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

ORDINARY SHAREHOLDERS' MEETING

14 April 2016 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON POINT 3) OF THE AGENDA

drawn up in accordance with article 125-*ter* of Italian Legislative Decree no. 58 of 24 February 1998,

as 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 SHARES" PLAN FOR PERSONNEL OF MONTE DEI PASCHI DI SIENA S.P.A. AND ITS SUBSIDIARIES; RESOLUTIONS PERTAINING THERETO AND RESULTING THEREFROM.**

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 SHARES" PLAN FOR PERSONNEL OF MONTE DEI PASCHI DI SIENA S.P.A. AND ITS SUBSIDIARIES; RESOLUTIONS PERTAINING THERETO AND RESULTING THEREFROM.**

**Whereas**

The Group Remuneration Policies - as appeared in the 2016 Group's Remuneration Report which was submitted to the necessary prior approval of the Bank Shareholders' Meeting - 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. We therefore submit, for approval by the Shareholders' Meeting, a **performance shares annual plan** to use for the above-mentioned purpose, for a total value of **Euro 1.2 million** ("**2016 Performance Shares 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 regulation Consob adopted with its resolution no. 11971 of 14 May 1999, as amended (the "**Issuers' Regulations**").

In the first place, as of the date of this report, the Bank does not own any treasury stock 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, the fluctuation of which will depend on the market value of the ordinary shares of the Bank).

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 Remuneration Committee, and the approval of the Board of Statutory Auditors in accordance with article 2389 of the Italian Civil Code, and subsequent approval by the shareholders' meeting before this report prepared for the benefit of the shareholders to support the necessary resolutions.

Additionally, the formula used to provide the performance shares will also be used to cover any obligations to pay, as provided by prevailing law, amounts agreed for beneficiaries where there is a mutual agreement to terminate the employment relationship early (for the part exceeding the notice cost; known as "Severance").

**1. The beneficiaries**

The beneficiaries of the Plan shall be the resources who, on the basis of prevailing law and Remuneration Policies, are due to receive a variable portion of their remuneration in financial instruments. They include the resources who fall under the definition of "Identified Staff" of the Group, identified by the authorised bodies on the basis of criteria established by prevailing law.

The beneficiaries of the Plan include the following members of the Board of Directors: the CEO (Fabrizio Viola), and the CEO of MPS Capital Services S.p.A. (Sergio Vicinanza) and Widiba S.p.A. (Andrea Cardamone).

The parties who carry out management activities who have regular access to privileged information and can make management decisions that could affect the development and future prospects of the share issuer indicated under article 152-*sexies*, paragraph 1, letter c) - c.2, of the Issuers' Regulation include the CEO of the Bank and the previously listed CEOs of the subsidiaries MPS Capital Services S.p.A. and Widiba S.p.A., and the "key managers" identified in accordance with prevailing law as the managers of the Retail and Network Division (Marco Bragadin), the General Credit Division (Angelo Barbarulo), Asset and Non-Performing Loans Division (Enrico Fagioli Marzocchi) and Corporate and Investment Banking Division (Sergio Vicinanza).

There are about 200 employees of the Group who benefit from the Plan - subject to possible changes in this number - and they include Area Managers, Service Managers, Sectorial Managers and Employees. However, the number of beneficiaries due to receive the performance shares will be considerably reduced, since only variable remuneration above the threshold of Euro 40,000, in the remuneration policies adopted by the Bank - which do not apply to the CEO, top management or the others reporting directly to the CEO, or the other beneficiaries if the bonus amount is higher than 50% of the RAL - is included in the amounts to be partially given as financial instruments, and the assumptions underlying the Plan provide for exceeding that threshold in a number of cases that is much lower than the overall number of beneficiaries determined as a whole. There are no categories of employees for whom different characteristics of the 2016 Performance Share Plan apply, which is equal for all beneficiaries, apart from the number of performance shares given.

## 2. Reasons behind adoption of the Plan

The Plan aligns the portion of variable remuneration in equity instruments to come into line with the provisions of the law (in the case at hand, by paying amounts of money related to the performance of the BMPS shares) over annual periods, subject to performance conditions, *i.e.* the sustainability of positive results over time.

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*

The Board of Directors shall approve the proposal by the Remuneration Committee and the CEO regarding:

- the amount of money to make available for each allocation cycle to provide the performance shares in accordance with the criteria and procedures established by the Remuneration Policies in effect at the time;
- the allocation of performance shares to managerial members of the Board of Directors;
- the Plan Regulations and any updates.

The CEO will be in charge of managing the Plan, with the support of the Human Resources, Organisation and Communication Division with respect to the calculation of the amounts to allocate to the individual resources.

## 4. Allocation procedures

The Plan provides for allocation of a specific monetary amount to give to the employee as the variable remuneration component allocated at the end of the annual performance evaluation, or as mutually agreed when the work relationship is terminated early. The performance shares will be allocated at the end of a vesting period related to a year for the up-front portion provided that certain conditions at the time of allocation have been met, and subject to a holding period of two years before being paid to the interested party. Deferred performance shares, which will be allocated in accordance with the times established by the Remuneration Policies following a check that the performance conditions at the basis of activation of the Plan have been met, for the applicable financial period, will be subject to a further holding period of one year prior to the actual payment to the interested party, always on condition that the person still works with the company. The performance conditions will be identified by the Remuneration Policies in effect at the time; to that end, consistent with the remuneration policies for 2016, subject to the prior approval of the Shareholders' Meeting, it is envisaged that:

- the beneficiary, at the date of allocation of the performance shares accrued by way of Bonus, will not have given notice that he/she wishes to resign from the job, or has not been dismissed/terminated for just cause (subject to keeping the right to receive the performance shares in the other cases of resignation);

- at every allocation, the so-called **malus** clause conditions have been met, identified by the Remuneration Policies in effect at the time;
- the beneficiary has not **breached any compliance** regulations, or has not been subject to disciplinary measures and no losses related to his/her work have been reported.

Using these procedures, the resources who will benefit from the Plan, in accordance with the roles and activities carried out in the Group, will be asked to work to encourage the maintenance of a solid capital basis, a high level of liquidity, and control all the risks along with profitable results, ensuring sustainability over the long-term of the remuneration systems.

The Board of Directors may identify further company performance parameters at each single allocation. For the employees of the Group subsidiaries, the CEO of the Bank, subject to the advice of the Remuneration Committee, will have the right to identify one or more different, specific indicators.

As provided by prevailing law and the Remuneration Policies that BMPS has adopted, subject to the necessary prior approval by the Shareholders' Meeting, along with the Remuneration Report, the Bank reserves the right to activate the *ex post* corrective measures, which may, *inter alia*, reflect corporate performance levels net of the risks actually taken on, and take account of individual behaviour. Parties who have helped cause damage to the assets, profitability or economic-financial position or reputation of the Bank, or who have behaved fraudulently, with wilful misconduct or negligence or not, will have to return the variable remuneration already given (clawback), bonuses that have been given and/or paid. These actions will also apply if the obligations imposed by article 26 of Legislative Decree no. 385 of 1 September 1993 (the **"Consolidated Law on Banking"**) (company representatives) are breached, or when the party is an interested party in accordance with the provisions of article 53, paragraphs 4 et seq. of the Consolidated Law on Banking are breached, or the obligations regarding remuneration and bonuses are breached.

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 corporate bodies will manage any exceptions to the above, according to the duties of the Board of Directors, the Remuneration Committee and the CEO, also with reference to the severance package, in what was defined to that regard by the remuneration policies in effect at the time. 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.

## 6. Funding

The maximum value of the variable performance shares remuneration provided for under the Plan amounts to **Euro 1.2 million**. This funding was put into the financial plans approved by the Bank and communicated to the market.

## 7. Change and amendments to the Plan

There are no specific procedures provided for any changes that may be made to the performance shares 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 Plan may be reviewed and/or abolished, at the discretion of the Board of Directors, in accordance with the Remuneration Committee.

## 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 (the service conditions). The cost is equal to the value of the payment at the time of allocation, adjusted for the probabilistic elements related to the Plan (possibility of resigning by the beneficiaries, 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 1.2 million**, or 50% of the total cost of the variable premium that can contain a share component. 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 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. In order to structure the Plan as well as possible, the CEO was also given specific authorisation to establish "coverage" against the risk of volatility of the shares as the fundamental parameter of paying the amounts in the cases provided for under the Plan. The annual estimated cost of that coverage shall be about 2% per annum of the share consideration.

## 9. Other information

There will be no support by the special Fund providing incentives for workers to take out shares in companies pursuant to article 4, paragraph 112, of law no. 350 of 24 December 2003.

None of the subsidiaries of Banca Monte dei Paschi di Siena represent more than fifty per cent of the equity of Banca Monte dei Paschi di Siena and there are no natural persons who control Banca Monte dei Paschi di Siena.

The reference date for calculating the number of synthetic shares to pay the single beneficiary – calculated on the basis of the arithmetic mean of the prices recorded in the last month pursuant to the Income Tax Act (TUIR) – will be that of when the variable component is calculated or of signature (in what is known as "protected venue") of Severance agreements.

The allocations related to the performance shares Plan will be communicated to the market in accordance with prevailing law and regulations.

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 grant of performance shares to selected members of the Group's employees, under the terms and in the manner described in the Board of Directors' report (and in the information document provided in accordance with the applicable regulations in view of today's General Meeting);

(ii) to vest the Board of Directors, the Chairman and the 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, 14 March 2016

On behalf of the Board of Directors

Mr Massimo Tononi

Chairman of the Board of Directors