions appropriate for achieving the enhancement of the Bank's capital to which the capital increase is aimed.

The Board of Directors shall resolve upon the ways by which the Capital Increase shall be executed, its structure and the allocation among the various tranches. It is understood that if (and to the extent) the Capital Increase is executed by means of an offer addressed to the public and/or to institutional investors, or divided in one or more tranches, in the event of excess of demand for one or more tranches, it will be possible to re-allocate to such tranche/s any unsubscribed shares of the other tranches (the so called claw-back mechanism).

3. Issue price of the new shares

The Board of Directors analysed with its financial advisor, and in accordance with the recommendation expressed by the syndicate banks that executed the pre-underwriting agreement on 24 October 2016 (which replaced the agreement previously executed), the

criteria for determination of the issue price of the new shares most appropriate for the successful outcome of the Capital Increase, given its envisaged structure and significant size and the need to raise the entire amount within the context of the transaction mentioned under paragraph 1 above.

Considering the above, the Board of Directors deems it appropriate to propose to the Shareholders' Meeting to grant a delegation including the power to determine the price of the new shares that may be issued in the context of, or in connection with, a subscription offer (including placements with institutional and/or qualified investors and/or cornerstone investors and/or anchor investor) on the basis of a flexible method such as the bookbuilding, and applying the open price mechanism, as per market practice adopted in recent transactions with similar features. More specifically, according to the bookbuilding method:

- a) the Bank may determine, in agreement with the Global Coordinators, the maximum price as well as an indicative price range determined by considering, among other things, market conditions, the prospects of the Bank and its Group, and the outcomes of the pre-marketing activities which shall involve domestic and international institutional investors of primary standing. Should such price range be determined, it shall be binding, as per market practice, only for its maximum value but not for the minimum (*i.e.* the offer price may not exceed the maximum value);
- b) the exact subscription price shall be identified and announced to the public upon conclusion of the offer period, taking into account the following: (i) the quantity and quality of the demand received from institutional and/or qualified investors and from anchor and/or cornerstone investors, if any; and/or (ii) the quantity of the demand received from retail investors, if a tranche is reserved to them. It is understood that, should the price range be determined providing for a binding maximum price, the subscription price may not exceed the maximum value of the above referred price range.

The bookbuilding indicates the value resulting from the match between demand (solicited on a wide scale and at competitive conditions) and offer of shares.

It is therefore a method for the issue price determination based on the actual assessment of the market and grounded on a complex process which is carried out according to best practice. Considering the Bank's primary and undelayable interests in a capital enhancement and the features of a transaction that, due to its size and purposes, must necessarily be addressed to the market, the bookbuilding method is compliant with the provisions of Article 2441, paragraph 6, of the Italian civil code, since it allows to identify a subscription price that reflects the appropriate value that the market is prepared to pay for the new shares in the specific context of the transaction. Should the Board of Directors deemed it appropriate in the Bank's interest for the successful completion of the Capital Increase, it may also take into account: (1) the conditions of the domestic and international securities market; and/or (2) the economic and financial situation of the Bank and its group and/or the income trend of the Bank and/or the group. In such context, the Board of Directors may avail itself of the support of its financial advisor and of the financial advisor appointed by the Independent Directors.

Furthermore, in line with the above mentioned flexibility and in order to foster as far as possible the successful outcome of the Capital Increase even by means of transactions different from the one described above, the Board of Directors proposes that the issue price for the new shares placed by means different from those described above may be determined by the Board itself by means other than bookbuilding, and taking into account, if deemed appropriate and among other things, the financial and economic situation of the Bank and the BMPS Group, the income trend perspectives as well as of the prevailing market conditions upon the price determination date.

Furthermore, the Board of Directors shall set forth any other terms and conditions, to the extent specified in this shareholders' resolution, including, without limitation, the number of shares to be issued from time to time and/or in the context of each tranche.

The auditing firm will issue its opinion on the adequacy of the criteria for the determination of the issue price in accordance with the provision of Article 2441 paragraph 6 of the Italian civil code, and Article 158 UFA.

4. Term for the exercise of the Delegation

The Board of Directors proposes that the Delegation shall be exercised on or before 30

June 2017 and in one or more issues. Upon the expiry of said term the Delegation will be automatically ineffective.

Without prejudice to the above, the timeframe for the exercise of the Delegation shall be determined by the Board of Directors.

5. Amendment to article 6 of the Articles of Association

Below is a proposed amendment to the wording of article 6 of the Articles of Association. The wording specified below assumes the approval of the resolutions referred to in items 1 and 2 on the agenda of the extraordinary meeting (concerning the proposals on the share capital reduction and share grouping).

| WORDING IN FORCE INCLUDING THE PROPOSALS REFERRED TO IN ITEM 1 AND IN ITEM 2 ON THE AGENDA OF THE EXTRAORDINARY SESSION OF THE MEETING | PROPOSED WORDING |
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| Article 6 | Article 6 |
| 1. The Company's capital is equal to EUR [●][●] and is fully paid up. | <i>(unchanged in respect to the wording proposed under item 1 on the agenda of the extraordinary session, assuming the approval of the relevant resolution)</i> |
| 2. The Company's share capital is represented by no. [●] ([●]) ordinary shares with no par value. All shares are issued in dematerialised form. Procedures for the circulation and legitimation of shares are governed by law. Shareholders who did not participate in the approval of resolutions regarding the introduction or removal of constraints on the circulation of shares shall have no right of withdrawal. | <i>(unchanged in respect to the wording proposed under item 2 on the agenda of the extraordinary session, assuming the approval of the relevant resolution and its execution)</i> |
| 3. Ordinary and preference shares are registered in the name of their holders and are indivisible. Each share entitles to one vote. Preference shares do not entitle to vote in the ordinary shareholders' meetings. | <i>(unchanged)</i> |

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| <p>4. Preference shares are held in one or more deposit accounts managed with the Company and the Company shall be the sole authorised depository. The transfer of preference shares are promptly notified to the Company by the transferring shareholder and determine the automatic at par conversion of preference shares into ordinary shares.</p> | <p><i>(unchanged)</i></p> |
| <p>5. Under no circumstances shall the shareholder that qualifies as a Bank Foundation ("Bank Foundation") under Law no. 461 of 23 December 1998 and Legislative Decree no. 153 of 17 May 1999, as subsequently amended and supplemented, or that is directly or indirectly controlled by a foundation, obtain conversion under its name of the preference shares it holds into ordinary shares.</p> | <p><i>(unchanged)</i></p> |
| <p>6. In the event of a capital increase with consideration not excluding or limiting the pre-emptive rights of existing shareholders, holders of preference shares shall have a right of pre-emption on preference shares having the same characteristics.</p> | <p><i>(unchanged)</i></p> |
| <p>7. The Shareholders' Meeting of 15 January 2004 resolved to increase the share capital of Banca Monte dei Paschi di Siena S.p.A. in support of the issuance of Convertible Preferred Securities by up to 406.846 ordinary shares, as later adjusted by the Shareholders' Meeting of 3 December 2010, and further to the implementation of the reverse stock split of ordinary shares, with effect from 5 May 2014, in compliance with the resolution of the Shareholders' Meeting held on 28 December 2013, and further to the implementation of the reverse stock split of ordinary shares, with effect from 18 May 2015, in compliance with the resolution of the Shareholders' Meeting held on 16 April 2015, with dividend payable as of date of conversion, with no par value, for an amount of up to EUR 176,874,323.76, as adjusted by the Shareholders' Meetings of 15 December 2005 and 3 December 2010. It is understood that (i) the capital increase in support of the issuance will expire on 30 September 2099, (ii) directors will procure</p> | <p><i>(unchanged)</i></p> |

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| <p>that shares are issued to holders of Convertible Preferred Securities by the end of the calendar month following the date of request for conversion, which may be submitted each year in September from 2004 to 2010 and subsequently at any time, no later than the end of the month following automatic conversion (or conversion upon redemption of the Convertible Preferred Securities), so that shares are eligible for dividend payment as of the date of conversion and (iii) directors will file the notarial deed attesting to the increase in share capital with the Register of Companies, within one month from the date of conversion. In response to the requests for conversion of Preferred Securities received as at 30 December 2011, a total of 221,755,923 ordinary shares (before the implementation of the reverse stock split of ordinary shares, with effect from 5 May 2014, in compliance with the resolution of the Shareholders' Meeting held on 28 December 2013), were issued, for an amount of EUR 134,952,651.33.</p> | |
| <p>8. On [●] the Extraordinary Meeting resolved as follows:</p> <ul style="list-style-type: none"> - to approve the grouping of the outstanding ordinary shares of Banca Monte dei Paschi di Siena according to the ratio of no. 1 new ordinary share with regular entitlement per no. 100 existing ordinary shares; - to optimise the numerical ratios of the above-mentioned grouping transaction, to grant the Board of Directors the power to cancel up to no. 64 ordinary shares of Banca Monte dei Paschi di Siena based on the waiver of the shares to be expressed by an intermediary prepared to purchase them if necessary and carry out a reconciliation service before the execution of the transaction, all of which without modifying the amount of the share capital, and consequently amending the number of shares specified under Article 6, paragraph 2, of the Articles of Association accordingly. All of the above is without prejudice to the fact that, in any case, for the management of any outstanding amounts (resti) arising from the grouping, a service shall be made available to the shareholders for the processing of any non-groupable fractions of shares, based on the official market price and without the | <p><i>(unchanged in respect to the wording proposed under item 2 on the agenda of the extraordinary session, assuming the approval of the relevant resolution)</i></p> |

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| <p>charging of fees or expenses;</p> <p>- to grant the Chairman of the Board of Directors pro tempore and the Managing Director pro tempore, whether jointly or severally, to the extent permitted by the law, the following:</p> <p>(i) the power to determine, in line with the technical times required and specified by the competent persons and in any case not later than on 30 June 2017, the time when the grouping shall be carried out;</p> <p>(ii) the power to make the subsequent amendments and/or supplements to the Articles of Association after the execution of the grouping, adjusting the numerical values provided for therein, with the explicit prior declaration of approval and ratification, and to file the wording of the updated Articles of Association with the Companies' Register..</p> | |
| <p>(absent)</p> | <p>9. By a resolution of the extraordinary shareholders' meeting dated 24 November 2016 the Board of Directors, pursuant to Article 2443 of the Italian civil code, was granted a delegation to increase the share capital for consideration, even in a divisible form, in one or more issues, with the exclusion or limitation of the pre-emptive right (<i>diritto di opzione</i>) pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for an overall amount up to EUR 5,000,000,000 (five billion) (including any premium), through the issue of no-par value ordinary shares up to the maximum number determined by the Board of Directors according to their issue price, that may be reserved, also by means of specific tranches as determined by the Board of Directors, to retail investors and/or the current shareholders (even by granting the latter with the pre-emptive right (<i>diritto di opzione</i>) or pre-emption right (<i>diritto di prelazione</i>) over one or more tranches of the capital increase) and/or institutional and/or qualified investors (including, among others, funds, foundations etc.) and/or to the holders of financial instruments issued or guaranteed (directly or indirectly) by the Bank, or issued by third parties but convertible into Bank's shares.</p> <p>This delegation may be exercised on or before 30 June 2017, and the Board of Directors shall have the broadest powers to determine from time to time, in compliance within the limits specified above and with the criteria set forth in the shareholders' resolution, terms and conditions of the</p> |

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| | <p>capital increase, including the entitlement (<i>godimento</i>), the issue price of the shares and the portion of the issue price to be attributed to share capital and share premium; it being understood that the Board of Directors shall determine, in accordance with the terms indicated in the shareholders' resolution, the issue price, including any premium for the new shares to be issued in the context of subscription offers - which may include placements with institutional investors and/or qualified investors and/or cornerstone investors and/or anchor investors - as well as for the shares to be issued in the context of liability management transactions, on the basis of the following criteria: (i) the quantity and quality of the demand received from institutional investors and/or qualified investors and, if any, from cornerstone investors and/or anchor investors, and/or (ii) the quantity of the demand received from retail investors, if a tranche is specifically reserved to them, all of the above applying the bookbuilding method and the open price criterion, in accordance with the terms described in the shareholders' resolution. Should it be deemed appropriate in the Bank's interest for the successful outcome of the Capital Increase, the Board of Directors may also take into account: (1) the conditions of the domestic and international securities market; and/or (2) the economic and financial situation of the Bank's and its group and/or the income trend of the Bank and/or the group.</p> <p>For the shares placed by means different from those mentioned above or should the bookbuilding method not determine a price, the issue price may be determined by the Board of Directors with methods other than the bookbuilding, taking into account, if deemed appropriate and among other things, the financial and economic situation of the Bank and its group, the relevant income trend and the prevailing market conditions upon the price determination date.</p> |
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6. Clearances of the Authorities

The proposed transaction is subject to the clearances of the relevant Authorities. More

specifically, the Bank of Italy shall be required to issue its clearance in relation to the amendments to the Company's Articles of Association as referred to in the preceding paragraph 5, pursuant to Article 56 of the Legislative Decree no. 385 of 1 September 1993 (Italian Banking Act).

The ECB shall be required to issue its clearance in relation to inclusion of the shares resulting from the Capital Increase, pursuant to Article 26 of the EU Regulation no. 2013/575 (CRR).

7. Guarantee syndicates and/or placement syndicates, relevant compositions, and terms and conditions of their undertakings

On 24 October 2016, the Bank executed with: (i) J.P. Morgan Securities plc and Mediobanca – Banca di Credito Finanziario S.p.A., acting as Joint Global Coordinators and Joint Bookrunners, (ii) Banco Santander, S.A., Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG - London Branch, Goldman Sachs International and Merrill Lynch International, acting as Co-Global Coordinators, and (iii) Banco Bilbao Vizcaya Argentaria S.A, Commerzbank Aktiengesellschaft, ING Bank N.V., Jefferies International Limited and Société Générale, acting as Joint Bookrunners (jointly, all of them, the “**Syndicate**”), a pre-underwriting agreement whereby the Syndicate agreed to execute, by the starting date of the offer of the newly issued ordinary shares, an agreement to underwrite the shares unsubscribed (if any) upon completion of the Capital Increase for a maximum amount of EUR 5 billion. This maximum amount shall be reduced to the extent of: (a) the value of the shares (if any) subject to an irrevocable subscription undertaking of the qualified investors and/or institutional investors before the execution date of the underwriting agreement, (b) the value of the shares (if any) subject to an irrevocable subscription undertaking of other financial institutions which may become part of the Syndicate, and (c) the value of the shares to be reserved to the investors who adhered to the liability management exercise without being subject to the withdrawal right pursuant to Article 95-bis paragraph 2 of UFA.

The terms and conditions of the undertaking to subscribe are in line with the best market practice for similar transactions and to other conditions more related to the Italian banking industry and to the financial situation of the Company and its Group, including,

among others: (a) the progress of the de-recognition of the Company's bad loans (please refer to paragraph 1 above) to such a point that is considered satisfactory to each of the Global Coordinator members of the Syndicate, (b) the feedback received from investors in the context of the marketing activities is considered satisfactory to each of the Global Coordinator members of the Syndicate, and (c) the outcome of the liability management exercise is considered satisfactory to each of the Global Coordinator members of the Syndicate, acting in good faith.

The pre-underwriting undertaking, which replaces the agreement previously executed, shall terminate if the underwriting agreement is not executed by 31 December 2016, it being understood that should the offer start in the immediately subsequent period the members of the Syndicate shall negotiate with the Company in good faith an extension of the cited expiry date.

8. Shareholders who have expressed their willingness to subscribe the new shares as well as any pre-emptive rights not exercised

No shareholders have expressed to BMPS, as at the date of this Report a willingness to subscribe to the new shares resulting from the Capital Increase.

9. Economic and financial effects of the transaction, effects on the shares value and dilution

Upon execution of the Delegation, the Board of Directors shall provide the market with appropriate information concerning the economic and financial effects of the relevant transaction pursued as well as, as far as possible, the effects on the share value and on the dilution resulting from the transaction.

10. Assessment regarding the withdrawal right

The resolution hereby proposed shall not trigger the withdrawal right by the Shareholders' pursuant to Article 2347 of the Italian Civil Code.

11. Proposed resolution

In light of the above, the Board of Directors proposes the adoption of the following resolution:

"The Extraordinary Shareholders' Meeting of Banca Monte dei Paschi di Siena

S.p.A., held on 24 November on a single call, considering:

- the explanatory report of the Board of Directors (the “**Explanatory Report**”) and deeming that, in light of the elements and reasons described therein, the corporate interest requires the granting to the Board of Directors of the faculty to exclude or limit the pre-emptive right (*diritto di opzione*);
- that (i) the share capital is equal to EUR 7.365.674.050,07 following the resolution referred to at item 1) of the extraordinary session, (ii) the Company’s does not fall within any of the situation ruled by Article 2446 and Article 2447 of the Italian civil code, as shown by the assets and liabilities position as of 30 September 2016, approved by the Board of Directors on 24 October 2016, (iii) on the basis of the analysis carried out by the Board of Directors and by the Board of Statutory Auditors, no shares have been issued or repaid, and (iv) therefore the share capital of the company, determined in EUR 7.365.674.050,07, is fully subscribed, paid up and existing;

RESOLVED

- 1) to grant the Board of Directors, pursuant to Article 2443 of the Italian civil code the power to increase the share capital, for consideration, in one or more issues and in one or more tranches, on or before 30 June 2017, in accordance with the terms and conditions referred to in the Explanatory Report, in this resolution and amendment to the Articles of Association referred to at point 3) below - and more specifically the power to increase the share capital for consideration, even in a divisible form, in one or more issues, with the exclusion or limitation of the pre-emptive right (*diritto di opzione*) pursuant to Article 2441, paragraph 5, of the Italian civil code (and without prejudice to point 2(e) below), by an overall amount of up to EUR 5,000,000,000 (5 billion), including any premium, for the purpose of the Bank’s capital enhancement which may be also carried out through the purchase by the Bank of financial instruments issued or guaranteed (directly or indirectly) by the Bank, and/or through conversion of convertible financial instruments into Bank’s shares, subject to the obligation for the holders of abovementioned financial

instruments - which will execute the above mentioned transactions - to allocate the amounts so received to the subscription or purchase of Bank's shares.

The increase is to be subscribed in cash through the issue of no-par value ordinary shares up to the maximum number determined by the Board of Directors according to their issue price, to be determined in compliance with the criteria referred to below;

- 2) to grant the Board of Directors, for the purpose of the exercise of the delegation referred to at the above point 1), all powers **(a)** to determine, for each tranche, the overall amount of such tranche and the number, the issue price (including any premium) and the entitlement to the ordinary shares to be issued from time to time, all of the above in compliance with the provisions of law applicable from time to time; **(b)** to determine, if the capital increase is carried out in the context of a subscription offer, the proportion of the offer reserved to institutional investors and, if any, to retail investors and/or for the current shareholders, as well as - if needed, considering the actual structure of the transaction - to the holders of the financial instruments referred to at the above point 1), **(c)** to determine, in the event of excess of demand for one or more tranches, to re-allocate to such tranche/s any unsubscribed shares of the other tranches (the so called claw-back mechanism); **(d)** to determine whether each tranche shall be divisible or indivisible and/or, if any, an indivisibility threshold (*soglia di inscindibilità*) of each tranche which may be lower than the maximum amount of the capital increase; **(e)** to adopt, if market conditions so allow, with terms and conditions compatible with the capital enhancement to which the capital increase is aimed, any measures considered appropriate in order to foster the subscription of the capital increase by the current shareholders, including by way of example (i) the granting of pre-emption rights (*diritto di prelazione*) over one or more tranches of the capital increase for an amount determined by the Board of Directors or - as far as feasible under the circumstances - (ii) the granting of, pre-emptive right (*diritto di opzione*), in relation to said tranche or tranches to

the current shareholders; **(f)** to determine the term for the shares subscription; **(g)** to determine terms, conditions and procedures of the transaction, including the determination of the portion of the issue price to be attributed to the share capital and the one to be attributed to the share premium, and execute the delegation and the resolutions referred to above, including, without limitation, the powers required to make the consequent and necessary amendments to the Articles of Association required from time to time pursuant to the resolutions adopted by virtue of this delegation and to the completion of the subscription of the delegated capital increase. It is understood that the Board of Directors shall comply with the following criteria in the exercise of the granted power:

(A) as for the price determination of the new shares:

- (i) the issue price, including any premium, for the new shares to be issued in the context of the subscription offer - also including placements with institutional and/or qualified investors and/or cornerstone investors and/or anchor investors - as well as for the shares to be issued in the context of liability management transactions, shall be determined by the Board of Directors on the basis of the following criteria: (a) the quantity and quality of the demand received from institutional and/or qualified investors and, if any, from cornerstone investors and/or anchor investor, and/or (b) the quantity of the demand received from general public retail investors, if a tranche is specifically reserved to them, all of the above by means of applying the bookbuilding method and applying the open price criterion. Should it be deemed appropriate in the Bank's interest for the successful outcome of the capital increase, the Board of Directors may also take into account: (1) the conditions of the domestic and international securities market; and/or (2) the economic and financial situation of the Bank's and its group and/or the income trend of the Bank and/or the group;

- (ii) for the shares placed by means different from those referred to at the preceding point (i) or should the bookbuilding method not determine a price, the issue price may be determined by the Board of Directors with other methods from the book building, taking into account, if deemed appropriate and among other things, the financial and economic situation of the Bank and its group, the relevant income trend the prevailing market conditions upon the price determination date.
- (B) concerning the persons or categories of persons to whom the offering shall be addressed, the new shares may be offered:
 - (i) in the context of one or more offerings, to the general retail public and/or to the shareholders and/or to institutional and/or qualified investors and/or to cornerstone and/or anchor investor as well as to the holders of the financial instruments referred to at point 1) above, all of the above as the Board of Directors may deem to be appropriate, also in order to ensure the successful completion of the share issue and/or to optimise the price conditions according to the offer outcome and to the corporate interest for the Bank's capital enhancement; or
 - (ii) to the holders of the financial instruments referred to at point 1) or to one or more institutional and/or qualified investors, such as, among others, banks, institutions, financial institutions, investment funds, collective investment undertakings, asset management companies etc., and in light of the Bank's capital enhancement needs according to the assessments and determinations to be carried out by the Board of Directors;
- 3) to approve the consequent amendments to article 6 of the company's Articles of Association in the wording quoted below:

"1. Unchanged in respect to the wording proposed under item 1 on the agenda of the extraordinary session, assuming the approval of the relevant resolution.

2. *Unchanged in respect to the wording proposed under item 2 on the agenda of the extraordinary session, assuming the approval of the relevant resolution and its execution.*

3. *Unchanged.*

4. *Unchanged.*

5. *Unchanged.*

6. *Unchanged.*

7. *Unchanged.*

8. *Unchanged in respect to the wording proposed under item 2 on the agenda of the extraordinary session, assuming the approval of the relevant resolution.*

9. *By a resolution of the extraordinary shareholders' meeting dated 24 November 2016 the Board of Directors, pursuant to Article 2443 of the Italian civil code, was granted a delegation to increase the share capital for consideration, even in a divisible form, in one or more issues, with the exclusion or limitation of the pre-emptive right (diritto di opzione) pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for an overall amount up to EUR 5,000,000,000 (five billion) (including any premium), through the issue of no-par value ordinary shares up to the maximum number determined by the Board of Directors according to their issue price, that may be reserved, also by means of specific tranches as determined by the Board of Directors, to retail investors and/or the current shareholders (even by granting the latter with the pre-emptive right (diritto di opzione) or pre-emption right (diritto di prelazione) over one or more tranches of the capital increase) and/or institutional and/or qualified investors (including, among others, funds, foundations etc.) and/or to the holders of financial instruments issued or guaranteed (directly or indirectly) by the Bank, or issued by third parties but convertible into Bank's shares.*

This delegation may be exercised on or before 30 June 2017, and the Board of Directors shall have the broadest powers to determine from time to time, in

compliance within the limits specified above and with the criteria set forth in the shareholders' resolution, terms and conditions of the capital increase, including the entitlement (godimento), the issue price of the shares and the portion of the issue price to be attributed to share capital and share premium; it being understood that the Board of Directors shall determine, in accordance with the terms indicated in the shareholders' resolution, the issue price, including any premium for the new shares to be issued in the context of subscription offers - which may include placements with institutional investors and/or qualified investors and/or cornerstone investors and/or anchor investors - as well as for the shares to be issued in the context of liability management transactions, on the basis of the following criteria: (i) the quantity and quality of the demand received from institutional investors and/or qualified investors and, if any, from cornerstone investors and/or anchor investors, and/or (ii) the quantity of the demand received from retail investors, if a tranche is specifically reserved to them, all of the above applying the bookbuilding method and the open price criterion, in accordance with the terms described in the shareholders' resolution. Should it be deemed appropriate in the Bank's interest for the successful outcome of the Capital Increase, the Board of Directors may also take into account: (1) the conditions of the domestic and international securities market; and/or (2) the economic and financial situation of the Bank's and its group and/or the income trend of the Bank and/or the group.

For the shares placed by means different from those mentioned above or should the bookbuilding method not determine a price, the issue price may be determined by the Board of Directors with methods other than the bookbuilding, taking into account, if deemed appropriate and among other things, the financial and economic situation of the Bank and its group, the relevant income trend and the prevailing market conditions upon the price determination date.”;

- 4) to grant the Board of Directors, and on its behalf, the Chairman in office *pro tempore* and the Managing Director in office *pro tempore*, severally and also

through special representatives appointed for such purpose, the broadest powers, with no exception, that may be necessary or appropriate to execute the above resolutions and to exercise the relevant powers, and to make any non-material amendments to, supplements to or deletions to the shareholders' resolutions as may be deemed to be necessary or appropriate, at the request of any competent authority or upon registration with the Companies' Register, as a representative of the Bank, all of which with each and any power required and expedient for such purpose, and hereby with promise to hold valid and ratify.”.

Milan, 2 November 2016

For the Board of Directors
Mr Massimo Tononi
Chairman of the Board of Directors