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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 1. ON THE AGENDA - Ordinary session

drawn up pursuant to Article 125-*ter* of Legislative Decree no. 58 of 24 February 1998,

as subsequently amended and supplemented.

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ITEM 1. ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING

REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 125-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

Dear Shareholders

The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (the "**Bank**" or "**BMPS**") has called you, among other things, to take part in an Ordinary Meeting in Siena, Viale Mazzini 23, on 24 November 2016 at 9:30 a.m., on single call, to discuss and resolve upon the following item on the agenda of the ordinary meeting:

1) Adoption of the measures relating to: (a) the allocation of the share premium that will arise following the exercise of the delegation and the subsequent execution of the share capital increase referred to at item 3 of the extraordinary part; (b) the distribution in kind of the share premium reserve, once it is constituted as a result of the execution of what is resolved at point (a) above of the ordinary part, through the allocation to BMPS's shareholders of securities representing junior notes, arising out of the securitisation of non-performing exposures. Connected and subsequent resolutions.

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**"), aims to provide the necessary information on the above-mentioned items on the Agenda.

The proposals contained in this Report are set in the context of a the broader transaction (the "**Transaction**") announced to the market, which entails, among other things, (i) the deconsolidation of the non-performing exposures portfolio of the BMPS group - excluding certain categories of non-performing exposures among which those arising from collateralized finance lease agreements (whose collateral consists in real estate and/or unsold ancillary goods) for which a different dismissal transaction is envisaged - (the "**NPLs Portfolio**") to be enacted through a securitisation transaction pursuant to Law no. 130/1999 (the "**Securitization**") and, simultaneously, (ii) the coverage of the capital needs that will arise as a result of the deconsolidation, to be achieved through a share capital increase of the Bank for an overall amount (including share premium) of EUR 5 billion (the "**Capital Increase**"), for which a delegation shall be granted to the Board of Directors, subject to the approval of the extraordinary shareholders' meeting.

In the context of the Transaction, which the Board of Directors proposes, this Report explains the proposals concerning the allocation of the share premium that will arise as a result of the Capital Increase: (i) to replenish the legal reserve, and, for the residual part, (ii) to constitute the share premium reserve. The latter reserve is currently envisaged to be distributed in kind to the Bank's shareholders through the allocation of the notes issued by a special purpose vehicle (the SPV3, as defined below) that will also be the holder of the junior notes to be issued in the context of the Securitisation.

In light of the above, the proposals contained in this Report are inseparably linked to the structure of the Securitization (as described below) and to the terms and conditions currently envisaged for the exercise of the delegation granted to the Board of Directors for the execution of the Capital Increase. Therefore, any amendment to the above mentioned elements may prevent the fulfilment of the requirements needed in order to constitute the share premium reserve and allocate the above mentioned notes to shareholders.

1. The proposal to distribute in kind part of the share premium reserve, which is to arise as a result of the Capital Increase

The Transaction approved by the Board of Directors of the Bank on 29 July 2016 and announced to the market on the same date, as specified on 26 September 2016 and finally announced on 24 October 2016, entails, among other things:

- the deconsolidation of the NPLs Portfolio through the Securitisation;
- the coverage of the capital needs that are to arise as a result of the deconsolidation, which is to be achieved through the Capital Increase.

With reference to the Securitisation, it is currently envisaged that, to the extent relevant for this Report, the transaction shall be composed of two main stages:

(i) an interim stage (the "**Bridge Stage**"), to be completed by the end of 2016; and

(ii) a final stage (the "**Take-Out Stage**"), to be completed approximately by the end of the first semester of 2017.

The Bridge Stage

The Bridge Stage should be implemented through the incorporation of three special purpose vehicles (SPVs), namely:

(i) a securitisation special purpose vehicle incorporated pursuant to Law no. 130/1999 ("**SPV1**"), which shall purchase the NPLs Portfolio and issue a number of tranches of notes in the overall amount - as currently assessable - of approximately EUR 9.1 billion (*i.e.* 33% of the gross value of the NPLs Portfolio), approximately EUR 1.6 billion of which in the form of junior notes (together, the "**SPV1 Notes**");

(ii) a special purpose vehicle incorporated under Irish law ("**SPV2**"), which shall subscribe all the SPV1 Notes by using the proceeds arising from a bridge loan, from the issue of a number of tranches of notes reflecting the corresponding mezzanine and junior notes issued by SPV1 (the "**SPV2 Notes**") and, specifically, junior notes in the amount of approximately EUR 1.6 billion (the "**SPV2 Junior Notes**"), to be subscribed proportionately by BMPS and by two other originators, namely MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A., and subsequently transferred by these subsidiaries to BMPS;

(iii) a special purpose vehicle incorporated under Law no. 130/1999 ("**SPV3**"), which shall purchase the SPV2 Junior Notes from BMPS and pay the relevant transfer price through the issue of a single class of notes, whose underlying security is represented by the SPV2 Junior Notes (the "**SPV3 Notes**"), and the allocation of such notes to BMPS (that will subscribe them for the timeframe necessary to perform the subsequent transfer of the notes and, therefore, the relevant deconsolidation).

Upon the completion of the Bridge Stage, the SPV3 Notes shall be assigned by BMPS to the Beneficiaries (as defined below) permanently.

The Take-Out Stage

The Take-Out Stage is aimed at the obtainment of the rating and of the benefit of the state guarantee GaCS (*garanzia cartolarizzazione sofferenze* - guarantee for the securitisation of non-performing loans) for the senior notes issued by SPV1, and on their subsequent placement on the market.

Upon the completion of the Take-Out Stage, SPV2 should repay the bridge loan and the SPV2 Notes with the proceeds arising from the placement on the market of the senior notes issued by SPV1, and the allocation to the holders of the SPV2 Notes of the corresponding classes of final notes of SPV1. Upon the completion of the Take-Out Stage SPV2 will be wound up.

With reference to the technical procedures for the allocation of the SPV3 Notes, it is envisaged that such allocation shall be carried out through the distribution in kind of part of the share premium reserve to arise as a result of the Capital Increase.

Specifically:

(a) the share premium to arise as a result of the Capital Increase shall be allocated as follows:

- to the legal reserve, so that the latter will reach an amount equal to 20% of the Bank's share capital after the execution of the Capital Increase;
- to the share premium reserve;

(b) once the legal reserve is replenished, and the condition is thus met for the distribution of the share premium reserve pursuant to Article 2431 of the Italian civil code, the latter may be distributed in kind to the Bank's shareholders through the detachment of coupons representing the right (*stacco del diritto*) to receive the SPV3 Notes - that shall take place before the settlement date in respect of the Capital Increase and the subsequent allocation to the Banks's shareholders of such SPV3 Notes (being already subscribed by the Bank for the timeframe strictly necessary to perform the subsequent transfer of the notes and, therefore, the relevant deconsolidation);

(c) in fact it is currently envisaged that the SPV3 Notes shall be allocated upon the settlement of the Capital Increase to those who appear to be Bank's shareholders as at the detachment date of the relevant right, which is scheduled to fall before the settlement of the Capital Increase (the "**Beneficiaries**"). This date shall be set by the Board of Directors in agreement with Borsa Italiana and shall be announced in the manner provided for by the applicable legislation. The allocation shall be executed in accordance with the terms and conditions determined by the Board of Directors and proportionately to the number of shares held by the Beneficiaries. For sake of clarity, please note that, should the Securitization be carried out in accordance with the terms of this paragraph 1, the shares subscribed in the context of the Capital Increase shall not benefit from the assignment of any SPV3 Notes;

(d) the assignment of the SPV3 Notes shall result in a reduction in the share premium reserve in an amount equal to the fair value of the SPV3 Notes being assigned, to be determined by the Board of Directors, who may also use an independent estimate.

2. Reasons supporting the proposal

The proposed distribution in kind of the share premium reserve through the allocation of the SPV3 Notes to the Beneficiaries has two main reasons:

(a) the intention of the Board of Directors to reserve to the Beneficiaries any upsides arising from the recovery of the loans included in the NPLs Portfolio being the subject-matter of the Securitisation, after more senior notes (senior, senior mezzanine and junior mezzanine) have been paid

(b) the deconsolidation of the NPLs Portfolio from the Bank's balance sheet, thus allowing for the achievement of the purposes of the overall Transaction as described above, namely:

- comply with the targets of reduction in the NPLs portfolio, also required by the ECB, the main contents of which were already announced to the market on 4 July 2016;
- improve the Bank's future profitability for the benefit of all the stakeholders.

With reference to the proposal to appoint the Board of Directors to determine the procedure for the assignment of the SPV3 Notes (subject to the restrictions specified by the shareholders' meeting, as specified in more details in the resolution under proposal), such proposal is justified by the need to maintain the flexibility required to support the technical and legal elements and developments of the Securitisation transaction and of its execution. Indeed, as mentioned above, this transaction is part of the broader Transaction aimed at achieving the Bank's capital enhancement; the main terms of this transaction have been set forth, but its operational details may still change. In light of the above, the attribution to the Board of Directors of a degree of flexibility for the determination of the procedure to assign the SPV3 Notes is considered to be instrumental to achieving the best outcome for the transaction; conversely, setting forth details as of now might not be instrumental to achieving such result.

Please note that, the issue of SPV3 Notes and, consequently, the relevant assignment to the Beneficiaries in accordance with the terms set forth in this Report, is subject to the execution of the Securitisation and the Capital Increase in accordance with the terms described herein.

3. Proposed resolution

In light of the above-mentioned remarks, we hereby propose that you adopt the following resolution:

"The Ordinary Meeting of Banca Monte dei Paschi di Siena S.p.A. (the "**Bank**"):

- after acknowledging the proposal of the Board of Directors and the relevant Explanatory Report;
- subject to and assuming the execution of the capital increase for an amount of EUR 5 billion being the subject-matter of the delegation to the Board of Directors by an Extraordinary Meeting resolution adopted on the date hereof (the "**Capital Increase**"), as well as assuming the issue and allocation of SPV3 Notes as envisaged in the Explanatory Report;

RESOLVES

1) to allocate the share premium arising from the Capital Increase as follows: (i) to the legal reserve, for an amount equal to the amount required for the legal reserve to reach one fifth of the share capital after the Capital Increase, and (ii) for the residual part, to the share premium reserve;

2) to allocate, in whole or in part, the above-mentioned share premium reserve to the distribution in kind to the shareholders of SPV3 Notes to be subscribed by the Company (for the timeframe necessary to perform the transfer of the notes and the relevant deconsolidation) in the context of the transaction concerning the securitisation of non-performing exposures described in the Explanatory Report; being understood the following:

   (a) the share premium reserve shall be distributed up to an amount equal to the fair value of the SPV3 Notes being assigned, as determined by the Board of Directors;

   (b) the persons entitled to receive the SPV3 Notes shall be those appearing as the Bank's shareholders as at the detachment date of the relevant right (*data di stacco del relativo diritto*) - which shall fall before the settlement of the Capital Increase;

   (c) the SPV3 Notes shall be assigned to the shareholders referred to at point (b) above, in accordance with the terms determined by the Board of Directors and proportionately to the interest they hold in the Bank's capital, as far as technically feasible (without prejudice to any necessary rounding-off arising from potential residual amounts);

3) to grant the Board of Directors the power to set forth the terms and conditions of the assignment of the SPV3 Notes (including any procedures concerning the rounding-off and the management of any potential residual amounts), without prejudice to the compliance with the provisions of the above paragraphs of this resolution; it being understood that the Board of Directors will be entitled not to execute this resolution in the event that the Securitisation and/or the Capital Increase are executed as described in the Explanatory Report;

4) to grant the Board of Directors, and through it its Chairman and the Managing Director in office *pro tempore*, severally and also through special proxies appointed for such purpose, any broadest powers, with no exception, that may be necessary or convenient to execute the resolutions above and to exercise the powers being their subject-matter, and to make any non-essential amendments to, supplements to or deletions within the meeting resolutions as may be deemed to be necessary or convenient, under request of any competent authority, as a representative of the Bank, all of which with each and any power required and convenient for such purpose, and hereby with promise to hold valid and ratify.".

Milano, 24 October 2016

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