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

REPORT ON CORPORATE GOVERNANCE AND THE SHAREHOLDING STRUCTURE

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

(traditional administration and control model)

- Issuer: BANCA MONTE DEI PASCHI DI SIENA S.P.A.
- website: www.mps.it
- Year to which the Report relates: 2014
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GLOSSARY

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

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

Code/Corporate Governance Code: the Corporate Governance Code for Listed companies, approved in July 2014 by the Corporate Governance Committee and endorsed by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board: the Board of Directors of the Issuer.

Year: the financial year to which the Report refers.

Montepaschi Group: Monte dei Paschi di Siena banking group.

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

Consob Market Regulation: the Regulation for issuers promulgated by Consob with its resolution no. 16191 of 2007 (as subsequently amended).

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

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

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

Supervisory Provisions regarding the internal control system: Bank of Italy Circular no. 263/2006, Title V, Chapters 7, 8 and 9.

Report: the report on corporate governance and shareholding structure that companies are required to prepare in accordance with Article 12-*bis* of the TUF.

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

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

1. ISSUER'S PROFILE

Banca Monte dei Paschi di Siena S.p.A. is a bank with shares listed on the 'Mercato Telematico Azionario' (Electronic Stock Market) organised and managed by Borsa Italiana S.p.A..

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

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

Based on the new Supervisory Provisions concerning banks' corporate governance, BMPS is among the largest and most operationally complex banks and will therefore adjust its governance and Articles of Association in compliance with the terms set out in the aforementioned legislation.

BMPS is the Parent Company of the "Monte dei Paschi di Siena" banking group.

For the Bank, the importance of Corporate Governance goes beyond its traditional technical dimension – i.e., a set of rules and coordinated structures that regulate the relations among shareholders and between shareholders, directors and the top management. Consistently with the Bank's mission, Corporate Governance is deemed to be the best form of governance of relations with all stakeholders.

Mission of the Montepaschi Group

The Bank's corporate bodies act in such a way as to pursue the enterprise's success in its complexity.

Through a fair, transparent corporate governance system and a comprehensive Code of Ethics, BMPS has adopted rules to ensure that all stakeholders' legitimate expectations are considered and that meeting them is a goal for the company's leadership.

Corporate Governance System

The corporate governance system as a whole refers to the Corporate Governance Code for Listed Companies.

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

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

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

The independent audit is assigned to the independent auditors.

In light of the provisions of the Corporate Governance Code (updated July 2014 version) and on the basis of the latest format for the “Report on Corporate Governance” provided by Borsa Italiana (January 2015), this Report on Corporate Governance and the Shareholding Structure was prepared, in accordance with Article 123-*bis* of Italian Legislative Decree no. 58 of 24 February 1998.

The Report, approved by the Board of Directors at the meeting on 4 March 2015, is published on the Bank’s website - www.mps.it in the section Investors & Research – *Corporate Governance*.

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

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

At the date of this Report, the company’s share capital stood at EUR 12,484,206,649.08, fully subscribed and paid-in.

It is represented by 5,116,513,875 ordinary shares without par value. All shares are uncertificated. The circulation and legitimacy procedures are regulated by law.

| STRUCTURE OF THE SHARE CAPITAL | | | | |
|--------------------------------|---------------|--------------------|----------------------------------|------------------------|
| | no. of shares | % of share capital | listed/unlisted | rights and obligations |
| Ordinary shares | 5,116,513,875 | 100.00 | Listed (Milan stock exchange) | = |

The extraordinary Shareholders’ Meeting of the Bank of 28 December 2013:

- resolved a paid share capital increase for a maximum amount of EUR 3 billion, including any share premium, to be executed in one or more tranches by 31 March 2015, through the issue of ordinary shares with dividend rights, to be offered to shareholders pursuant to Article 2441 of the Civil Code and with initial execution term of 12 May 2014 (which means the starting date for the term for exercising the option right in accordance with Article 2441, Par. 2 of the Civil Code).
- approved the grouping of the outstanding ordinary shares of the Bank (based on the ratio of 1 new ordinary share with dividend entitlement, for every 100 existing ordinary shares), authorising the Board of Directors to cancel up to 6 ordinary shares of the Bank, drawing from the portfolio of ordinary shares held by the Bank itself, without changing the amount of the share capital and with the related proportional reduction in the corresponding negative reserve.

On 5 May 2014, the resolution adopted by the aforementioned Extraordinary Shareholders’ Meeting was implemented, relating to the grouping of 11,681,539,706 existing ordinary shares, with no par value, based on prior cancellation of 6 ordinary BMPS shares held by the bank itself, into 116,815,397 new ordinary shares, with no par value. Following the grouping, the share capital remained unchanged at EUR 7,484,508,171.08.

On 21 May 2014, the extraordinary shareholders’ meeting revoked the resolution for the EUR 3 billion share capital increase, as resolved by the shareholders’ meeting on 28 December 2013, and resolved the paid share capital increase for a maximum of EUR 5 billion, including any share premium, to be executed in one or more tranches by 31 March 2015, through the issue of ordinary shares with dividend entitlement, to be offered to shareholders pursuant to Article 2441 of the Civil Code, setting forth that, if the share capital increase is not fully subscribed within the term of 31 March 2015 granted for subscription, the share capital shall be deemed to have been increased by an amount equal to subscriptions obtained at that date; without prejudice to the possible issue of new shares in view of the subscriptions made prior to the aforesaid date.

The share capital increase totalling EUR 5 billion was fully subscribed; on 9 July 2014, the certification of the full subscription of the share capital increase was filed at the Register of Companies of Siena, as a result of which, the share capital of BMPS amounts to EUR 12,484,206,649.08, subdivided into the shares indicated in the previous table.

| OTHER FINANCIAL INSTRUMENTS | | | | |
|--------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|----------------------------------------|---------------------------------------|
| which entitle holders with the right to subscribe newly-issued shares | | | | |
| | listed/unlisted | no. of outstanding instruments | share category for conversion/exercise | no. of shares for conversion/exercise |
| Floating Rate Equity-Linked Subordinated Hybrid Preferred Securities (“FRESH”) | Listed (Luxembourg stock exchange) | € 28,621,597.64 (total amount) | ordinary shares pro-rata | 1,749,458 |
| New Financial Instruments | Unlisted | € 1,071,000,000 (total amount)(*) | ordinary shares | (**) |

(*) Value updated following the repayment of New Financial Instruments in 2014.

(**) The criteria defined for conversion into ordinary shares are briefly described in the following paragraphs.

Floating Rate Equity-Linked Subordinated Hybrid Preferred Securities (“F.R.E.S.H.”)

With reference to the convertible bonds known as Floating Rate Equity-linked Subordinated Hybrid Preferred Securities (“FRESH”), convertible into BMPS shares, issued in December 2003, no conversion requests were received in 2014.

In respect of the FRESH conversion requests received up until now, a total of 221,755,923 ordinary shares have been issued (before completion of the share grouping transaction, effective from 5 May 2014, in execution of the resolution of the shareholders’ meeting of 28 December 2013), corresponding to an amount of EUR 134,952,651.33. The shareholders’ meeting of 15 January 2004 resolved the share capital increase of Banca Monte dei Paschi di Siena S.p.A. for up to 263,991,528 ordinary shares for the FRESH issue, a value adjusted by the shareholders’ meeting on 15 December 2005 and 3 December 2010. As a result of the aforementioned grouping transaction resolved in December 2013 the maximum shares corresponding to the share capital increase for the conversion of the securities issued total 1,749,458 at the date of this Report. The conversion request, as from 30 September 2010, may be submitted at any time, i.e. within the month after the occurrence of the automatic conversion or of the conversion in the event of repayment of the Convertible Preferred Securities, so that these shares enjoy dividend entitlement from the conversion date and that the directors, within one month from the conversion date, file a certification of the completed share capital increase for registration in the Register of Companies.

On the occasion of each amendment to Article 6 of the Articles of Association in concurrence with the issue of new shares in view of requests for conversion of FRESH 2003, the values of the total number of shares issued will be updated.

New Financial Instruments

On 28 February 2013, as a result of the Board of Directors’ resolution of 28 November 2012, the Bank issued financial instruments convertible into ordinary shares of the Issuer (the “New Financial Instruments”

or “NSF”), in accordance with Article 23-*sexies* of Italian Law Decree no. 95¹ of 6 July 2012, (“Decree 95”), subscribed by the Italian Ministry of the Economy and Finance (“MEF”) for a total amount of EUR 4,071 million.

The New Financial Instruments lack the rights per Article 2351 of the Civil Code and are convertible into shares at the Issuer’s request, with assignment to the MEF of a number of shares equal to the ratio between the nominal value of the NSF and the Theoretical Ex Rights Price (TERP), discounted by 30% and calculated according to the mathematical formula set out in the issue prospectus of the New Financial Instruments, enclosed to the MEF Decree of 21 December 2012 (the “NSF Prospectus”), which takes into account the total value of the Issuer’s shares, calculated as the average closing price in the 5 consecutive trading days prior to the date when the conversion right is exercised, multiplied by the number of shares.

The NSF Prospectus calls for payment of annual interest to be paid in monetary form until the amount of the income for the year is reached, as reported in the latest financial statements approved before the interest payment date as defined in the NSF Prospectus and, if the interest exceeds the income for the year, by the assignment of a number of newly issued ordinary shares to the MEF. The number of shares to be assigned shall be calculated using the formula defined in the NSF Prospectus, which takes into account the amount of outstanding shares multiplied times the ratio of the interest due and the Bank’s Stock Market capitalisation (average in the ten consecutive days preceding the date of the Board of Directors’ meeting that approved the draft financial statements).

In accordance with Decree 95 and with reference to the New Financial Instruments, the rules pertaining to the mandatory takeover bid prescribed by Articles 106, Par. 1, and 109 of the Consolidated Law on Finance do not apply with respect to the MEF.

The other conditions and the additional features of the New Financial Instruments are described in the NSF Prospectus, to which reference is made for more details.

Solely in support of the Bank’s option to convert the NSF into ordinary shares and/or to pay the interest due to the MEF in the form of shares as set out in the NSF Prospectus, the extraordinary Shareholders’ Meeting of 25 January 2013 assigned specific authority to the Board of Directors to increase the share capital according to the terms and conditions set out in the following point i) of this Report.

Following the completion of the share capital increase of EUR 5 billion in June 2014, on 1 July 2014, the Bank, based on the prior authorisation from the Bank of Italy, redeemed a nominal EUR 3 billion in NSFs and redeemed the new financial instruments relating to the interest accrued on the 2013 financial year, and, simultaneously issued, against the payment of EUR 3,455,620,000.00, an amount that includes the effects of the forecasts of the NSF Prospectus as a result of the sales of the Bank’s shares completed by Fondazione Monte dei Paschi di Siena.

As a result of the above, and on the basis of the provisions of the NSF Prospectus, provision has been made for the payment of interest accrued on the NSFs in the 2014 financial year through the issue of new shares to be assigned to MEF (Ministry of Economy and Finance), with the subsequent purchase by the latter of a percentage stake in the Bank which may also be significant.

From a Capital Adequacy standpoint, although included in the Liabilities for the purpose of the Financial Statements, the NSFs qualify as Core Tier 1, by reason of their subordination *pari passu* with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions.

Stock granting plans

In 2014, no stock granting plans were resolved by the Shareholders’ meeting for Montepaschi Group employees through the free assignment of ordinary BMPS shares. For more information on previous years, please refer to the relevant information communicated in Article 84-*bis* of Consob Issuer’s Regulation – Information on the assignment of financial instruments to company representatives, employees or

¹ *Containing urgent provisions for the revision of public expenditure without changing services to citizens and measures to strengthen the capital of companies in the banking sector, converted, with amendments by Italian Law no. 135 of 7 August 2012, and subsequent amendments and additions.*

associates – and the contents of the Remuneration Report, published, in accordance with Article 123-ter of TUF and Article 84-quater of Consob Issuer’s Regulation, in the website www.mps.it.

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

The Articles of Association have no clauses restricting the transfer of shares. However, Article 6 of the Articles of Association does prescribe that transfers of preferred shares shall be immediately notified by the selling shareholder to the Company and leads to the automatic conversion of the preferred shares into ordinary shares at equal value.

Moreover, the Articles of Association set out, under Article 6, that a shareholder qualifying as banking foundation as governed by Italian Law no. 461 of 23 December 1998 and by Italian Legislative Decree no. 153 of 17 May 1999 with subsequent amendments and additions, or that is directly or indirectly controlled by one such party, may never, under any circumstances, convert preferred shares held by it into ordinary shares.

In any case, upon completion of the sale, in 2012, of the last tranche of preferred shares held by Fondazione Monte dei Paschi di Siena, the Bank’s share capital is entirely represented by ordinary shares without par value.

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

According to the notices received in accordance with Article 120 of the TUF, the shareholders who, as at the date of approval of this Report, directly or indirectly own more than 2% of share capital represented by shares with voting rights, are as follows:

| <i>Declarant</i> | <i>Direct shareholder</i> | <i>% of ordinary shares</i> | <i>% of voting rights (***)</i> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------|---------------------------------|
| <i>Fintech Advisory Inc. (as manager of Fintech Investments Ltd, parent company of Fintech Europe S.à r.l., in turn a shareholder of the Issuer)</i> | Fintech Europe S.à.r.l | 4.500 | 4.500 |
| <i>AXA S.A. (directly and indirectly through subsidiaries)</i> | Various group companies (*) | 3.17 | 3.17 |
| Fondazione Monte dei Paschi di Siena | Fondazione Monte dei Paschi di Siena | 2.50 | 2.50 |
| <i>BTG Pactual Europe LLP (in the form of discretionary savings management)</i> | Asset management funds (**) | 2.00 | 2.00 |

(*) The total shares declared by the AXA Group are held by the following companies: AXA S.A., AXA France IARD, AXA Belgium, AXA Assicurazioni S.p.A., AXA Assurances Vie Luxembourg, AXA Assurances Luxembourg, AXA Leben AG, AXA Versicherungen AG, AXA Insurance UK Plc, AXA Seguros Generales S.a. de Seguros y Reaseguros, AXA Portugal Companhia de Seguros S.a., AXA Versicherung AG, AXA krankensversicherung AG.

(**) The total shares declared by BTG Pactual are held by the following funds: BTG Pactual Absolute Return II Fund; BTG Pactual Global Emerging Markets and Macro Faster Fund, BTG Pactual Global Equity Opportunities Fund and Queen Street Fund.

(***) The percentages indicated in this column are calculated on the basis of the number of ordinary shares that make up the share capital net of 2,952,360 shares held by JP Morgan Chase & Co. with the establishing of usufruct rights in favour of BMPS, whose vote is suspended in accordance with Article 2357-ter, Par. 2 of the Civil Code; these shares correspond to 0.058% of share capital.

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

No shares with special control rights have been issued.

BMPS's Articles of Association do not make provision for shares with multiple or increased voting rights.

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

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

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

There are no restrictions on voting rights.

For the purposes of completeness, the provision in article 14, paragraph 7 is shown, which sets out that "If a banking foundation, during the ordinary shareholders' meeting, based on the deductions made by the Chairman during the shareholders' meeting and immediately before the completion of each vote, is able to exercise, based on the shares held by the parties present, the vote which represents the majority of shares present and with voting rights, the Chairman has said situation put on record and excludes the banking foundation from the vote, for the purposes of the resolution taken at the time said situation was recorded, limited to a number of shares which represent the difference, plus one share, between the number of ordinary shares held by said foundation and the total amount of ordinary shares held by the remaining parties present and with voting rights at the time of the vote".

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

The main provisions of the shareholder agreement stipulated in 2014 between Fondazione MPS, Fintech Advisory Inc ("Fintech") and BTG Pactual Europe LLP ("BTG Pactual") are shown below, as shown in the extract taken from said agreement finally published on 5 May 2014, *inter alia*, on the website of Fondazione MPS (www.fondazionemps.it) pursuant to Article 122 of TUF and to which reference should be made for further details.

On 31 March 2014, the Fondazione MPS concluded an agreement (the "Sale and Purchase Agreement") for the sale of the Bank's ordinary shares with Fintech, a company incorporated in accordance with Delaware law, with registered office in 375 Park Ave, New York, United States of America, registration number 19565 and BTG Pactual, a company incorporated under UK law, with registered office in 4-19 Berkeley Square House, London, W1J6BR (BTG Pactual together with the Fondazione MPS and Fintech, also known as the "Parties"; Fintech and BTG Pactual known as the "Purchasers") concerning, *inter alia*:

- (i) the sale of ordinary BMPS shares, equal to 4.5% of BMPS's ordinary share capital, to Fintech; and
- (ii) the sale of ordinary BMPS shares, equal to 2% of BMPS's ordinary share capital, to BTG Pactual (the "Sales").

The Sale and Purchase Agreement makes provision, *inter alia*, for some shareholder agreements whose main provisions are: (i) they establish certain limits on the transfer of investments to the Parties ("Lock-up Agreement"); (ii) they govern the obligations and methods for the joint presentation of a list for the appointment of members of the Board of Directors and a list for the appointment of members of the Board of Statutory Auditors of BMPS, making provision for a voting obligation in respect of these lists; (iii) set forth certain obligations in the case of replacement of members of BMPS's Board of Directors; (iv) regulate the methods and the conditions for (if applicable) the designation of the candidate for the Chairman of BMPS's Board of Directors by Fondazione MPS (with the consent of the Purchasers); and (v) require the parties to strive, within the legal terms, to promote the appointment, to the office of Chief Executive Officer, of one of the candidates from those nominated by the Purchasers (with the consent of Fondazione MPS).

Financial instruments involved in the shareholder agreements

As regards Lock-up Agreements, please refer to the information in the extract taken from the Agreement published by the Foundation.

In relation to agreements regarding the governance of BMPS, the voting obligations envisaged with reference: (a) to list voting for the election of members of BMPS's Board of Directors; (b) to list voting for the election of members of BMPS's Board of Statutory Auditors and, if necessary, (c) to the appointment of the Chairman of BMPS's Board of Directors, were assumed by the Parties in relation to all ordinary BMPS shares each of them hold at the date of the associated shareholders' meeting.

In the event of the termination of office of members of BMPS's Board of Directors, the Parties employ their best efforts to ensure that the director who steps down from office is replaced (via co-opting or other means) by a new candidate nominated by the Party who nominated the director stepping down from office.

The joint list of candidates for the Board of Directors presented by the Parties shall be composed as follows:

- (i) the Purchasers will be entitled to jointly nominate the first candidate from the list;
- (ii) Fondazione MPS will be entitled to nominate the second candidate from the list;
- (iii) the Purchasers will be entitled to jointly nominate the third candidate from the list;
- (iv) Fondazione MPS will be entitled to nominate the fourth candidate, while the Purchasers will have the right to jointly nominate the fifth candidate and so on, up to a maximum number of directors determined jointly by the Parties (a number which, in any case, cannot be less than six).

The Parties have agreed that: (a) the (joint) appointment, by the Purchasers, of a candidate put forward for the office of Chief Executive Officer will be subject to prior approval by Fondazione MPS, which should not be unjustifiably refused; (b) and that the appointment by Fondazione MPS of a candidate put forward for the office of chairman will be subject to the prior approval by the Purchasers, which should not be unjustifiably refused;

The Parties are required to draw up the joint list of candidates so that it takes account of the independence requirements, which some candidates must satisfy, and gender representation requirements.

The Parties will represent a joint list of 2 (two) candidates for the appointment of BMPS's Board of Statutory Auditors, the first of which will be appointed by Fondazione MPS, while the second will be appointed jointly by the Purchasers.

Appointment of the Chairman and of the Chief Executive Officer

If the list of candidates submitted jointly by the Parties obtains the highest number of votes at the relevant shareholders' meeting or else the Parties jointly agree that it is necessary to propose a candidate to the shareholders' meeting for the office of BMPS Chairman, Fondazione MPS must propose, as the candidate for the appointment, one of the candidates indicated in the list of directors designated by said entity, and the Parties must vote in favour of said candidate with all the ordinary BMPS shares held by each of them at that time.

If the list of candidates submitted jointly by the Parties obtains the highest number of votes at the relevant shareholders' meeting or else the Parties jointly agree that it is necessary to propose a candidate to the shareholders' meeting for the office of BMPS Chief Executive Officer, the Parties MPS must strive, in accordance with the limits of the applicable laws and regulations, to promote the appointment to the office of BMPS Chief Executive Officer of one of the candidates nominated by the Purchasers in the list presented for the appointment of BMPS's Board of Directors.

Control

The shareholders' provisions of the Sale and Purchase Agreement, also in relation to the provisions of the Articles of Association set out in Article 15 of BMPS's Articles of Association, have no influence on the control of BMPS pursuant to Article 93 of the TUF.

Duration and express termination clause

The shareholders' provisions of the Sale and Purchase Agreement are effective for a period of three years from the date they are signed, and therefore will automatically expire three years from 31 March 2014, i.e. 31 March 2017.

The Sale and Purchase Agreement may be unilaterally terminated, pursuant to Article 1456 of the Civil Code, by each of the compliant Parties if, among other things, one of the counterparties fails to fulfil all their obligations, at the date of completion of the relative sale, pursuant to said contract. In this case, the termination shall not in any way prejudice the rights and obligations of Fondazione MPS and the other Purchaser, except where said Purchaser and Fondazione MPS, after the relevant sale, need to renegotiate the agreements relating to the governance of BMPS. In order to avoid any doubt, the Sale which must be or has been completed will not be prejudiced in any way by the non-completion of another Sale, and will survive until termination, notwithstanding that, after the relative Sale, the relevant Parties must renegotiate the agreements relating to the governance of BMPS.

The Bank has received no other communications about the existence of voting or blocking syndicates or shareholder agreements or any form of agreement covering the exercise of rights related to shares or their transfer and per Article 122 of the Consolidated Law on Finance.

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

BMPS and its subsidiaries did not stipulate, in 2014, any significant agreements that take effect, are modified or extinguished, in the event of a change of control of the contracting company.

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

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

– **Delegated powers:**

The Shareholders' Meeting, in extraordinary session, passed the following resolutions on the matter of the Bank's share capital increase:

- on 15 January 2004, the share capital increase to service the issue of Convertible Preferred Securities by a maximum number of 2,639,915 ordinary shares, as amended by the Shareholders' Meeting of 3 December 2010 and following the share grouping transaction, effective from 5 May 2014, in execution of the resolution of the shareholders' meeting of 28 December 2013, with dividend rights from the conversion date, without par value, for a maximum amount of EUR 176,874,323.76, as amended by the Shareholders' Meetings of 15 December 2005 and of 3 December 2010, notwithstanding (i) that the deadline for said share capital increase is 30 September 2009, (ii) that the directors will issue the shares to the holders of the Convertible Preferred Securities within the calendar month after the date the conversion request, which may be submitted during the month of September of each year from 2004 to 2010 and, thereafter, at any time, or within the month following the automatic conversion or the conversion in case of redemption of the Convertible Preferred Securities, so that said shares have dividend rights from the conversion date and (iii) that the directors, within one month from the conversion date, shall file a certification of the share capital increase for registration in the Register of Companies. In respect of the Preferred Securities conversion requests received as at 30 December 2011 - date of last request - a total of 221,755,923 ordinary shares were issued (before the completion of the share grouping transaction, effective from 5 May 2014, in execution of the resolution of the shareholders' meeting of 28 December 2013) for an amount of EUR 134,952,651.33.
- On 25 January 2013, the Board of Directors was conferred with the power to (i) increase share capital, in one tranche, with exclusion of the pre-emptive rights, pursuant to Articles 2443 and 2441, Par. 5 of the Civil Code, through the issuance of ordinary shares for an amount of up to EUR 4,500 million including any share premium, at the exclusive service of the exercise of the Bank's right to convert the New Financial Instruments provided for by Italian Law Decree no. 95 of 6 July 2012, converted with amendments by Italian Law no. 135 of 7 August 2012, as subsequently amended; and/or (ii) to increase capital, in one or more tranches, also separately, with exclusion of the pre-emptive rights of existing

shareholders, pursuant to articles 2443 and 2441, Par. 5 of the Civil Code, through the issuance of ordinary shares for an amount of up to EUR 2,000 million, including any share premium, at the exclusive service of the interest payments to be made in shares pursuant to the regulations applicable to the New Financial Instruments as set forth in Italian Law Decree no. 95 of 6 July 2012, converted with amendments by Italian Law no. 135 of 7 August 2012, as subsequently amended. Said power may be exercised for a maximum period of 5 (five) years effective as of the date of the above resolution of the Shareholders' Meeting of 25 January 2013.

- When exercising such power, the Board of Directors shall be entitled – *inter alia* – to set the price of issue of newly-issued ordinary shares (including any share premium) in compliance with the above-mentioned limits as set out in the Board of Directors' Report to the Shareholders' Meeting under the applicable regulations.

– **Purchase of treasury shares:**

There are no existing authorisations by the Shareholders' Meeting to buy back shares in accordance with Article 2357 et seq. of the Civil Code.

The Shareholders' Meeting of 28 December 2013, in ordinary session, resolved to authorise, in accordance with Article 2357-ter of the Civil Code, the disposal, on one or more occasions, of the 54,495,378 treasury shares held by the Bank, at the date of the resolution, according to the following terms:

- a) the authorisation is granted without time limits;
- b) the disposal of treasury shares may take place:
 - in the ways deemed most appropriate in the Bank's best interest by disposal in the Stock Market or in "blocks" and any and all other forms of disposal allowed by applicable provisions;
 - within the scope of exchange, transfer or sale transactions and in case of operations on the share capital or financing transactions implying the assignment or disposal of treasury shares;
- c) the minimum price of the disposal may not be lower by more than 5% compared to the official price recorded by the stock in the trading day prior to each individual transaction; said minimum price shall not be applicable in case of disposal other than sale and, in particular, in cases of exchange, assignment or transfer and in case of operations on the share capital or financing transactions implying the assignment or disposal of treasury shares. In such cases, the price shall be determined with different criteria, in line with the aims pursued on a case by case basis and in compliance with applicable provisions of the law and regulations, taking into account allowed market practices, if the case warrants it.

As a result of the sale of treasury shares on the basis of the authorisation resolved by the aforementioned Shareholders' Meeting, as at 31 December 2014, the Bank held 9 treasury shares in the portfolio.

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

BMPS is not subject to management and coordination in accordance with Article 2497 et seq. of the Civil Code.

* * *

The information required by Article 123-bis, Par. 1, Letter i) of the TUF (*"the agreements between the company and the directors ... that provide indemnity in case of resignation or termination without just cause or discontinuation of their term of office due to a takeover bid"*) and the information about the Directors' remuneration (per Sect. 8 of the Report) is contained in the Report on remuneration, published in accordance with Article 123-ter of the TUF and with Article 84-quater of the CONSOB Issuers' Regulations, to which reference is made. The document is available on the website www.mps.it.

The information required by Article 123-bis, Par. 1, Letter l) of the TUF (*"the rules applicable for the appointment and replacement of directors ... and for amendments to the Articles of Association, if different from the applicable provisions of*

the law and regulations”) is provided in the section of this Report dedicated to the Board of Directors (Sect. 4.1)

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

The Bank adheres to the Corporate Governance Code of listed companies (most recently amended in July 2014), accessible to the public on the website of the Committee for Corporate Governance of Borsa Italiana on the page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf> and on the Bank’s website (www.mps.it).

The Board of Directors acknowledged that the corporate governance model adopted by the Bank is essentially consistent with the principles of the Code.

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

4. BOARD OF DIRECTORS

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

The Board of Directors consists of a number of members set by ordinary Shareholders’ Meetings, but in any case no lower than nine or higher than seventeen.

Under penalty of removal from office, no Director of BMPS may simultaneously serve as a member of the Board of Directors, of the Management Board or of the Supervisory Board of competitor banks, which are not part of the BMPS group, that have a banking license issued by the supervisory authority and that are active in the bank funding or ordinary credit markets in Italy. Any BMPS Director who accepts one of the above positions shall promptly inform the Board of Directors of BMPS, which shall immediately declare his/her removal from office. Directors’ term of office shall be three years, expiring on the date of the Shareholders’ Meeting convened to approve the financial statements for their last year of office; they can be re-elected for no more than two consecutive terms after the first one. For the outgoing Chief Executive Officer or Chief Executive Officers, the limitations of the maximum number of terms shall not apply.

Appointment of the members of the Board of Directors shall take place by a vote from lists of candidates presented by the shareholders, in which candidates are listed by a consecutive number.

Each list which presents a number of candidates equal to or greater than three must specifically indicate the candidates who meet the independence requirements established for statutory auditors pursuant to law and the additional independence requirements set out in the Corporate Governance Code of listed companies, i.e. no less than two and, in any case, equal to at least one-third of candidates presented in the list.

For the purposes of compliance with the applicable legislation governing gender balance², the lists which present a number of candidates equal to or greater than three must contain candidates of a different gender in alternating order and in equal proportion if an equal number, according, nonetheless, to the provisions of the notice of convocation of the shareholders’ meeting. The lists may not contain names of persons who, at the date of the Shareholders’ Meeting for the renewal of the Corporate Bodies, are 75 years old or older, having regard also to the age limits prescribed by the Articles of Association for the office of Chairman of the Board of Directors (70) and for the office of Chief Executive Officer (67).

Together with each list, no later than the list filing deadline indicated in the notice of convocation of the Shareholders’ Meeting, the following shall be filed at the registered office of the company: (i) the declarations whereby the individual candidates accept their candidacy and certify, under their own

² The statutory clauses targeted at compliance with gender balance, according to the principles sanctioned by Law 120/2011 and introduced to Articles 147 – *ter* and 148 of the TUF, will be first applied at the time of renewal of the corporate bodies of the Bank envisaged at the shareholders’ meeting called to approve the 2014 financial statements, in compliance with the provisions of the aforementioned legislation (in order to guarantee that at least one-fifth of the directors belong to the least represented gender in the Board of Director).

responsibility, that there are no reasons for ineligibility and incompatibility, and that any requirements prescribed for the office by current laws and regulations are satisfied; (ii) the statements of the candidates indicated in the list as independent certifying the existence of the independence requirements; and (iii) the *curricula vitae* describing the personal and professional characteristics of each candidate, with the indication of the administration and control positions held in other companies. In particular, candidates shall declare that they do not serve as a member of the Board of Directors, of the Management Board or of the Supervisory Board of competitor banks, which are not part of the Montepaschi Group, that have a banking license issued by the supervisory authority and that are active in the bank funding or ordinary credit markets in Italy. The list presented by the shareholders must be submitted to the registered office of the Company at least 25 days prior to the date set by the Shareholders' Meeting in first call and disclosed according to applicable laws. Each shareholder may individually or jointly present a single list and each candidate may be included in a single list in order to be eligible.

Only shareholders who, individually or jointly with other shareholders, hold a total number of shares representing at least 1% of the Company's share capital with voting rights at ordinary Shareholders' Meeting, or the different applicable percentage prescribed by current provisions. To prove ownership of the number of shares necessary to present the lists, shareholders who have presented the lists, simultaneously with the presentation of the lists, or afterwards but no later than the deadline for the publication of the lists, shall present and/or deliver to the registered office of the Company the documents certifying ownership of the aforesaid minimum number of shares, determined with respect to the shares that are registered in the shareholder's name on the day when the lists are deposited.

Lists presented without compliance with the Articles of Association may not be voted.

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

In accordance with Article 15 of the Articles of Association, directors shall be elected in the following way:

- a) directors representing half the number of those to be elected, rounding down to the nearest integer in case of fractions, shall be drawn from the list that obtains the majority of the votes, in their consecutive order of appearance in the list;
- b) the remaining directors shall be drawn from the other lists; for this purpose, the votes obtained by the lists shall be subsequently divided by one, two, three, four and so on, depending on the number of directors still to be elected. The resulting points shall be progressively assigned to the candidates of each of said lists, in the order respectively provided therein. The points thus attributed to the candidates of the various lists shall be placed in a single decreasing order.

Those who obtain the highest results shall be elected.

If more than one director has obtained the same number of points, the candidate from the list that has not yet had any of its directors elected, or that has had the smallest number of directors elected shall be elected.

If none of said lists has yet had a director elected, or if all lists have had the same number of directors elected, the candidate with the highest number of votes shall be elected from these list.

When the lists have an equal number of votes and of points, a new vote by the entire Shareholders' Meeting shall be called and the candidate who obtains a simple majority of the votes shall be elected.

In any case, notwithstanding the above provisions, at least one director shall be drawn from the minority list that has obtained the highest number of votes and that is not connected in any way, even indirectly, with the parties who presented or voted the list that obtained the most votes.

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

If, when the vote is finished, at least one-third of directors who meet the independence requirements has not been appointed, the necessary number of non-independent candidates is replaced who were the last to be elected with the independent candidates - taken from the same lists to which the replaced candidates belonged - who obtained the highest number of points.

The candidate replaced to allow the appointment of the minimum number of independent directors may not, in any case, be the director drawn from the minority list that obtained the highest number of votes and that is not connected in any way, even indirectly, with the persons who presented or voted the list that obtained the majority of votes; in this case, the non-independent candidate who was next to last in terms of points obtained shall be replaced.

Moreover, if enforcement of the aforesaid procedures does not make it possible to comply with current gender balance regulations, the portion of votes to be attributed to each candidate drawn from the lists shall be calculated by dividing the number of votes obtained by each list by the consecutive presentation number of each of said candidates; the candidate of the more represented gender with the lowest points among the candidates drawn from all lists shall be replaced by the person of the less represented gender who obtained the highest number of points in the same list of the replaced candidate. If candidates from different lists have obtained the same points, the candidate of the list from which the highest number of directors is drawn shall be replaced, or, subordinately, the candidate drawn from the list that has obtained the least number of votes shall be replaced, or, in case of equal number of votes, the candidate who obtains fewer votes at the Shareholders' Meeting in a dedicated vote.

If, in application of the above procedures, due to the lack of replaced independent candidates or of the less represented gender, the required number of Directors to respect the minimum number of Independent Directors and Directors from the less represented gender is not elected, the shareholder's meeting will immediately elect the missing directors, on a priority basis, by means of a resolution approved via a simple majority on the basis of the candidacy proposed immediately, on a priority basis, by the subjects who presented the list to which the candidate or candidates to be replaced belong. For the appointment of directors who are, for whatever reason, not appointed in accordance with the above procedures, the Shareholders' Meeting resolves pursuant to and based on the legal majorities, without prejudice to compliance with the criteria set out in the applicable legislation and the Articles of Association concerning independent directors and gender balance.

For the replacement of Directors who leave office during their mandate, the legal provisions shall apply, in observance of the criteria set out in the applicable legislation and the Articles of Association concerning independent directors and gender balance. If, moreover, the majority of directors should leave office, the entire Board of Directors shall be deemed to have resigned, effective from the time it was re-formed. Directors may be dismissed by the shareholders' meeting at any time, without prejudice to the director's entitlement to compensation for damages, if dismissal takes place without just cause.

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

Furthermore, following the appointment by the Directors and the Statutory Auditors and subsequently every year, the Board verifies compliance with the provisions of Article 36 of Italian Legislative Decree 201/2011 (converted by Italian Law 214/2011) which introduced a specific prohibition (the interlocking prohibition) for directors, statutory auditors and general managers of companies or groups of companies operating in the credit, insurance and financial market, who are not allowed to take on or exercise similar duties in competitive companies or groups of companies. To this end, the directors and statutory auditors in office are required to provide a specific declaration, with an attachment consisting of a list of the duties covered in other companies or groups of companies operating in the credit, insurance or financial market, accompanied by a certification that the offices held do not give rise to incompatibility pursuant to Article 36, with a detailed explanation of the reasons. The verifications conducted in 2014 did not indicate any significant situations in terms of this prohibition.

For amendments to the By-Laws, the legal quorums shall apply, subject to the provision of the By-Laws that covers amendments to the By-Laws required by law, over which the Board of Directors shall have authority and the qualified quorum (set out in Article 14, Par. 5 of the By-Laws), in the event of calling of the shareholders' meeting, of at least 60% of shares with voting rights in the case of amendments to the By-Laws pertaining to paragraphs 5 and 7 of Article 14 of the By-Laws, as well as paragraphs (1.1) and (1.6) Letter a) of Article 15 (regarding the criteria for appointment of the Board of Directors), and articles 4 (registered office, management and regional structure), 6.4 (preferred shares) and 6.5 (conversion of preferred shares by a foundation) and, in any case in which the proposal to convert the preferred shares into ordinary shares is included in the agenda.

Succession plans

Concerning plans for the succession of executive directors, all directors, except the Chief Executive Officer, shall be deemed, in respect of the relevant application criteria in the Corporate Governance Code, to be non-executive directors, including those who are members of the Executive Committee, insofar as a Chief Executive Officer has been identified and participation in the Executive Committee does not in fact entail the systematic involvement of its members in the ordinary operations of the Bank. Therefore, the Board has not considered it necessary, in 2014, to adopt a plan for the succession of the Executive Directors, without prejudice to the authority of the Appointments and Remuneration Committee to submit proposals to the Board for the appointment of the members of the Executive Committee and, at the indication of the Chairman, of the Chief Executive Officer. This approach, in compliance with the legislative provisions issued recently, will be subject to review.

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

The Board of Directors, consisting of 12 members, was appointed by the ordinary Shareholders' Meeting of 27 April 2012 and shall remain in office until the approval of the financial statements for the year ended 31 December 2014.

In 2013 and 2014, as better detailed below, the composition of the Board partially changed as a result of the termination of office of some Directors, who were replaced by new directors.

Each member of the Board meets the requirements prescribed by the regulations and by the Articles of Association.

At the ordinary shareholders' meeting on 27 April 2012, at the renewal of the Board of Directors in office at the date of this Report, 3 lists were presented, of which:

1. **List no. 1:** Fondazione Monte dei Paschi di Siena holder of 40.77% of the ordinary share capital presented for the Board the candidacies of Alessandro Profumo, Fabrizio Viola, Paola Demartini, Tania Groppi, Angelo Dringoli and Marco Turchi;
2. **List no. 2:** presented by the shareholder Unicoop S.C. which, together with other shareholders, all participate in a shareholder agreement regarding: (i) the presentation of two minority lists, one consisting of five candidates for the Board of Directors (Turiddo Campaini, Alberto Giovanni Aleotti, Michele Briamonte, Lorenzo Gorgoni and Pietro Giovanni Corsa) and one consisting of two candidates for the Board of Statutory Auditors, as well as (ii) the obligation to direct all votes available to the participants in favour of specific decisions concerning the appointment of the Board of Directors and of the Board of Statutory Auditors; the participants held 9.21% of the ordinary share capital;
3. **List no. 3:** AXA S.a. holder of 3.72% of the ordinary share capital presented for the Board the candidacies of Frédéric Marie de Courtois d'Arcollières, Paolo Andrea Rossi and Alban De Mailly Nesle.

It has been declared that there are no connections between the lists.

The vote had the following outcome:

- List no. 1: total votes 3,908,983,210, i.e. 61.711781% of the shares entitled to vote;
- List no. 2: total votes 1,919,363,270, i.e. 30.30134% of the shares entitled to vote;

- List no. 3: total votes 452,258,725, i.e. 7.139885% of the shares entitled to vote.

The following persons were elected: Alessandro Profumo, Fabrizio Viola, Paola Demartini, Tania Groppi, Angelo Dringoli and Marco Turchi, Turiddo Campaini, Alberto Giovanni Aleotti, Michele Briamonte, Lorenzo Gorgoni and Pietro Giovanni Corsa, Frédéric Marie de Courtois d'Arcollières.

In the course of the same Shareholders' Meeting, Mr. Alessandro Profumo was appointed Chairman of the Board of Directors, Marco Turchi and Turiddo Campaini were appointed Deputy Chairmen of the Board; Mr. Campaini subsequently resigned as Deputy Chairman on 20 December 2012 but retained the office of director until his resignation on 22 October 2013.

The Shareholders' Meeting of 29 April 2013 appointed Mr. Pietro Giovanni Corsa as Deputy Chairman of the Board of Directors.

Following the termination of office of the directors Michele Briamonte, Tania Groppi, Frédéric Marie de Courtois and Turiddo Campaini, the shareholders' meeting on 28 December 2013 appointed the new directors Marina Rubini, Béatrice Bernard, Marco Miccinesi and Daniele Discepolo for the remaining period of office, who were previously co-opted by means of the resolutions of the Board approved by the Board of Statutory Auditors.

On 18 September 2014, the Directors Paola Demartini and Marco Turchi (Deputy Chairman) handed in their resignations from the Bank's Board of Directors.

The Board of Directors, at the meeting on 9 October 2014, replaced the two outgoing Directors via the co-optation of Roberto Isolani and David Manuel Martinez, pursuant to Article 2386 of the Civil Code, resolved by the Board of Directors with the approval of the Board of Statutory Auditors.

The procedure relating to the 2014 co-optations was carried out in compliance with the Supervisory Provisions for banks' corporate governance and took the candidacies presented as a reference, based on the existing shareholder agreement between the Bank's shareholders (Fondazione MPS, BTG Pactual and Fintech).

The Board of Directors, taking into account the consultative contribution of the Appointments and Remuneration Committee, took account, to identify *ex ante* the theoretical profile deemed suitable for candidates to the office, of the criteria identified by the Board itself in the course of the qualitative and quantitative self-assessment deemed optimal for the proper operation of the Board, carried out in March 2013 and March 2014 (also with the support of the Appointments and Remuneration Committee), which manifested a broad consensus on the adequacy of the size and competencies of the Board.

In light of the contents of the aforementioned board self-assessments regarding the qualitative composition of the board, and of the professional characteristics of the two outgoing directors in 2014, the Appointments and Remuneration Committee deemed the professional profile and the knowledge of the two new directors co-opted to be in line with the indications of the Board, making it possible for them, on their insertion in the strategic supervision body, to provide a valid contribution to the composition and functioning of said board, by strengthening the qualitative and quantitative composition, considered adequate, with expertise in the banking and credit sector.

On 9 October 2014, the Board verified the match between the qualitative and quantitative composition of the Board deemed optimal and the actual composition resulting from the appointment process.

The Director David Manuel Martinez tendered his resignation on 27 February 2015; Christian Whamond was co-opted as director in his place, on the proposal of the Appointments and Remuneration Committee, by means of a resolution of the Board of Directors on 4 March 2015 approved by the Board of Statutory Auditors.

The co-optation procedure was carried out in compliance with the Supervisory Provisions regarding banks' corporate governance, taking into account the consultative contribution of the Appointments and Remuneration Committee, to identify *ex ante* the theoretical profile deemed suitable for candidates to the office and to verify the qualitative and quantitative composition following co-optation.

On 4 March 2015, the Board verified the match between the qualitative and quantitative composition of the Board deemed optimal and the actual composition resulting from the appointment via co-optation process.

A short curriculum vitae of the new Director is shown below:

Christian Whamond. Graduated in industrial engineering from the Buenos Aires Technological Institute. He is the Manager of the Corporate Credit Division of Fintech Advisory Inc. and director of Fintech Europe SaRL. Before joining Fintech Advisory Inc. in August 2012, he held the role of Executive Director at BTG Pactual and previously worked as Emerging Markets Portfolio Strategist and Trader for four years at James Caird Asset Management. He also worked at Lehman Brothers as Jr Portfolio Manager Emerging Markets for the Global Principal Strategies division, after gaining ten years' experience as financial analyst, Trader and Vice-President at JP Morgan Securities Inc.

He has been a member of the Board of Directors of the Issuer since 4 March 2015.

A brief *curriculum vitae* of each director in office at 31 December 2014 is provided below, describing the expertise and professional experience gained by each of them.

Alessandro Profumo. Graduate of “Luigi Bocconi” University in Milan with a degree in Business Economics. After gaining significant experience in the fields of credit, finance and consulting, holding positions of responsibility in Banco Lariano, McKinsey, Bain, Cuneo & Associati, Riunione Adriatica di Sicurtà, in 1994 he joined Credito Italiano where he was Central Co-Manager, then General Manager and Chief Executive Officer, remaining in this office with the subsequent merger of the bank into Unicredit and until he left the group in 2010. Mr. Profumo has held several administration and control positions. He is currently the Chairman of the financial consulting company Appeal Strategy & Finance, member of the Supervisory Board of Russian bank Sberbank, Director of the Together To Go Foundation and member of the International Advisory Board of Brazilian bank Itaù Unibanco.

He is also a member of the Board and Executive Committee of the Italian Banking Association, and member of the governing council of Assonime.

He has been a member of the Board of Directors of the Issuer since 28 April 2012.

Pietro Giovanni Corsa. A graduate of the University of Siena with a degree in Banking Economics. He was Administrative Director of A. Menarini Industrie Farmaceutiche Riunite s.r.l. from 1997 to 2009 and since 2010 he has been General Manager of the Menarini Group for the Management, Administration and Information Technology Area.

He has been a member of the Board of Directors of the Issuer since 28 April 2012 and Vice Chairman from 29 April 2013.

Fabrizio Viola. Graduate of “Luigi Bocconi” University in Milan with a degree in Business Economics. He was General Manager of Banca Popolare di Milano, from September 2004 to September 2008 before being appointed Chief Executive Officer of Banca Popolare dell’Emilia Romagna. In the first part of his career, he worked for major consulting and finance firms; he subsequently joined the asset management sector, in charge of managing some mutual investment funds of international dimensions. Among the most significant professional experiences was in 1987, when he joined the IMI Group, where he was Director and in charge of the Italian stock portfolio of private and institutional asset management with SIGE. He is currently the Chairman of the Board of Directors of Banca Widiba SpA in the Montepaschi Group, a member of the Board of Directors of AXA MPS Assicurazioni Vita S.p.A., of AXA MPS Assicurazioni Danni S.p.A., of the Fondazione Accademia d’arti e mestieri dello spettacolo Teatro alla Scala and of the Associazione Educatori senza Frontiere onlus (Association of Educators Without Borders Non-profit Organisation).

He is a member of the Board and of the Executive Committee of the Italian Banking Association.

He has been a member of the Board of Directors of the Issuer since 28 April 2012, formerly General Manager of the Issuer from 13 January 2012, on 3 May 2012 he was appointed Chief Executive Officer.

Alberto Giovanni Aleotti. A graduate in Business Economics from the University of Florence. Mr. Aleotti’s career from 1997 until now has been with A. Menarini IFR Srl, as Deputy Chairman of the Board of Directors, and he is a member of the Board of Directors of Pharmafin S.p.A.. He is also Chairman of the Supervisory Board of Berlin Chemie AG.

He has been a member of the Board of Directors of the Issuer since 28 April 2012.

Béatrice Bernard Graduated in 1985 from the HEC business school (Paris), actuarial studies at the CEA, Chartered Accountant/Certified Public Accountant in France in 1995. Boasts a long 25-year career in the Group headed up by AXA S.A.. She was a Group Controller Director of the AXA Group between 2003

and 2007, holding roles of responsibility in the production of data for the financial communication of the Group headed up by AXA S.A.. She worked on the acquisition and merger of the former Winterthur in 2006/2007. She handled the financial strategy and forecasts of the AXA Group and she was in charge of the Management Control “business family” worldwide. From 2007 to 2013, she was Director of the Paris Region of AXA France, overseeing the distribution of the entire range of AXA products for private and professional customers in the Paris Region, through three different agency channels: agents, brokers and direct sales force, and managing all related transactions. She is General Manager of AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A and the Chairwoman of the Board of Directors of AXA MPS Financial Limited.

She has been a member of the Board of Directors of the Issuer since 24 September 2013.

Daniele Discepolo. A graduate of the University of Pisa with a degree in Law. Head of the Discepolo law firm, correspondent in Italy of American, British, Swiss, French and Spanish law firms. He is currently the Chairman of the Board of Directors of Risanamento S.p.A. and a member of the Board of Directors of major companies, including Piaggio S.p.A. (where he serves as Chairman of the Risk Control Committee, Lead Independent Director and Data Processor and member of the Remuneration Committee), Artemide S.p.A. (where he serves as the Chairman of the Internal Control Committee and Lead Independent Director), Truostar S.p.A. and Manucor S.p.A.. He is also the Chairman of the Board of Statutory Auditors of Pianoforte Holding S.p.A., owner of the companies Yamamay and Carpisa, and *pro bono* Director of the “Filarete Foundation for Biosciences and Innovation”. By appointment of the Ministry of Development, is he the Receiver of Livingston S.p.A., Meraklon S.p.A. and Valtur S.p.A..

He has been a member of the Board of Directors of the Issuer since 14 November 2013.

Angelo Dringoli. A graduate of the University of Siena with a degree in Economics and Banking. Enrolled in the Register of Chartered Accountants of the province of Siena and in the Register of Auditors: From 1980 to April 2012, he was Full Professor at the University of Siena, Faculty of Economics, where is currently an Adjunct Professor. Previously, he held the following offices: Statutory Auditor at Cassa di Risparmio di Terni from 1995 to 1998; director at Banca Toscana S.p.A. from 1999 to 2006; member of the Board of Directors of Banca Verde from 2001 to 2004. He has published many highly qualified academic papers on economic and financial topics.

He has been a member of the Board of Directors of the Issuer since 28 April 2012.

Lorenzo Gorgoni. With a degree in Economics and Business, from 1973 to 2000 he was a member of the Board of Directors of Banca del Salento S.p.A. (serving as Chief Executive Officer from 1978 to 1985, Vice Chairman from 1991 to 1993, and Deputy Chairman from 1993 to 2000). From 1988 to 1990 he was Chairman of the Board of Directors of Banca di Bisceglie S.p.A., from 2000 to 2002 he served as Chairman of the Board of Directors of Banca 121 S.p.A., and until September 2008 he was a member of the Executive Committee of Banca Agricola Mantovana S.p.A.. He is currently a Director of the Italian Banking Association and of Telecom Italia Media S.p.A.. Awards: *Cavaliere del Lavoro* since 1 June 2002.

He has been a member of the Board of Directors of the Issuer since April 2003.

Roberto Isolani. Graduated from the La Sapienza University of Rome. He is a member of the Global Management Committee of BTG Pactual and Head of International Client Coverage. Before joining BTG Pactual in April 2010, he spent 17 years at UBS where he held various roles, including Joint Head of Global Capital Markets and Manager of the Client Services Group, of Fixed Income and FX Global sales-forces. In the UBS group he held the role of CEO and Board director of UBS Securities Italia Finanziaria, of UBS Corporate Finance Italia and of UBS Italia Sim.

He has been a member of the Board of Directors of the Issuer since 9 October 2014.

David Manuel Martinez (resigned on 27 February 2015). Graduated in electrical and mechanical engineering at Universidad Nacional Autonoma de Mexico and in philosophy from the Gregorian University of Rome. He obtained a Master in Business Administration from Harvard University. After working in the executive branch of Citibank he formed Fintech Inc.. In recent years, he has taken part in the process of recapitalisation of systematically important banks like Piraeus Bank and Alpha Bank in Greece and Banco Sabadell in Spain. Sits on the Boards of Directors of Alfa S.A., Vitro S.A. and Banco Sabadell.

He was a member of the Board of Directors of the Issuer from 9 October 2014 to 27 February 2015.

Marco Miccinesi. Degree in Law. Attorney before the Court of Cassation of Florence, he works in Florence, Milan and Rome in the field of tax law and business consulting. He is full professor of Tax Law at the Department of Jurisprudence of *Università Cattolica del Sacro Cuore* in Milan and Director of the Study and Research Centre in Italian and international Tax Law at the same University. He holds the following offices: Chairman of the Board of Directors of Bi Elle Finanziaria S.p.A., Casa di Cura Eretenia S.p.A., Bonaldi S.p.A., Bonaldi Motori S.p.A. and Bonaldi Tech S.p.A.; Director of: M.T. Manifattura Tabacchi S.p.A., Boeheringer Ingelheim Italia S.p.A., Bidachem S.p.A.; Statutory Auditor of Kedrion S.p.A. and Kedrion Group S.p.A..

He has been a member of the Board of Directors of the Issuer since 14 November 2013.

Marina Rubini. Degree in Law from the *Università Cattolica del Sacro Cuore* in Milan with a Master of Law degree from the Northwestern University School of Law in Chicago (Illinois, USA). An attorney, she has collaborated with major law firms in Italy and abroad and served in the following roles: Head of Legal & Compliance Italy and Southern Europe Cluster at Novartis V&D; Head of Corporate Compliance, Antitrust and Commercial Contracts in the Legal and Corporate Affairs Department of Bayer and Head of the Corporate Area within the Legal Department of Tamoil Italia. Her CV has been included in the database of the Bellisario Foundation “1000 Outstanding Curricula”, a collection of the best curricula of women with outstanding professional careers. She is a Director of Finmeccanica S.p.A..

She has been a member of the Board of Directors of the Issuer since 14 November 2013.

For the organisation of the Board of Directors, please see the enclosed Table no. 1.

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

The maximum number of positions held by members of the Board of Directors is also regulated by a dedicated point in the Regulations of the Board of Directors.

Said Regulation, revised in 2013, specifies that, indicatively, “holding corporate offices, in six joint stock companies outside the MPS Group other than BMPS, not resulting from the Group’s own designation, can be deemed compatible with the effective performance of the duties of a Director of the Bank”. In this regard, up to four offices held within the same group count as one; more than four offices count as two.

This limit is augmented by the maximum number of three offices – barring exceptional cases – in companies of the Montepaschi Group, excluding the Parent Company, or in other companies at the designation of the Group itself.

In light of Consob communication no. 10046789 of 20 May 2010, the Regulations of the Board of Directors specifies that “... said limit of three offices is an adequate safeguard to preserve the directors’ independence from the viewpoint of financial relations with the issuer and its Group, in accordance with the provisions of current regulations and interpretations. The Board of Directors, when making the designations - or the Chairman in case of consultation procedures - shall ensure that said limit is constantly maintained from the substantial viewpoint as well and, with it, that the director’s independence is safeguarded.”

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

In its meeting of 4 March 2015, the Board carried out said annual review, in relation to which it resolved to confirm the compatibility of the other corporate offices held by its own members, in addition to office in the Bank, with the effective performance of duties as the Bank’s Director.

– **Induction Session**

The Chairman of the Board of Directors also oversaw, in 2014, the “Board Induction” programme, consisting of a series of periodic seminars for all representatives (directors and statutory auditors), taken by the Bank manager rather than by external professionals, in relation to themes including the duties and responsibilities of directors, risks and controls, finance capital and liquidity, credit, sales, organisation and network, derivatives and bancassurance.

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

– Operation

During 2014, 21 meetings of the Board of Directors were held, with an average duration of 4 hours and 35 minutes. In February 2015, 3 meetings were held with an average duration of around 4 hours and 42 minutes. A further 3 Board meetings have been scheduled for the remainder of 2015, up until the shareholders' meeting called to approve the financial statements for the year ended 31 December 2014 and to resolve on the renewal of the corporate bodies.

For each director's percentage of attendance at meetings, please see the enclosed Table no. 1.

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

In particular, information is made available to directors and statutory auditors using a dedicated procedure available from the Intranet or extranet on a protected basis, enabling all Directors and Statutory Auditors to view the proposals and associated annexes and obtain all information necessary to participate in discussions and resolutions concerning items in the agenda of the Board's meetings, in an informed manner, also in accordance with Article 2381, Par. 6 of the Civil Code. More specifically, the Board's documents are made available, mostly at the time the meeting is convened and the related agenda is announced (5 days before the meeting) or in the following days as soon as they are available (in urgent cases or for additions to the agenda, at least 24 hours before the meeting), by uploading them to a "Team Site", accessible by the Directors and Statutory Auditors, through the Internet or the company's Intranet, in any case in a protected environment, accessible through personalised login and password.

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

For reasons of confidentiality, with respect to a topic that is included in the agenda, Directors may receive the documentation at the time of the meeting; in other cases, it has been necessary to make additions to the information in the course of the meeting, e.g. for the considerations for the various Committees within the Board, which generally meet a few hours prior to the Board meeting.

For reasons of urgency, it may also be necessary to make a decision about an issue included in the agenda as "any other business"; in this case, the consent of all Directors (even absent ones) must be obtained. However, we are talking about exceptional cases which only occurred once in 2014.

The Board of Directors' meetings are attended by the Secretary, selected among the Executives of the Bank, as prescribed by the Articles of Association. As provided by the Regulation, the Chairman, in carrying out his duties of managing the Board's work and debate, may rely on the contribution of Bank Executives or advisors to illustrate specific topics during the meetings of the Board.

– Powers of the Board of Directors

The Board of Directors has all the ordinary and extraordinary administrative powers to fulfil the Bank's company purpose that are not reserved to the shareholders meeting by law or by the Articles of Association and matters submitted for its examination by the Chairman, the Executive Committee and the Chief Executive Officer(s).

More specifically, the Articles of Association (Article 17, par. 2) reserve the following powers exclusively to the Board that cannot be delegated:

- formulating the strategies and guidelines of the Company and of the banking Group it heads, and approving the related business and financial plans and strategic transactions;
- overseeing the correct and consistent implementation of the aforesaid guidelines and strategic plans into the management of the Company and of the Banking Group;
- establishing the principles for the Company's general organisation and approving its organisational structure, approving and amending its main internal regulations;

- expressing the general guidelines for the banking Group’s organisation and operation, establishing the criteria for the coordination and management of subsidiaries belonging to the same banking Group, and for the execution of the instructions imparted by the Bank of Italy;
- ensuring that the Financial Reporting Officer has adequate powers and means to perform his/her duties, and that administrative and accounting procedures are enforced.

In addition, as set out in Article 17, par. 1 of the Articles of Association, in application of Article 2365 of the Civil Code, the Board is responsible for resolving on mergers in the cases envisaged under Articles 2505 and 2505 bis, on the opening and closing of secondary offices and on the adjustments of the Articles of Association into line with legislative provisions.

The Board of Directors of the Parent Company shall make decisions with regard to the transactions of the Issuer and of its subsidiaries (in this case through the “Parent Company’s preventive opinion” instrument) if the transactions have significant strategic, economic, capital or financial relevance, which entail the assumption of additional risks and for all other matters governed/identified as such by the Articles of Association of the Parent Company and the Subsidiaries and by Group Regulations). The above activities are carried out in accordance with the Articles of Association and internal regulations. In particular, in 2014, the Board updated the reference regulatory framework for relations between the Parent Company and the Group companies regarding all company processes, with the new “Regulation for the operating governance of the Group”, which regulates, in close synergy with the remaining internal regulations, the strategic and operating responsibilities of the Parent Company and the Group companies regarding company processes, the associated operation mechanisms and the dissemination of information flows, in order to ensure the common objectives are reached, in observance of the legal autonomy of the Group companies and the principles for their proper corporate and business management. With regard to the general operating performance, the Board assesses it on a quarterly basis through the budget review submitted by the Chief Executive Officer.

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

The Board of Directors constantly assesses the adequacy of the organisational structure of the Bank and of the Group based on the information provided by management.

In addition, with reference to the relevant supervisory and company regulations, the Board of Directors:

- based on the preventive opinion of the Control and Risk Committee:
 - defines the guidelines for the internal control and risk management system, so that the main risks of the Bank and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, while also determining the level of compatibility of these risks with bank management that is coherent with the strategic objectives that have been set;
 - approves, at least annually, the work plans drafted by the managers of the Company Control Functions;
 - examines the periodic reports on the valuation of the internal control and risk management system and the particularly significant reports prepared by the Compliance, Risk Management and Internal Audit Functions;
 - assesses, at least once per year, the adequacy of the control and risk management system against the characteristics of the Bank and the risk profile assumed, as well as its effectiveness;
 - assesses, together with the financial reporting officer and after having received the opinion of the auditor and the Board of Statutory Auditors, the correct usage of the accounting standards and their uniformity for the purposes of drafting the consolidated financial statements;
- on the proposal of the Control and Risk Committee, and with the preventive opinion of the Appointments and Remuneration Committee:
 - appoints or revokes the managers of Company Control Functions (Internal Audit, Compliance, Anti-money Laundering, Risk Control and Internal Validation).

Within its scope of operations, in 2014 the Board tackled the following main issues.

- on 31 January 2014, the Board approved the plan for the reorganisation of the Parent Company's structures, aimed at strengthening sales and distribution activities and integrating governance functions with business support;
- On 25 March 2014, the Board approved the amendments to Articles 15 and 26 of the Articles of Association regarding the composition of statutory bodies, providing some clarification on gender balance in line with the Bank of Italy guidelines, raising the minimum number of independent directors to at least one-third, in order to comply with the "Commitments" undertaken by the Bank as part of the Restructuring Plan approved by the European Commission on 27 November 2013;
- on 18 April 2014, the Bank's Board of Directors resolved to propose to the Extraordinary Shareholders' Meeting, held on 21 May, a share capital increase up to a maximum of EUR 5 billion, to replace the increase of EUR 3 billion already authorised on 28 December 2013;
- on 5 May 2014, in execution of the resolution adopted by the Extraordinary Shareholders' Meeting of the Bank on 28 December 2013, the Board of Directors authorised the grouping of ordinary BMPS shares based on a ratio of 1 new ordinary share for every 100 shares held. As a result, the new share capital stood at EUR 7,484,508,171.08, represented by 116,815,397 ordinary shares, without par value;
- on 5 June 2014, the Board of Directors established the final terms for the share capital increase totalling EUR 5 billion, determining the maximum number of shares to be issued (4,999,698,478), the subscription price (EUR 1 per share) and the ratio (214 newly issued shares for every 5 shares owned);
- on 30 June 2014, the Board of Directors arranged the redemption of a nominal EUR 3 billion in New Financial Instruments, and payment of the 2013 interest accrued on these, through the issue and simultaneous repayment of New Financial Instruments for a total of around EUR 3.5 billion;
- on 5 November 2014, following the results of the Comprehensive Assessment performed by the European Central Bank and by the European Banking Authority, communicated on 26 October 2014, the Board of Directors approved the Capital Plan proposed to the competent authorities to bridge the capital deficit of EUR 2.1 billion deriving from the Comprehensive Assessment and attributable to the impact of the adverse Stress Test scenario.

- **Self-assessment of the Board**

In line with international Best Practice and the provisions of the Corporate Governance Code, the Supervisory Provisions regarding banks' corporate governance, and its Regulation, BMPS's Board of Directors initiated its self-assessment and that of its additional board committees, relating to the year 2014 ("Board Review"), availing itself of the support of consulting firm SpencerStuart, which had already handled the self-assessment process for the years 2012 and 2013. The objective of the work is to carry out a structured examination of the composition (qualitative and quantitative, diversity, balancing guaranteed by non-executive and independent members, adequacy of the appointment processes and selection criteria, professional updating) and operation (holding of meetings, frequency, duration, degree and method of participation, relationship of trust, collaboration between members, awareness of the role covered, discussion quality) of the Bank's Board and its Committees, identifying their optimal composition for reaching the Bank's strategic objectives, also in view of the renewal of the corporate bodies envisaged on approval of the 2014 financial statements.

The function performed by the Board of Directors, in relation to specific areas of particular importance for sound and prudent management (like strategies, operating performance, system of controls) was also analysed.

The 2014 Board Review was conducted using the method of direct interviews with Directors, performed by senior SpencerStuart consultants with board consulting experience. This self-assessment method, widely used in international practice, allows for the effective participation of Directors and a thorough analysis of the issues.

The interviews were conducted using an “Interview Guide”; for each issue discussed, Directors were asked to provide a quantitative assessment and a qualitative comment.

The agendas and minutes of the meetings of the Board of Directors were also analysed in order to grasp the themes discussed and their frequency on the agenda, and the duration and frequency of the meetings.

In addition, the Board’s operating practices were compared with those identified as “Best Practices” in a study by SpencerStuart, called “Boardroom Best Practices”.

After completing the analysis, SpencerStuart produced a document that illustrates the main observations, strengths, areas of improvement of the Board of Directors, the proposals for possible actions to undertake in order to develop what already emerged during the 2013 Board Review and considering the associated initiatives already commenced, as described briefly below.

* * *

It should be noted that, also following the results of the self-assessment, in 2014, work continued for the review and consolidation of the rules of operation of the Bank and of the Group in terms of governance, policies and operating procedures. The Board was also engaged in certain decisions of an extraordinary nature, first and foremost the decision to increase the Bank’s share capital (carried out in 2014). The composition of the Board of BMPS changed as a result of the termination of office of two Directors and the subsequent appointment of as many new Directors, which took place in the second half of the year.

The Directors, based on the aforementioned 2014 self-assessment, deemed the size of the Board to be adequate and the structure of the current Board to be well-balanced. As regards the aspect of the less represented gender, some Directors highlighted that selection must be based on competencies and experience, in the belief that different points of view certainly enrich Board debates; a favourable opinion was presented regarding an increase in gender quotas, currently residing at the minimum legal requirement.

Professional training, the current competencies of directors and their mix were held to be well balanced and in line with the Bank’s prospective requirements.

At the meeting on 4 March 2015, the Board examined the results of the Board Review relating to 2014, the end-of-term self-assessment of the Board of Directors in office, by expressing its positive judgment on the adequacy of the dimensions, the composition and the operation of both the Board of Directors and the Internal Committees.

With reference to the operation of the Board, the areas most appreciated by the Directors concerned the size and the composition (adequate size and balancing of its structure between executive, non-executive and independent directors); the operation (the spirit of the Board meetings, clarity of the agenda, continuity and presence of directors at Board meetings, the opportunity for each Director to freely express his/her opinions, the recording of the questions and arguments put forward by the Directors, the clarity and accessibility of information, the timing of the receipt of documentation); the knowledge of the Group and relations with Management (valuable relations with Management during Board meetings; the Board’s knowledge of the Group’s top management, adequate information flows relating to the performance of the Bank and of the Group, awareness of the state of health of the business); Chairman (the role performed by the Chairman and management of the Board debate and as a contact point for the control functions and the internal committees); Chief Executive Officer (presentation of the topics regarding the operating performance and the most significant transactions; exhaustiveness of the responses provided to the Directors’ questions); risk governance (role performed by the Board in relation to the identification, management and control of risks, the Board’s awareness of the risks the Bank is exposed to and the implementation of the proper system of information flows and risk management and control).

In particular, with regards to:

– Size and composition of the Board

The Directors believe that the size of the Board is adequate for a complex Group like the Montepaschi Group, with a Board structure characterised by a well-balanced mix of competencies and professionalism. In relation to the upcoming renewal, it is hoped that additional banking know-how and expertise will be added, also taking into consideration the opening to business-based profiles and experts in the technology and digital fields, potentially acquired in international contexts.

– Board operation

On the whole, based on the responses of the Directors and a comparison of the operating practice and functioning of the Bank's Board with the Best Practices obtained from SpencerStuart in more than ten years of Board Reviews at international level, a positive evaluation was confirmed regarding the methods of operation of the Board of Directors, which felt that it had improved during the term of office.

The approval and appreciation for the considerable commitment shown by the Chairman and by the Chief Executive Officer is unanimous, considering the huge efforts made to manage an extremely difficult situation, proof of the excellent skills and sense of responsibility.

The Chairman performed his role effectively, obtaining approval from all Directors for the authoritative manner in which he handled Board meetings. The Chief Executive Officer is greatly respected for his profound knowledge of the business and for being readily available to provide information to Directors with clarity and to respond to their observations.

The knowledge of the Bank and of the Group, and the understanding of the business improved significantly with respect to previous years, also thanks to the training prepared on technical subjects, such as the development of banking legislation, loans, financial products. During the current year, the following themes were effectively analysed in an in-depth manner: internal control systems, risk management, management of conflicts of interest, top management succession plan and legislative and regulatory evolution.

With regards to the operation of the Committees, the adequacy of the skills and composition of the various Committees, which provided systematic support to Board works, was confirmed.

Finally, an analysis of the culture of the administrative body, conducted for the first time this year at the end of the three-year term of office of the current Board, highlighted that the Board's approach was, on the whole, constructive and balanced, which was strengthened in the last year. The undisputed leadership of the Chairman and the Chief Executive Officer, and the considerable willingness of the Chief Executive Officer to share information and respond to Directors' questions are considered key elements for the successful operation of the Board and harmonious relations between Directors. The debate is open to all Directors who have the opportunity to take part.

The 2014 self-assessment highlighted some actions which could be implemented by the Bank's Board of Directors to further improve the Board's operation, which is, however, already of high quality, concerning, among other things, periodic information/documentation provided to the Directors on the implementation of the resolutions of the decision-making body on the main areas of activity and benchmarking of the Bank's performance with respect to that of other banks; the organisation of one or more meetings focussed on single themes like investments; the sales policy and regional presence; the definition of strategies (scheduling the annual Strategy Day with greater frequency); the enhancement of the induction of Directors; the redefinition of the role attributed to the Executive Committee, also taking into consideration the implications relating to the "executive nature" of the Directors (in particular, with regards to the setting up of additional Board committees); the definition of the calendar of works of the individual Committees, aimed at facilitating the intra-company flow of information; the Contingency Plan (to be adopted and assessed at least annually at Group level, for analysing and agreeing the activities, roles and responsibilities of the Board for the management of unexpected crises, by splitting the actions to be undertaken between the executive and non-executive Directors).

* * *

In compliance with the Supervisory Provisions regarding bank's corporate governance in relation to the renewal of the Board by the shareholders' meeting called to approve the 2014 financial statements, the Board of Directors will inform shareholders, through the proper document published on the Bank's website and filed at the company's headquarters and the market management company, of the evaluations of its qualitative and quantitative composition, considered optimal in relation to the objectives set out in the aforementioned supervisory provisions, as well as the appropriate theoretical profile (including therein the characteristics of professionalism and independence if necessary) of the candidates for these purposes, in time for the shareholders to take them into account when choosing candidates.

4.4. DELEGATED BODIES

– **Chief Executive Officer**

On 3 May 2012, the Board of Directors appointed the General Manager, Mr. Fabrizio Viola as the Chief Executive Officer of the Bank, granting him the power to submit recommendations and proposals and to execute the resolutions of the Board.

With regard to the powers of recommendation, the Chief Executive Officer submits to the Board of Directors issues concerning: (a) the general guidelines for the operation of the Group, (b) the general criteria for coordination and direction of subsidiary companies, (c) the internal regulations and group Directives regarding development and management policies as well as the human resource incentive system, (d) the appointment of one or more Deputy General Managers, one of whom will be a senior deputy general manager, with the definition of their relative functions, mandates, powers and remuneration; (e) the hiring, appointment, definition of the functions, powers and legal and economic status of the Board Members and the structures reporting directly to the CEO and the Financial Reporting Officer.

As part of his autonomous executive powers, the Chief Executive Officer can: (a) open and close branches and offices, unless they are secondary headquarters; (b) resolve to hire, promote, appoint, define the duties, functions and powers and the legal and economic status of the personnel of any level or degree, including the managers (except for the positions reporting directly to the Board or the CEO himself which fall under the authority of the Board), adopt the necessary provisions, authorise waiting periods, order transfers and secondments, assume all precautionary and disciplinary actions including termination, decide on the termination at will (for managers), and define the termination treatment, management of relations with labour unions; (c) make decisions in regards to equity investments for book values of up to EUR 4.0 million; (d) authorise expenses within the limits of the budget approved by the Board up to EUR 10 million.

No specific powers have been assigned in regards to the granting of loans.

– **Chairman of the Board of Directors**

The Chairman of BMPS's Board of Directors has received no management mandate from the Board itself, nor carries out a specific role in drawing up the corporate strategies; concurrently, this person does not have the position of chief executive officer, nor is he the controlling shareholder of BMPS.

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

The Chairman of the Board of Directors also has an important role in promoting internal dialogue and ensuring that the powers are balanced, in line with the duties that are attributed by the Civil Code. In particular, with regard to the organisation of the Board's work, the Chairman is responsible for managing the work and the debates, conducting the discussions, while having the possibility of obtaining illustrative contributions, during the meetings of the Board, from bank managers or consultants, on specific issues. The Chairman of the Board also ensures that the information is circulated so that the appropriate information on the issues set forth under the agenda is provided to all the Directors.

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

Pursuant to Article 19 of the Articles of Association, the Executive Committee is composed of certain members by right (the Chairman, Deputy Chairman/Chairmen, Chief Executive Officer/Officers) and the members of the Board selected by the Board itself in the first meeting held subsequent to the Shareholders' Meeting which approves the financial statements, so that the Committee consists of at least five and a maximum of nine members.

On 3 May 2012, the Board of Directors established its own Executive Committee. The Executive Committee currently comprises not only the members by right Alessandro Profumo, Pietro Giovanni Corsa and Fabrizio Viola, pursuant to Article 19 of the Articles of Association, but also the Directors Giovanni Aleotti and Lorenzo Gorgoni (confirmed by the Board of Directors at the meeting on 12 May 2014) and Roberto Isolani (appointed by the Board of Directors on 9 October 2014).

The powers delegated to the Executive Committee have been attributed based on the resolution of the Board of 15 May 2012 and were subsequently implemented on 31 October 2012.

The following powers have been granted to the Executive Committee:

- authorisation for expenses within the budget approved by the Board, and in any case up to a maximum limit of EUR 50 million;

- bringing lawsuits or cross-complaints and legal settlements;
- making decisions regarding the granting of credit up to EUR 250 million (excluding the loans under Article 136 Tub - for which the Board is exclusively responsible - and with “major” related parties);
- terminations and administrative/operating decisions regarding equity investments with a book value between EUR 4 million and EUR 20 million, excluding the transactions that involve changes in the Banking Group;
- operating decisions that are not under the exclusive responsibility of the Board of Directors pursuant to the Articles of Association;
- deciding upon investments/disposals of real estate up to EUR 20 million.

In 2014, there were 16 meetings with an average duration of 31 minutes. In 2015, 3 meetings were held, with a duration of 17 minutes. A further 3 meetings of the Executive Committee have been scheduled for the remainder of 2015, up until the shareholders’ meeting called to approve the financial statements for the year ended 31 December 2014 and to resolve on the renewal of the corporate bodies.

Please see “Table 1” attached, for the structure and attendance of the Executive Committee meetings.

– **Disclosure to the Board of Directors**

Upon attribution of the autonomous powers of the delegated bodies, the Board established that they must disclose to it, every quarter, the actual exercise of the powers conferred to them.

4.5. OTHER EXECUTIVE DIRECTORS

All directors, except the Chief Executive Officer, shall be deemed, in respect of the relevant application criteria in the Corporate Governance Code, to be non-executive directors, including those who are members of the Executive Committee, insofar as a Chief Executive Officer has been identified and participation in the Executive Committee does not in fact entail the systematic involvement of its members in the ordinary operations of the Bank; furthermore, there are no directors with managerial responsibilities within the Bank except for Mr. Fabrizio Viola who, in this case as well, is the Bank’s Chief Executive Officer and General Manager.

In this regard, bear in mind that the regulation issued in 2014 by the Bank of Italy regarding corporate governance (Supervisory Provisions for banks – Circular no. 285 of 17 December 2013, Title IV, Chapter 1) defines as “executive members” the directors who are members of the executive committee, or recipients of powers or who perform, including merely de facto, company management functions.

However, considering that this regulation is the process of being acknowledged, it is believed that, for the Directors in office, the assessment of the “non-executive nature”, which took place in observance of the application principles and criteria of the applicable Corporate Governance Code, may be maintained until the imminent expiry of the term of office (upcoming shareholders’ meeting in April called to approve the financial statements for the year ended 31 December 2014).

As regards the decisions on the establishing of the Executive Committee and the assessments regarding the non-executive nature and independence of the directors, to be adopted following the renewal of the corporate bodies, which will take place at the next shareholders’ meeting in April, the Bank will adhere meticulously to the criteria set forth on the matter by the new Bank of Italy regulations mentioned above.

4.6. INDEPENDENT DIRECTORS

The Corporate Governance Code, as a point of reference for effective Corporate Governance indicates that the following are among the duties of the Board of Directors: to assess (i) the independence of its non-executive members, on the basis of substance over form; (ii) the relations that could be or to appear to have the capacity to compromise the autonomy of the non-executive directors’ judgment, based on information provided by the interested parties and in any case at the disposal of the issuer.

The Board has decided that the qualification of non-executive director as an independent director does not express a value judgment, but rather indicates a de facto situation, such as the absence of relations with the

issuer or individuals connected to the issuer, that would currently affect the autonomy of judgment and the unbiased appreciation of the management's work.

For five of the Directors, the Board of Directors resolved and confirmed the fulfilment of the independence requirements pursuant to Article 147-*ter* and 148 of the TUF and pursuant to the Corporate Governance Code for Listed Companies, the last time during its meeting of 4 March 2015, upon completion of the annual verification of the fulfilment of the requirements of professionalism, trustworthiness and independence of the Directors in office.

In this regard, bear in mind that, for the purposes of confirmation of the independence requirement, the Board evaluated that - even if the regulation issued in 2014 by the Bank of Italy regarding corporate governance and in the process of being acknowledged (Supervisory Provisions for banks - Circular no. 285 of 17 December 2013, Title IV, Chapter 1) defines as "executive members" the directors who are members of the executive committee, or recipients of powers - for the Directors in office, the assessment of the "non-executive nature", which took place in observance of the application principles and criteria of the applicable Corporate Governance Code, may be maintained until the imminent expiry of the term of office (next shareholders' meeting in April called to approve the financial statements for the year ended 31 December 2014).

The verifications were conducted on the basis of information provided by the interested parties or which were already available to the company.

For the Directors Roberto Isolani and David Manuel Martinez, co-opted by the Board of Directors on 9 October 2014, during said meeting, the Board verified the requirements of professionalism, trustworthiness and independence, ascertaining that both meet the independence requirements in accordance with Articles 147-*ter* and 148 of the TUF and the non-fulfilment of the independence requirement pursuant to the Corporate Governance Code of listed companies and, therefore, non-fulfilment of the independence requirement as defined by the Articles of Association.

For the Director Christian Whamond, co-opted by the Board of Directors at the meeting on 4 March 2015, the Board verified the requirements of professionalism, trustworthiness and independence during said meeting, ascertaining the fulfilment of the independence requirements in accordance with Articles 147-*ter* and 148 of the TUF and the non-fulfilment of the independence requirement pursuant to the Corporate Governance Code of listed companies and, therefore, non-fulfilment of the independence requirement as defined by the Articles of Association.

The current independent Directors on the Bank's Board are: Pietro Giovanni Corsa, Daniele Discepolo, Angelo Dringoli, Marco Miccinesi and Marina Rubini.

The outcome of these checks was disclosed in press releases to the market.

The number of the Bank's independent Directors (five) is therefore higher than the minimum limit of at least one third as indicated in the Corporate Governance Code for issuers belonging to the FTSE-Mib index and also established by Article 15 of the Articles of Association.

The Board of Statutory Auditors verifies the correct application of the criteria and assessment procedures adopted by the Board of Directors for the evaluation of its members' independence and will communicate this in its report to the Shareholders' Meeting convened for the approval of the financial statements for the year ended 31 December 2014.

In compliance with the requirements of the Corporate Governance Code (Article 3, application criteria 3.C.6), the independent directors met, in the absence of the other directors, on 11 November 2014.

There have been no cases of directors who were qualified as independent directors within the Board's appointment lists and committed to maintaining this status for the entire duration of the mandate, who resigned.

4.7. LEAD INDEPENDENT DIRECTOR

In consideration of the fact that the Chairman of the BMPS Board of Directors received no management mandate from the Board itself, nor carries out a specific role in preparing the corporate strategies or acts as the chief executive officer or the controlling shareholder of BMPS, the BMPS Board of Directors has not

appointed an independent director as the lead independent director, since the application criterion 2.C.3 of the Corporate Governance Code does not apply.

5. PROCESSING OF CORPORATE INFORMATION

The Bank's Board of Directors has adopted special internal rules for the handling of corporate information, in order to regulate the flow of this information, in particular the confidential information.

The principles and guidelines for identification of a suitable process for the handling of confidential information are also set forth in the "Group Directive on Market Abuse" (hereinafter the "Directive"), approved by the Board, in the last updated version, in the meeting of 8 March 2012 as well as the relative operating instructions which define the criteria for the conduct, the organisational rules, procedures and obligations as well as the responsibilities and duties of the organisational structures that are involved, in relation to issues that are also significant for the Montepaschi Group entities.

Furthermore, in order to establish a unified compendium on the issue of market abuses, the Directive also summarises the provisions under the "Internal Dealing Regulation", approved by the Bank's Board on 29 March 2006 and subsequently amended with the resolution of 28 January 2010 and lastly with the resolution of 17 July 2014; this Regulation is published on the Bank's website www.mps.it/Investor+Relations/ElencoDocumenti.

The Directive covers the following issues:

- **Internal Dealing:** the Directive summarises the main relevant areas for the Bank regarding communication obligations with the public and Consob about transactions carried out by relevant parties, also via third parties, involving the shares of the listed issuer or other related financial instruments. The subject is dealt with in detail in the "Internal Dealing Regulation".
- **Purchase of treasury shares:** defines the procedures for purchasing the shares and the obligation to disclose the program to the market.
- **Recommendations:** regulation on correctness and transparency of studies and research on listed financial instruments.
- **Confidential information:** introduction of the notion of confidential information as an object of disclosure and the obligation to establish the "List of persons with access to confidential information". The Directive defines the principles and the methodological references for the Group Companies to which this issue pertains.
- **List of persons with access to confidential information:** the obligation of issuers and the entities controlled by them, to establish and manage the list of persons who by virtue of their work or profession or due to the functions incumbent upon them, have access to confidential information. In this context, the areas and rules for application are defined.
- **Abuse of confidential information and market manipulation:**
 - introduction of new administrative offences;
 - provision for "Safe Harbor" specifications and allowed market practices;
 - introduction of the obligation to recognise and inform Consob of transactions which, based on reasonable suspicion, could involve market manipulation and/or abuse of confidential information, the so-called "suspicious transactions" (Article 187-*nonies* of the TUF).

The obligations set forth under Article 187-*nonies* of the TUF regarding recognition and disclosure of "suspicious transactions", are addressed in the aforementioned Directive which accurately defines the principles and methodological references for the Group Companies concerned by this issue which, following the acknowledgement of the Group Directive, prepared and issued a specific internal operating regulation which defines the functions, duties and responsibilities of the central and peripheral structures.

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

The Board of Directors set up the following internal committees with Board support and assistance functions, attributing them with the committee functions set out in both the Corporate Governance Code and the supervisory regulations:

- **Appointments and Remuneration Committee**, carries out the functions of both the Appointments Committee and the Remuneration Committee as provided by the Corporate Governance Code as well as the Bank's Articles of Association;
- **Control and Risk Committee** assists the Board of Directors, with suitable investigations, with valuations and the decisions relative to the internal control and risk management system, as well as the decisions concerning approval of the interim financial reports;
- **Committee for Related Party Transactions** performs support functions as regards transactions with related parties and associated parties.

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

The composition of the committees for the year 2014, the date of approval of the relative Regulations, any amendments thereto, their operation and main duties performed are reported below.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

In its meeting on 25 May 2012, the Board of Directors resolved to establish the Appointments and Remuneration Committee and assigned to this committee the functions set forth in the Corporate Governance Code and the Articles of Association for the Appointments Committee as well as the Remuneration Committee. This decision was driven by the need to ensure operational accuracy and the efficient functioning of the body as well as the economies of scope which can be achieved with a single Committee, and also the need to reduce costs. The combination of the two respective functions makes it possible to achieve the objectives set by the Corporate Governance Code.

Moreover, in consideration of the applicable Supervisory Provisions concerning banks' corporate governance which require the establishing of three separate Committees, in fulfilment of the necessary obligations following the renewal of the corporate bodies which will be resolved at the next shareholders' meeting in April, both the Appointments and Remuneration Committees will be set up.

Composition and operation

The current regulation of the Appointments and Remuneration Committee was approved by the Board with its resolution of 28 August 2012.

At its meeting on 9 October 2014, the Board of Directors resolved to increase the number of Committee members from four to five and to appoint the Director David Manuel Martinez as a member of this Committee at the same meeting. At the meeting on 4 March 2015, following the resignation of the director Mr. Martinez, the Board appointed the aforementioned director Christian Whamond in his place, as a member of said Committee.

Therefore, the Committee is composed of five members of the Board of Directors, all non-executive directors pursuant to the Corporate Governance Code, the majority of whom are independent: Pietro Giovanni Corsa, Angelo Dringoli, Lorenzo Gorgoni, Marco Miccinesi and Christian Whamond.

The Committee appoints a Chairman internally (currently this is Marco Miccinesi), selected from among the independent directors, who is in charge of calling and chairing the meetings; it also appoints a Secretary, selected from among the Bank's managerial employees. The Committee has ensured that its members have the requisite accounting and financial skills.

The Chairman of the Board of Directors, the Chairman of the Board of Statutory Auditors and the Chief Executive Officer attend the Committee meetings depending on the issues being discussed.

Whenever it is considered appropriate, also in relation to the issues to be discussed, the functions that worked on the report and/or formulated the proposal may be asked to participate in the work of the committee as may one or more representatives of management, as well as other heads of the Bank's functions and third parties. The Committee may employ external consultants, whose expenses are covered by the company based on a budget approved by the Board.

In 2014, the Committee had 16 meetings, with an average duration of approximately 1 hour, for which the minutes were regularly taken by the secretary. On average, 96% of the members participated in the meetings.

For 2015, no schedule of meetings has been prepared as meetings will be held upon calling of the Chairman, whenever there are issues that fall under the competence of the Committee to be discussed. In the first few months of 2015, the Committee held 3 meetings (on 28 January; 11 February and 3 March).

Functions attributed

The Committee makes proposals and provides advice, with the task of:

- proposing to the Board the candidates for the office of director in the cases set forth under Article 2386, first paragraph, of the Civil Code, whenever it is necessary to replace a director;
- presenting proposals to the Board for the appointment of the members of the Executive Committee and, upon indication of the Chairman, the Chief Executive Officer;
- expressing an opinion to the Board regarding the appointment of the Bank's top management and the succession plans, again with regard to the top management, the top management being the general manager, the deputy general managers, the managers of the departments and in any case the managers of the structures who report directly to the Chief Executive Officer;
- expressing an opinion to the Board, on the proposal of the Chief Executive Officer, regarding the salary structure of the managers of the departments that report directly to said Chief Executive Officer;
- providing an opinion to the Board regarding the process for the succession plans relative to the positions of the persons in charge of the Bank's main functions;
- upon indication of the Chairman, putting forward proposals to the Board, while the interested parties are not present, regarding the remuneration of the managing directors and other directors with particular roles, also including any stock option plans or assignments of stocks, which are part of the remuneration;
- upon indication of the Chief Executive Officer, the Committee submits proposals to the Board regarding the remuneration of top management, including therein also any stock option plans or stock assignments;
- periodically evaluating the criteria adopted for the remuneration of managers with strategic responsibilities; monitoring their application and providing general recommendations to the Board on the matter;
- upon the proposal of the Chief Executive Officer, expressing opinions to the Board regarding the Bank's incentive plans;
- upon the proposal of the Chief Executive Officer, indicating the guidelines for the incentive systems applicable to the subsidiaries;
- expressing an opinion on the appointment of directors and statutory auditors at subsidiaries and investees, whose decision-making autonomy falls within the competence of the Board of Directors or the Executive Committee;
- collaborating with the Board to identify the qualitative and quantitative combination considered optimal for the correct performance of the functions and verifying that it complies with that in effect at the time of the appointment process;
- proposing to the Board the salary structure of the managers of the company control functions, having consulted the Risk Control Committee and the Board of Statutory Auditors.

During 2014, with reference to the aforementioned functions, the main activities carried out by the Appointments and Remuneration Committee concerned:

- proposed appointment of the elective members of the Executive Committee, pursuant to Article 19 of the Articles of Association;
- proposal of candidates by co-optation as Bank Directors, to replace the outgoing Directors Marco Turchi and Paola Demartini with two new directors Roberto Isolani and David Manuel Martinez,

and the subsequent verification that the qualitative and quantitative composition of the Board of Directors considered optimal (ex ante) matches the actual situation at the end of the appointment process by co-optation;

- collaboration in the self-assessment of the Board with the support of the company SpencerStuart, with the drafting of the necessary Committee report;
- the examination of the results of the analysis conducted on the management remuneration system;
- examination of the Remuneration Report, pursuant to Article 123-ter of the Consolidated Law on Finance (TUF);
- the issuing of a favourable opinion regarding:
 - the Board's approval of the remuneration and incentive policies – “Variable Remuneration for 2014”;
 - the appointment, effective from 1 February 2014, pursuant to Article 17, par. 2, letter h) of the Articles of the Association, of two Deputy General Managers (one of which in the Senior Role);
 - the conferral of positions of responsibility relating to the Human Resources Department, Organisation and Communication, the Retail and Network Department and the Corporate and Investment Banking Department;
 - the proposal of the Chief Executive Officer of merit-based initiatives in favour of personnel;
 - on proposals of top management salary actions, pursuant to Article 17 of the Articles of Association;
 - the proposal of a new car benefit management policy for the Montepaschi Group;
 - the Plan of managerial continuity for Department and Area roles of responsibility;
 - the appointments of Board Directors at subsidiaries and/or investees.

8. DIRECTORS' REMUNERATION

It is hereby reiterated that:

- Article 13 of the Articles of Association establishes that the “ordinary Shareholders’ Meeting sets the remuneration of directors and statutory auditors, pursuant to Article 27 and approves the remuneration policies and remuneration plans based on financial instruments for the members of the Board of Directors, the employees and the associates of the Bank who are not related to it through an employment relationship”;
- Article 27 of the Articles of Association provides that “after receiving the opinion of the Board of Statutory Auditors and upon the proposal of the Remuneration Committee, the Board of Directors establishes the remuneration of the directors to whom particular duties have been assigned in compliance with the Articles of Association, including those directors who are members of internal committees of the Board of Directors pursuant to Article 17, paragraph 4, without prejudice to the power of the Shareholders’ Meeting to establish the remuneration of the Chairman of the Board of Directors”;
- the Board of Directors has defined a general policy for the remuneration of directors and the managers with strategic responsibilities which was approved by the Shareholders’ Meeting of 29 April 2014 (agenda item: “Remuneration Report in accordance with Article 123-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance)”):

Regarding the emoluments received by the Bank's Members of the Board during 2014 and regarding the information relative to the transparency of the remuneration to the directors and the managers with strategic responsibilities, and the indemnities in the case of resignation, dismissal or termination of employment following a takeover bid (claw-back clause), express reference is made to the aforementioned Remuneration report pursuant to Article 123-ter of the TUF.

9. RELATED PARTY TRANSACTIONS COMMITTEE

The Related Party Transactions Committee (the “Committee”) - established for the first time with the name Independent Directors Committee by means of a resolution of the Board of Directors on 10 November 2010 - assumed its current name based on a resolution of the Board of Directors on 26 June 2013.

Composition and operation

Following the resignations of two directors from office as Committee members (Director Paola Demartini and the Deputy Chairman Pietro Giovanni Corsa) the Board of Directors, by means of the resolutions dated 12 November and 3 December 2014, redetermined the composition of the Committee, reducing the number of members from five to three.

The Committee is currently composed of three independent directors: Daniele Discepolo, Angelo Dringoli and Marco Miccinesi.

The Committee appoints its own Chairman (currently Daniele Discepolo), who is in charge of calling and chairing the meetings. The Committee also appoints a Secretary, selected from among the Bank’s managers.

A member of the Board of Statutory Auditors takes part in the Committee meetings. Managers of the Bank may also take part in the Committee depending on the issues discussed, upon invitation by the Chairman.

For the tasks assigned to it, the Committee may also use the services of independent external experts, with the expenses borne by the company.

Following the issuing of the “Global Policy governing transactions with related parties and associated parties, obligations of bank representatives” (hereinafter “Global Policy” or “Policy”), it was necessary to adjust the Committee’s regulation, taking into account the provisions of the aforementioned regulatory document regarding the composition and operation of the Committee itself. Therefore, at the meeting on 16 January 2015, the Board of Directors approved the new Committee regulation.

During 2014, the Committee carried out its work over thirteen meetings, the average duration of which was one and one half hours. Minutes were regularly kept for the meetings by the secretary. 100% of the members participated in the meetings.

For 2015, no schedule of meetings has been prepared as meetings will be held upon calling of the Chairman, whenever there are issues that fall under the competence of the Committee to be discussed. In the first few months of 2015, the Committee had two meetings (16 January and 4 March).

Functions attributed

The Committee performs the activities and tasks assigned by the Global Policy adopted in accordance with Consob Issuer’s Regulation and the Supervisory Provisions for associated parties of the Bank of Italy (Circular 263/2006, Title 5, Chapter 5). The aforementioned regulatory document, approved by the Board of Directors at the meeting on 12 November 2014, incorporated in a single Policy the previous regulations governing transactions with related parties and associated parties; for more details see Chapter 12 below.

The main activities carried out by the Committee during 2014 concerned the following:

- examination of legal opinions requested from external legal representatives on matters relating to transactions with related parties and associated parties;
- examination of periodic quarterly reports prepared by the Compliance Area on transactions with related parties;
- examination of reports on the consolidated analysis of risks to associated parties transmitted by the Risk Department;
- review of the results of quarterly checks requested by the Compliance Area on a sample of related party transactions already completed;
- quarterly report on the activities carried out by the Committee;
- opinion on the Group’s operating limits vis-à-vis Associated Parties;

- examination and issuing of a preventive opinion regarding certain proposals for transactions with related parties and associated parties;
- examination and issuing of a favourable opinion regarding the proposal, by the compliance function, to incorporate in a single regulatory document (“Global Policy”), the Group’s previous internal “policies” regarding transactions with related parties (Consob) and on transactions with associated parties (Bank of Italy);
- proposal for a revision of the Committee Regulations;
- support for the Board of Directors with the preparation of a response to the information requests made by Consob pursuant to Article 115, par. 1 of the TUF.

10. CONTROL AND RISK COMMITTEE

The Bank’s Board of Directors, with its resolution of 1 March 2001, established an Internal Control Committee, which was renamed the “Control and Risk Committee” in 2012, in compliance with the provisions set forth in the Corporate Governance Code for Listed Companies.

Composition and operation

The Board of Directors, at its meeting on 9 October 2014, also as a result of the resignation of the Director Mr. Gorgoni from the Control and Risk Committee, resolved to increase the number of Committee members to five and to appoint the directors Roberto Isolani, Davide Manuel Martinez and Marco Miccinesi as new members of the Committee. At the meeting on 4 March 2015, following the resignation of the Director Mr. Martinez, the Board appointed the new Director Christian Whamond as a member of said Committee, in place of the outgoing Director.

Therefore, the Committee is currently composed of five members of the Board of Directors, all non-executive directors pursuant to the Corporate Governance Code, the majority of whom are independent: Pietro Giovanni Corsa (Chairman - independent), Daniele Discepolo, Roberto Isolani, Marco Miccinesi and Christian Whamond.

The Committee has ensured that its members have the requisite accounting and financial skills.

The committee appoints a secretary, selected from among Bank’s managerial employees.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the latter participates in the works of the Committee. The Chairman of the Board of Directors, the Chief Executive Officer/General Manager and the Appointed Director are invited to participate in the Committee meetings.

Whenever the Chairman of the Committee considers it necessary, also in relation to the issues being discussed, managers or employees of the Bank and third parties may be called to participate in the work of the committee.

The activity of the Committee is defined in general by a specific “Regulation”, the latest version of which was approved by the Board of Directors by means of a resolution on 28 March 2013.

As provided by the Regulation, the Committee carries out its duties and functions in support of the Board of Directors, with suitable investigations, in the valuations and the decisions relative to the internal control and risk management system, as well as the decisions concerning approval of the relative interim financial reports.

In 2014, the Committee carried out its work over thirteen meetings, with an average attendance percentage of 95% and average meeting duration of approximately two hours.

No schedule of meetings has been planned for 2015, but the Committee will hold at least one meeting per month and, in any case, whenever there are matters to be dealt with that fall within its competence.

In the first few months of 2015, the Committee held 3 meetings (on 28 January; 11 February and 3 March).

Functions attributed

The functions assigned to the Committee and carried out by it during 2014 are specified in detail in the applicable Regulation, the reference internal regulations (Group Policy governing the Internal Control

System and Group Directives), the Board resolutions and finally Regulation no. 1 of the Bank “Organisation of Banca MPS”.

In carrying out its functions, the Committee is entitled to access information and corporate functions as necessary for the execution of its duties as well as to use external consultants, under the terms and conditions established by the Board of Directors.

In particular, the Committee provides its prior opinion to the strategic supervision body on the occasions in which said Board of Directors:

- defines the guidelines for the internal control and risk management system, so that the main risks of the Bank and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, while also determining the level of compatibility of these risks with Bank management that is coherent with the strategic objectives that have been set;
- assesses, at least once per year, the adequacy of the control and risk management system against the characteristics of the Bank and the risk profile assumed, as well as its effectiveness;
- approves, at least annually, the work plans drafted by the managers of the Company Control Functions;
- describes, in the Report on Corporate Governance, the main characteristics of the internal control and risk management system, expressing its own judgment on its adequacy;
- assesses, after consulting the Board of Statutory Auditors, the results presented by the auditor in any comments submitted and the report on the fundamental issues that emerged during the audit.

Furthermore, the Committee, in assisting the Board of Directors:

- assesses, together with the Financial Reporting Officer and after having consulted the auditor and the Board of Statutory Auditors, the correct usage of the accounting standards and their uniformity for the purposes of drafting the consolidated financial statements;
- express opinions on the specific aspects inherent in the identification of the main company risks;
- examines the periodic reports on the valuation of the internal control and risk management system and the particularly significant reports prepared by the Company Control Functions;
- monitors the autonomy, adequacy, efficiency and effectiveness of the Compliance, Risk Management and Internal Audit Functions;
- may request the internal audit function to audit specific operating areas, while informing the Chairman of the Board of Statutory Auditors;
- reports to the Board of Directors, at least every six months at the time of approval of the annual and half-yearly financial statements, on the activities carried out as well as the adequacy of the internal control and risk management system;
- proposes the appointment or revocation of the managers of the Internal Audit, Compliance, Anti-money Laundering and Risk Management, Risk Control and Internal Validation functions, based on the prior opinion of the Appointments and Remuneration Committee, and expresses its prior opinion in relation to the determination of their remuneration.

In relation to the above, during 2014, the Committee:

- examined the 2013 report on the activity carried out in the Audit Plan for 2014 prepared by the Internal Audit function;
- issued a favourable preventive opinion on both the evolution of the model, structure and size of the Internal Audit function and the 2015 audit plan;
- examined the information flows (audit reports) from the Internal Audit function, which the latter provides to the Committee in a special quarterly report;

- examined the periodic reports prepared by the Internal Audit function on the activity carried out by it and its associated results, on the valuation of the Group control system and the various updates to the system itself, as well as the relative follow-up of the monitoring activity;
- analysed the disclosures prepared by the Internal Audit function as provided by the specific supervisory provisions, providing its opinion prior to the addition to the disclosures of the considerations set forth by the Board and the Board of Statutory Auditors, to then be forwarded, pursuant to the law, to the Supervisory Authorities themselves (Consob and Bank of Italy);
- took part in the process for the selection of a qualified external company which was assigned the task of performing the external certification of the quality of the activities performed by the Internal Audit function;
- examined the periodic reports prepared by the Compliance Function on the status of the “conformity” of the Bank and the Group and the various updates carried out during the year on the Group’s “conformity” status (Va.S.Co. report);
- issued its opinion regarding the schedule of activities within the “2014 Compliance Plan” planned by the Compliance Area;
- examined both the periodic information flows (Risk Report) relating to the trend in the main corporate risks and issued its favourable opinion on the 2014 Risk Plan drafted by the Risk Management Function;
- issued a favourable opinion on the proposals for the organisational and legislative adjustment to Circular 263/2006 of the Bank of Italy;
- met with the audit firm, Reconta Ernst & Young, regarding the progress of the scheduled work, as well as the Financial Reporting Officer pursuant to Italian law 262/2005, for the necessary information regarding the activities on the preparation of the separate and consolidated financial statements;
- examined the disclosures to be sent to Consob (Consob Resolution 17297 of 28 April 2010) regarding the activities carried out in relation to the provision of investment services to customers by the company control functions (Compliance, Risk Management and Internal Audit);
- examined specific assessments carried out by the company control functions regarding requests for information or updates from the Supervisory Authorities, as well as the relevant correspondence with the Supervisory Authorities;
- reported to the Board on the activities carried out as well as on the adequacy of the internal control and risk management system, at least every six months, at the time of the approval of the financial statements and the half-yearly report.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The new “Group Policy governing Internal Control Systems”, approved by the Board of Directors on 17 July 2014, represents the reference framework for internal control systems, which incorporates the principles and guidelines which must underpin the design, operation and development of a “complete, adequate, functional and reliable” control system, to ensure sound and prudent management.

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

The document acknowledges, in terms of the structures and contents, the changes to the internal control system envisaged in the 15th Update to Bank of Italy Circular no. 263 of 27 December 2006, “New prudential supervisory provisions for banks”.

The following aspects, summarised below, will be defined in the document:

- the general principles of the internal control system;
- the internal control system governance model;

- methods of coordination and collaboration between the functions with control tasks and company bodies;
- information flows between control bodies and functions;
- relations with the Supervisory Authorities.

11.1 GENERAL PRINCIPLES OF THE INTERNAL CONTROL SYSTEM

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

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

- it represents a key element of knowledge for the company bodies to ensure they are fully aware of the situation and effective monitoring of company risks and their interrelationships;
- it directs changes in the strategic guidelines and company policies and makes it possible to adapt to the organisational context in a coherent manner;
- it oversees the functionality of the management systems and the compliance of the prudential supervisory authorities;
- it fosters the spreading of the proper culture of risks, legality and company values.

Owing to these characteristics the internal control system takes on a strategic role for the Group and the culture of control assumes a significant position in the scale of company values, involving the entire company organisation (company bodies, structures, hierarchical levels, personnel) in the development and the application of logical and systematic methods for identifying, measuring, communicating and managing risks.

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

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

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

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

11.2 GOVERNANCE MODEL

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

- the Board of Directors with strategic and management supervision functions;
- the Executive Committee with management functions, according to the powers delegated by the Board of Directors and attributed by the Articles of Association;
- the Chief Executive Officer with executive management functions, according to the powers delegated by the Board of Directors and attributed by the Articles of Association;
- the Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for Listed Companies, who is responsible for setting up and maintaining an effective internal control and risk management system;
- the General Manager with executive management functions. In the event of the absence or impediment of the General Manager, the latter's functions will be carried out by the Senior Deputy General Manager;
- the Board of Statutory Auditors with control function.

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

In terms of the Group's approach, for the purposes of the Internal Control System, the company functions are separated into:

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

The term "Functions with control tasks" jointly identifies the Company Control Functions and Control Functions.

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

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

The model adopted consists of the following company control functions, in charge of overseeing the internal control system, for specific risk areas:

- Compliance Function
- Risk Management Function
- Internal Validation function
- Anti-money Laundering Function
- Internal Audit Function.

The first four relate to second-level controls, the Internal Audit Function to third-level controls; the group regulations and individual company regulations define the organisational model, the responsibilities, processes and the operating mechanisms for reconciliation with the Other Company Functions.

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

- Appointment and revocation of managers;
- Independence and authority;
- Functional separation;
- Resources;
- Remuneration criteria;
- Access to corporate information;
- Main activities.

Internal Audit Function

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

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

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

In line with this approach, the function commenced a programme for the professional certification of its personnel (CIA certification) which involved the first group of 9 employees. The second half of 2014 also saw the start and the conclusion of the Quality Certification process of the IA Function, carried out by a qualified company selected by the Control and Risk Committee. The process concluded successfully, and the outcome will be communicated to the Board of Directors in February 2015.

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

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

For the Parent Company, the Internal Audit Function reports hierarchically to the body with the strategic supervision function (Board of Directors). With reference to foreign branches, provision is made for a local Internal Audit Function, which reports hierarchically to the Parent Company's Audit Function. For Group Companies, based on the proportionality criteria, the activities are assigned to the organisational structures of said companies (decentralised model) or outsourced to the Parent Company's functions (centralised model).

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

- the Disclosure Reliability Risk Control Function (pursuant to Italian Law 262/05);
- the Planning and Management Control Function;
- the Capital Adequacy Control Function;
- the Lack of Operational Continuity Risk Control Function;
- the Control Function Responsible for Risks regarding Workplace Health And Safety;

- the Control Function in Charge of the Correct Processing of Personal Data;
- the Control Function responsible for the risk of non-monitoring of outsourced activities;
- the Human Resources Cost Planning and Control Function;
- IT Safety Monitoring.

The Policies, Group Directives and Company Regulations define: the organisational model, responsibilities, processes, operating mechanisms for reconciliation with the other Company functions and the information flows to be produced.

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

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

The Risk Control Function:

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

More specifically, the Risk Control Function:

- constantly verifies the adequacy and effectiveness of the risk management process and of the operating limits;
- develops integrated risk analysis and monitoring methods by planning and implementing the operational and regulatory management measurement system and verifying the compliance and adequacy of the mitigation measures;
- analyses the risks of new products and services and those deriving from the entry into new operating and market segments;
- ensures the consistency of the risk measurement and control systems with the processes and methods of evaluation of company activities, coordinating with the company structures concerned;
- develops and applies indicators able to highlight anomalous situations and inefficiencies relating to risk measurement and control systems;
- constantly monitors the effective risk assumed by the bank and its consistency with the risk objectives as well as compliance with the operating limits assigned to the operating structures in relation to the assumption of various types of risk;
- verifies the correct monitoring of the trend in individual credit exposures.

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

- analysing the Group’s risk profile, through the calculation of the risks absorbed and the prospective capital;
- verifying the capital adequacy as part of the ICAAP process;
- governing the IT systems responsible for calculating risks, giving prior approval for any necessary change;
- verifying the adequacy of the RAF;
- defining common operating risk evaluation metrics in line with the RAF, coordinating with the Compliance Function, ICT Function and the Lack of Operational Continuity Risk Control Function (BCM);

- providing preventive opinions on the consistency of the most significant transactions with the RAF, by acquiring, if necessary, based on the nature of the transaction, the opinion of the other functions involved in the risk management process.

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

Taking into account the complexity and scope of the activities carried out, the Parent Company's Risk Control Function may organise itself into specialist structures/units, reporting directly, hierarchically speaking, to the Manager, in order to perform the tasks assigned to the latter efficiently and effectively.

The Parent Company's Risk Control Function reports hierarchically to the body with the management function (Chief Executive Officer).

The current Manager of the Risk Control Function is **Mr. Andrea Rovellini**, in office from 1 January 2013.

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

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

- centralised model for Italian subsidiaries identified according to proportionality principles in relation to their complexity; to this end, the Group avails itself of Local Contact Persons who report functionally to the corresponding Parent Company Function, guaranteeing support whenever necessary;
- for foreign subsidiaries, provision is made for the presence of an appropriate Risk Control Function which reports functionally to the Parent Company Risk Control Function. In order to guarantee the Management and Coordination of the Parent Company, provision is made for said entity's Risk Control Function to be involved in the definition and monitoring of the objectives assigned to the corresponding Function of the foreign Subsidiary, in observance of the restrictions set forth in local regulations. The hierarchical positioning of the Risk Control Function is formalised in the individual Company Regulations.

Internal Validation function

The Internal Validation Function is required to constantly verify the consistency of the risk measurement systems with the company policies and the regulations of the Supervisory Authorities. The Function is responsible for validating the advanced internal models and the gradual extension to those of Pillar I not used for regulatory purposes and to those of Pillar II, according to a materiality criterion and is tasked with drafting mandatory disclosures relating to the models validated.

In carrying out said activity, the Internal Validation Function:

- verifies the process of development of internal risk measurement models and the connected management and data quality processes, according to a special methodological framework developed for each risk subject to validation;
- coordinates the functions involved in the validation process which is targeted at assessing the accuracy of the estimates of the internal systems for the measurement of significant risks not used for regulatory purposes, and expressing a judgment on the regular functioning, predictive capacity and performance of the aforementioned internal systems, taking direct action in relation to those falling within the risk perimeter defined;
- monitors the correct functioning of the advanced internal risk measurement models, evaluates the adequacy of measures implemented to fill any gaps and puts the competent bodies into operation if significant delays are identified in the completion of the shared corrective actions;
- periodically informs the company bodies of the results of its activities and the progress status of "follow-up" activities;
- fulfils an authorisation role prior to the implementation of significant changes to the models, processes and/or procedures connected to the risks validated;
- drafts an annual validation report which summarises the results of the activities performed as well as specific validation reports relating to the risks with the advanced internal model.

For the Parent Company, the Internal Control Function reports hierarchically to the Risk Control Function.

The Group opts for a centralised Internal Validation model; to this end, the Internal Validation Function avails itself of local contact points to report functionally to said function, guaranteeing support whenever necessary; for the subsidiaries, provision is made for the presence of a control unit which reports hierarchically to the Parent Company's Internal Validation Function.

Anti-money Laundering Function

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

To this end, the Anti-money Laundering Function aims to:

- identify the applicable regulations and assess their impact on the internal processes and procedures and collaborate in the identification of the internal controls and procedures targeted at preventing and counteracting current risks;
- verify the suitability of the internal control system and the procedures adopted and propose the organisational and procedural changes necessary or appropriate for ensuring adequate monitoring of risks;
- provide consulting and assistance to company bodies and to top management; in the case of the offering of new products or services, the Function performs the relevant evaluations beforehand;
- verify the reliability of the information system which provides data to the single company database;
- transmit the aggregate data concerning registrations in the Single Database to the Financial Information Unit on a monthly basis;
- handle, while working with the other competent Company Functions regarding training, the preparation of an adequate training plan, targeted at providing employees and associates with constant updating;
- prepare flows of information to the Company Bodies.

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

- reinforced customer verification in cases of giro accounts with the corresponding entities of non-EU States and regarding transactions, ongoing relations or professional services with politically exposed persons resident in another EU State or in a third country;
- reporting of suspicious transactions.

The Anti-money Laundering Function submits a document to the Board of Directors for approval which defines the responsibilities, duties and operating methods as regards the management of the risk of money laundering and financing of terrorism. The document is constantly updated, available and easily accessible to all employees and associates.

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

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

On an annual basis, the Anti-money Laundering Function presents the company bodies with a report on the initiatives undertaken, on the failures identified and on the associated corrective actions to be implemented as well as personnel training activities.

For the Parent Company, the Anti-money Laundering Function reports hierarchically to the Risk Control Function.

The autonomy and independence of the Anti-money Laundering Function are insured by mechanisms governing the relations and functional reconciliation with the bodies that have duties of strategic supervision, management and control.

With reference to foreign branches, provision is made for a local Anti-money Laundering Function, which reports functionally to the Parent Company's Anti-money Laundering Function.

The Group opts for a decentralised model, which provides for the presence of the appropriate Anti-money Laundering Function at the individual Group companies, free from hierarchical relations with the managers of the operating structures, reporting functionally to the Parent Company's Anti-money Laundering Function.

The hierarchical positioning of the Anti-money Laundering Function of the Group companies is formalised in the individual Company Regulations.

11.4 ASSESSMENT OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

During the course of 2014, the Board of Directors was informed of the valuations made by the Audit Function (Internal Audit Area) on the adequacy of the control system and the actions taken to resolve the areas of improvement that were indicated, which are due to the continuation of the various difficulties within the economic and financial framework of a mainly systemic nature (the liquidity crisis, the drop in the value of listed companies, the rating of sovereign states, capital adequacy tensions), as well as the considerations expressed by the Control and Risk Committee, which considered that the processes and activities carried out by the Internal Audit Area to make this valuation were adequate. Regular and periodic disclosure is provided by the top management of the company on the areas on which the audit activities were focused.

In 2014, the Board of Directors also examined and approved the annual activity plans of the second-level company control functions (Risk Plan and Compliance Plan), as required by the regulations. The planning of activities also takes account of the findings and deficiencies identified by the Supervisory Bodies (Bank of Italy and CONSOB) and by the Bank's internal audit function (Internal Audit Area), as well as domestic and international legislative developments. Periodic and regular information is provided to the governing bodies regarding risk management, compliance validation and anti-money laundering.

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

The methodological model for overseeing the risk of financial disclosure of the Montepaschi Group that is set forth within the "Group Directive regarding implementation of Law 262/2005" and was developed in coherence with the "CoSo Framework" and "COBIT Framework" methodologies, insofar as the IT component, both of which are generally accepted references internationally.

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

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

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

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

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

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

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

- identification of the “sensitive” application perimeter (Companies and Accounts/Processes);
- assessment of the significant administrative and accounting processes³ (*Risk & Control Assessment*⁴). The processes selected are assessed in terms of potential risk for financial disclosure purposes;
- evaluation of the information system (Information Technology General Controls – ITGC). Consists of the assessment of the collection of rules governing the technological infrastructure and software applications supporting the administrative and accounting processes. To this end, the Montepaschi Group opted to hire an independent auditor to carry out the ISAE 3402 Type II Certification relative to the assessment of the design and the actual operation of the Control System within the IT domain of the Service Organisation (Group Operating Consortium);
- assessment of the effectiveness/actual application of the Key Controls⁵ over the reference period carried out by the structure managed by the Financial Reporting Officer and supplemented by two ISAE 3402 certifications for administrative-accounting services: the first one, Type I, regards the following macro-processes: Administration and Accounting, Financial Advisors, Centralised Lending, Payment Cards, Collections and Payments and Network Transactions managed by FRUENDO S.r.l. on behalf of the Montepaschi Group; the second one, Type II, involves the following macro-processes: Accounting, Tax and Supervision, Third-party Finance, Proprietary Finance, Financial Statements and Accounts Monitoring, Control of Proprietary Finance, managed by the Specialist Services Area for the Bank’s business;
- Entity Level Control - ELC. In line with the reference framework, the Montepaschi Group’s Internal Control System model makes provision for ongoing verification of the presence of adequate governance systems at the Corporate and the Group levels;
- management of the assessment results. Following the assessment and verification activities described above, any actions for mitigation are defined.

In order to provide further support for the abovementioned process, a secondary certification system has been implemented, whose purpose is to further increase awareness and responsibility of all the group structures involved, both in terms of monitoring of the quality of information produced as well as confirmation thereof to the Financial Reporting Officer.

³ The significance of the information is assessed with reference to the possible impact its omission or incorrect representation could have on the decisions of the individuals to whom the information is communicated through the financial statements.

⁴ In the Montepaschi Group, Risk Assessment pursuant to Italian Law 262/05 is placed in the “integrated multi compliance” Area (Operating Risks; Italian Legislative Decree 231/01).

⁵ “Key” controls are those controls whose absence or inadequacy could, in itself, have a significant impact on the correct representation of the financial information

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

11.7 ROLES AND FUNCTIONS INVOLVED

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

– Information Quality Oversight and Controls Function pursuant to Italian Law 262/2005

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

– Internal Audit Function

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

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

– Organisation Function

The Organisation Function of the Parent Company and the Organisational Functions of the Group Companies carry out analysis and maintain the documentation (operating regulations) for the Group processes.

– Montepaschi Group Operating Consortium

The Montepaschi Group Operating Consortium manages, governs, coordinates and controls correct operation of the Group's ICT systems. In order to ensure consistency with the methodologies identified by the D.P. (COBIT) it employs the ISAE 3402 certification mentioned under point 11.6.

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

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

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

In line with the Corporate Governance Code for Listed Companies, the Board of Directors, with its resolution of 20 December 2012, appointed the Chief Executive Officer Fabrizio Viola as the Director in charge of the internal control and risk management system; he is in charge of the following areas:

- identification of the main corporate risks, with account taken of the characteristics of the activities carried out by the issuer and its subsidiaries, which he will periodically submit for examination by the Board of Directors;
- execution of the guidelines defined by the Board of Directors, overseeing the design, implementation and management of the internal control and risk management system and verifying its adequacy and effectiveness on an ongoing basis;
- adaptation of this system to the dynamics of the operating conditions and the legal and regulatory

environment;

- he will be entitled to request that the Internal Audit function carry out audits on specific operating areas and compliance of the internal rules and procedures in the execution of corporate operations, while informing the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors;
- he shall immediately report to the Control and Risk Committee (or the Board of Directors) regarding any problems or critical areas that emerge when carrying out his own activities or of which he has, in any case, been informed, so that the Committee (or the Board) is able to take the appropriate action.

In 2014, the Appointed Director, held a coordination role within the context of the implementation of the project initiatives connected with the changes introduced by the 15th update to Bank of Italy Circular 263/06. In particular, he supported the body with the strategic supervision function (Board of Directors) and the control body (Board of Statutory Auditors) in completing the documents which defined the mechanisms for coordination between the Company Control Functions and between the Control Functions and Company Bodies, by identifying specific organisational solutions.

The most significant include:

- the setting up of a management committee for coordination between the functions with control tasks;
- the establishing of a “Technical Coordinator” of the second-level company control functions, a function headed up by the Manager of the Risk Department;
- the review of the “Group Policy governing the Internal Control System”.

He also then implemented the guidelines defined by the Board of Directors, promoting the introduction of a structured process defined by specific internal regulations, targeted at governing criteria and rules which the structures must comply with, for the most effective dissemination of a control culture and for the management of criticalities and/or areas of improvement flagged as a result of the checks conducted by internal functions with control tasks and/or qualified external authorities.

To this end, he promoted the implementation of a specific integrated company repository to support the process for the registration, monitoring and closing of various initiatives, for a more coordinated and integrated management of the areas of improvement.

11.9 THE INTERNAL AUDIT FUNCTION

The Parent Company’s Internal Audit Function is assigned to the Internal Audit Area which performs an independent and objective activity aimed at controlling, on the one hand, based on third-level controls, the regular performance of operations and the evolution of risks and, on the other, at evaluating the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the Internal Control System (“ICS”), bringing any possible improvements to the attention of the company bodies, with particular reference to the RAF (Risk Appetite Framework), the risk management process as well as the instruments for measuring and controlling these risks; based on the results of its controls, the Internal Audit Function provides recommendations to the company bodies. The Internal Audit Area reports hierarchically to the Board of Directors, directly communicates the results of the audit activities and the evaluations to the Control Bodies (Board of Statutory Auditors and the Supervisory Body pursuant to Italian Legislative Decree 231/2001) as well as to the Chairman of the Board of Directors, to the Control and Risk Committee and to the Chief Executive Officer/Appointed Director. The Internal Audit Area does not depend hierarchically on any operating area.

The Internal Audit Function is able to access company data and all the activities, including the outsourced activities, carried out by the Bank.

The autonomy and independence are insured by mechanisms governing the relations and reconciliation with the Boards that have duties of strategic supervision, management and control as described below:

- appointment/revocation of the Manager of the Parent Company’s Internal Audit Function by the Board of Directors, on the proposal of the Control and Risk Committee, with the help of the Appointments and Remuneration Committee, and having consulted the Board of Statutory Auditors;
- remuneration structure of the Manager of the Parent Company’s Internal Audit Function resolved by the Board of Directors, having consulted the Board of Statutory Auditor, on the proposal of the Appointments and Remuneration Committee, which acquires the opinion of the Control and Risk Committee beforehand;
- determination of the Audit Plan by the Board of Directors, based on the report of the Internal Audit Area and following the examination of the Control Bodies;
- possible implementation of internal revisions by the Control Bodies, the Control and Risk Committee, the Supervisory Body pursuant to Italian Legislative Decree 231/2001, the Appointed Director and the Chairman of the Board of Directors;
- reporting of the activities to the Control Bodies and one report assessing the control system submitted at least annually to the Board of Directors;
- composition and size of the structure by the Board of Directors, based on the report submitted by the Internal Audit Area, following the opinion of the Control Bodies;
- approval by the Board of Directors of the guidelines to be followed for management of staff within the Group’s Internal Auditing Function (recruitment, training, bonus system) and the economic resources allocated, based on the report of the Internal Audit Area, following the opinion of the Control Bodies;
- the criteria for the remuneration of personnel in the Parent Company’s Internal Audit Function, defined by the Board of Directors on the proposal of the Human Resources Function and having consulted the Control and Risk Committee, do not compromise their objectivity and help to create a specific incentives system, different from the one provided for the other functions, consistent with the objectives of the function performed and not related to the achievement of company targets.

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

For the execution of its own duties, the Internal Audit Area has financial resources which are quantified within the annual budget process.

In particular, in 2014 the following amounts were allocated in the budget for this Structure:

- approximately EUR 0.55 million for the creation, updating and development of the technological instruments in support of the audit activities, within the scope of “ICT Master Plan,” containing both the maintenance and development costs, which are estimated and managed directly by the Montepaschi Group’s Operating Consortium, with the support of the external companies for specific areas;
- EUR 0.26 million for external consulting on risk management and internal control systems, within the scope of the “Consulting Master Plan.”
- EUR 0.1 million for activities involving personnel training development.

The current manager of the Internal Audit Area is **Mr. Fabrizio Leandri**, who was appointed on 29 November 2007 and confirmed on 7 June 2011 by the Board of Directors, after obtaining the opinion of the Internal Control Committee (currently the Control and Risk Committee) and the Board of Statutory Auditors.

During 2014, the Internal Audit function paid particular attention to analysing and examining in depth the main processes for the management of financial, operating and credit risks. Additional areas on which the overall audit activities were focused included, among other things: the so-called significant “Compliance” issues (provision of investment services, banking transparency, anti-money laundering, anti-usury, privacy, etc.), protection of the customers insofar as the marketing of financial products through specific consulting platforms, the operating segment of financial promotions, the adequacy of the incentive system for top management, the company information systems, as well as the usual area, which is the commercial network.

A total of 648 audits were carried out.

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

As is customary, the information flows to the Company Bodies were guaranteed in compliance with the applicable “corporate governance” rules and the provisions set forth in the Policy on the Internal Control System.

11.10. ORGANISATIONAL MODEL per Italian Legislative Decree 231/2001

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

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

In compliance with the above, following the expansion of the group of predicate offences (environmental offences, private corruption, etc.) and the organisational changes made to the Bank’s corporate structures, as well as legal developments and those pertaining to legal doctrine on the issue of organisational models, the Board of Directors resolved the Organisation, Management and Control Model on 23 October 2013 (the “Model”), currently in force, which consists of the following documents:

- Risk Prevention Policy pursuant to Italian Legislative Decree 231/2001 (“Policy 231”);
- Group Code of Ethics

In particular, the Model is composed of protocols, attached to Policy 231, which set out, for each company organisational unit, the predicate offences which could theoretically be committed, the existing controls, the principles of conduct to adhere to when carrying out sensitive activities and the references to the relevant internal company regulations.

It should also be noted that the companies in the Montepaschi Group, in turn, adopted their own Organisation, Management and Control Model, with the sole exception of the newly-formed on-line Bank Widiba S.p.A., which is, nonetheless, in the process of drafting one.

The Montepaschi Group’s Models aim to prevent the offences set forth in the following articles of Italian Legislative Decree 231/2001 from being committed: articles 24, 24 bis, 24 ter, 25, 25 bis, 25 ter, 25 quater, 25 quinquies, 25 sexies, 25 septies, 25 octies, 25 novies, 25 decies, 25 undecies, 25 duodecies.

In compliance with the provisions of the aforementioned Decree, a Supervisory Body has also been established pursuant to Italian Legislative Decree 231, which is assigned the task of monitoring the functioning and observance of the Organisation, Management and Control Model, and of overseeing the updating of said Model.

In this regard, the Bank’s Board of Directors, at the meeting on 17 July 2014, confirmed the assignment of the duties of monitoring the subject set out in Italian Legislative Decree 231/2001 within an ad hoc board structure, separate from the Board of Statutory Auditors, with the characteristics (in terms of functions, activities, composition and operation method) governed by the Operation Regulation of the Supervisory Body 231 (“SB 231” or “Body”). In particular, the Board deemed it appropriate to establish a “mixed” SB 231 composed of at least three members, two of which external professionals and a director with independence characteristics according to the requirements of the corporate governance code for listed companies. The Supervisory Body is currently composed of the following three members:

- Prof. Giovanni Aspes (coordinator);
- Mr. Salvatore Messina, Esq.;
- Ms. Marina Rubini, Esq. (independent director).

By means of the resolution of the Board of Directors dated 12 November 2014, the Director Marina Rubini joined SB 231, replacing the outgoing Paola Demartini. In relation to the matters being discussed, the Bank's managers or employees and third parties may be called to participate in the work of the SB 231. The Body may also employ external consultants, with the costs borne by the Bank.

The Coordinator of the Body can invite the Chairman of the Board of Statutory Auditors to its meetings, or can have a member of said Board participate who is authorised by the Chairman. In order to guarantee the most comprehensive performance of the control functions assigned to the Board of Statutory Auditors by the legislation, the Coordinator of SB 231 arranges for the transmission of the minutes of the SB meetings to the Chairman of the Board of Statutory Auditors, once approved.

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

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

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

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

Pursuant to Article 6, Par. 2, Letter d) of Italian Legislative Decree 231/2001, the SB 231 is required to comply with the disclosure requirements set forth in the Model, particularly regarding the communication of information regarding the perpetration or attempt to perpetrate crimes in the interest of or for the benefit of the Bank as indicated in the Decree itself, in addition to any violations of rules of conduct as provided in Model 231. For the protection of its full autonomy and confidentiality, the communication can be made directly to the SB 231, through the appropriate channel provided via the Bank's intranet portal or by e-mail.

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

11.11. INDEPENDENT AUDITORS

The Shareholders' Meeting held on 29 April 2011, upon the proposal made by the control body, granted the mandate to carry out the statutory audit of the accounts to Reconta Ernst & Young, approved the consideration payable to the independent auditor for the entire duration of the mandate and the criteria for any adjustment of this consideration over the course of the mandate. The duration of the mandate is nine financial years.

11.12. FINANCIAL REPORTING OFFICER AND OTHER CORPORATE ROLES AND FUNCTIONS

As is well-known, Italian Law 262 of 28 December 2005 (and subsequent amendments) "Provisions for the protection of savings and the governance of financial markets" with the addition to the TUF of Article 154 *bis* introduced to the corporate organisation of listed companies in Italy the figure of the Financial Reporting Officer who is in charge of preparing the company's financial documentation.

In relation to the provisions of the law, the Bank's Articles of Association provide that the Board of Directors, upon the proposal of the General Manager and the mandatory opinion of the Board of Statutory Auditors, must appoint a Financial Reporting Officer, to be selected from among the Company Managers with proven accounting and finance experience, conferring to this person appropriate powers and means for the exercise of the duties attributed pursuant to the law.

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

This confirmation is also provided to the Board of Directors.

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

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

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

Effective from 10 June 2013, the Bank's Board of Directors appointed **Mr. Arturo Betunio**, Manager of the Parent Company's Administration and Financial Statements Area, as the Financial Reporting Officer.

A brief *curriculum vitae* of Mr. Betunio is provided below, which outlines his expertise and experience: after completing a course at Accademia della Guardia di Finanza, he graduated in Law and Political Science and also achieved a Master in Science of Economic and Financial Security. After an initial stint at Guardia di Finanza (Italian Finance Police) (1983-1995), until 2009 he was the manager of the tax department of some leading banking and insurance groups: I.N.A. S.p.A., Poste Italiane S.p.A., Capitalia S.p.A. and then in the UniCredit Group following the incorporation of Capitalia. Since 2009, he has held the role of manager of the Central Legislative Department of the Italian Revenue Agency.

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

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

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

Within this context, the Parent Company carries out controls:

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

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

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

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

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

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

Within the Group's Internal Control System, coordination between the various entities is ensured by:

- the role of the Appointed Director, who is responsible for establishing and maintaining an effective internal control and risk management system;
- Committee for the Coordination of Functions with Control Tasks, which is responsible for the concrete implementation, on an ongoing basis, of coordination in the broadest sense between the Functions with Control Tasks;

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

Within the Parent Company, it is also envisaged that the Risk Department Manager will promote coordination between the second-level Company Functions to optimise the exchange of information flows between them, support the planning of control activities and make it easier to implement the corrective actions identified.

Furthermore, the Parent Company, in order to guarantee coordination between the Company Control Functions and the Control Functions of the Parent Company and other Group Companies, establishes the “Committee for the Coordination of Functions with Control Tasks”, overseen by the Appointed Director who provides an opportunity for recaps and comparisons between the various Functions with Control Tasks, in order to:

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

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

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

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

The relations with Supervisory Authorities are managed by the individual Companies of the Group and the Parent Company, according to their respective competences.

To this end:

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

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

- on the activities performed by the Risk Control Functions (Risk Management), Compliance and Internal Audit Function;
- on the outsourced activities (drafted by the Internal Audit Function);
- on the assessments made on Group Companies.

The annual transmission of the aforementioned reports to the Supervisory Authorities, approved by the Board of Directors, is handled by the Appointed Director of the Parent Company.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

On 12 November 2014, the Bank's Board approved the "Global Policy governing transactions with related parties and associated parties, obligations of bank representatives" (hereinafter "Global Policy" or "Policy") which incorporates in a single document the provisions that apply to the Group regarding the regulation of conflicts of interest pursuant

- to Consob Regulation 17221/10, implementing the power attributed by Article 2391-bis of the Civil Code in relation to the transparency and substantive and procedural correctness of transactions with related parties entered into by listed companies;
- to Bank of Italy Circular 263/2006 Title V, Chap. 5, implementing the power attributed by Article 53 of the T.U.B. in relation to the conditions and limits for the banks' assumption of risk assets in

respect of those who can exercise, directly or indirectly, an influence over the management of the bank or banking group as well as entities related to them;

- to Article 53 of the T.U.B. governing the obligations of bank representatives, as amended by Law Decree no. 179 of 18 October 2012, converted with Law no. 221 of 17 December 2012.

The Global Policy was approved with the prior favourable opinion of the Related Party Transactions Committee (hereinafter also Committee) and the Board of Statutory Auditors and repealed the documents previously in force:

- “Procedure governing related party transactions” for the purposes of the aforementioned Consob Regulation, approved by the administrative body on 19 November 2010 and updated on 26 June 2012;
- “Decision-making procedures governing transactions with associated parties” for the purposes of the Bank of Italy Circular, approved by the administrative body on 26 June 2012.

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

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

In compliance with the provisions of Consob and Bank of Italy regulations, the Global Policy is published on the Bank’s website which can be accessed from the following link: <https://www.mps.it/Investor+Relations/Corporate+Governance/Global+Policy.htm>.

The Policy was also adopted by other Italian banks that belong to the Group, after adapting them as necessary to their particular needs. For other members of the Group, the Parent Company’s Global Policy provides specific instructions and directives that are implemented by the associated administrative bodies.

At the same meeting on 12 November 2014, BMPS’s Board approved the update to the “Policies on controls over the risk assets and conflicts of interest involving associated parties,” already adopted by the Administrative Body on 13 November 2012. In the aforementioned document, the Parent Company defined the rules applicable to the Group, the purpose of which is to ensure continuous compliance with the prudential limits and decision-making procedures and prevent potential conflicts inherent in any relationship with associated parties. The aforementioned document was also acknowledged by the subsidiaries.

The most significant cases of transactions with related parties carried out by the Bank in 2014 are described in detail in Part H of the Notes to the Financial Statements.

None of those transactions has required compliance with the disclosure obligations pursuant to Article 5 of Consob Regulation 17221/10.

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

With regard to personal transactions that fall within the provision of investment services (Article 18 of the joint Consob/Bankit Regulation), the Board has defined principles and rules in the specific “Policy - Conflicts of interest in the provision of investment services”, which outlines the Group’s general rules for ensuring observance of the law by the significant parties, that is those persons who are involved in activities that could give rise to conflicts of interest in the provision of investment services or who have access to privileged or confidential information. The personal transactions carried out by these persons, whether within the Group’s banks or through third party intermediaries, are filed in a specific electronic “Registry”.

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

In fact, Article 17 of the Articles of Association requires the Board of Directors to immediately inform the Board of Statutory Auditors of any activity carried out and the most significant financial, economic and capital transactions of the Company, including through its own delegated bodies and the subsidiaries; in particular, the Board must report on transactions in which its own members had an interest on their own behalf or on behalf of a third party.

The communication is provided, at least quarterly, verbally at Board Meetings or through a written memorandum addressed to the Board of Statutory Auditors, and notwithstanding the obligation of each Director to inform the other directors and the Board of Statutory Auditors of any interest which, within a specific transaction of the Issuer, that director has on his own behalf or that of a third party, under Article 2391 of the Civil Code.

Article 21 of the Articles of Association also requires compliance with the provisions of Article 136 of the TUB, the obligation of the members of the Board of Directors and the Executive Committee to inform the Board itself and the Board of Statutory Auditors on any business in which they have a personal interest or which refers to entities or companies in which they are directors, statutory auditors or employees, unless this is a Group company.

13. APPOINTMENT OF STATUTORY AUDITORS

The Board of Statutory Auditors consists of three standing members and two alternate members.

The appointment of the members of the Board of Statutory Auditors is based on a list presented by the shareholders in accordance with the paragraphs below, composed of two sections, one for the appointment of the standing auditors and the other for the alternate auditors; the number of candidates on the list must be progressive and no higher than the number of members to elect. The lists that present a number of candidates equal to or greater than three must include, in the section of the candidates for Standing Auditor, candidates of a different gender than those in the first two positions on the list, as specified in the notice of convocation of the Shareholders’ Meeting, for compliance with the applicable laws on gender balance. If the alternate auditors section of these lists has only two candidates, these must belong to different genders.

The list presented by the shareholders must be submitted to the registered office of the Company at least 25 days prior to the date set by the Shareholders’ Meeting in first call and disclosed according to applicable laws.

Only shareholders who, individually or jointly with other shareholders, hold a total number of shares representing at least 1% of the Company’s share capital with voting rights at ordinary Shareholders’ Meetings, are entitled to present lists, without prejudice to the case of application of a different legal threshold.

Together with each list, within the deadline for submission, the following must also be submitted to the registered offices of the Company: (i) information on the identity of the shareholders submitting the list, with an indication of the total percentage stake held, together with a certification attesting to ownership of said shareholding, determined in relation to the shares registered in favour of the shareholder on the day in which the lists are presented; (ii) statements in which each candidate accepts their candidacy and certifies, under their own responsibility, the inexistence of any reasons for their ineligibility or incompatibility, including therein the limit on the maximum number of positions (pursuant to Article 26, par. 6 of the Articles of Association) and the inexistence of the requirements that were prescribed for office by the

applicable legal and regulatory provisions; and (iii) the *curricula vitae* describing the personal and professional characteristics of each candidate, with an indication of the administration and control positions held in other companies. In addition, in the event a list is presented by shareholders other than those who hold, including jointly, a controlling interest or relative majority, the list must also be accompanied by a statement from the shareholders presenting the list, certifying the absence of associate relationships, as defined by the applicable legislative and regulatory provisions, with shareholders who hold, including jointly, a controlling interest or relative majority. Lists presented without compliance with the Articles of Association may not be voted.

The certification attesting to ownership of the minimum number of shares required for presenting lists may also be produced after the filing of the lists, provided within the deadline set for their publication.

In the event in which, on the date of expiry of the deadline for filing the list, only one list has been filed, or only lists have been filed which were presented by shareholders who, based on the applicable legal and regulatory provisions, are connected with one another, lists can be presented until the subsequent term set by the applicable legislation. In this case, the threshold for presenting the lists envisaged in the previous paragraph is reduced by half.

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

Upon election of the members of the Board of Statutory Auditors, the following must take place:

a) the first two candidates on the list which obtains the highest number of votes and the first candidate on the list which comes in second in terms of number of votes and which is not connected, even indirectly, according to the applicable legal and regulatory provisions, with individuals who submitted or voted the list ranked first by number of votes, will be elected standing auditors;

b) the first candidate on the list which obtains the highest number of votes and the first candidate – or the second candidate if the first is the same gender as the first candidate of the list that obtains the highest number of votes - on the list which comes in second in terms of number of votes and which is not connected, even indirectly, according to the applicable legal and regulatory provisions, with individuals who submitted or voted the list ranked first by number of votes, will be elected Alternate Auditors;

c) in the event of an equal number of votes between the first two or more lists, a new vote will be held by the Shareholders' Meeting, based only on the lists that received an equal number of votes. The same rule applies in the event of a tie between the lists ranked second by number of votes and which are not connected, including indirectly, according to the applicable legal and regulatory provisions, with individuals who submitted or voted the list ranked first by number of votes;

d) in the event that an elected candidate is not able to accept the office, the first of the candidates not elected on the list of the candidate who did not accept will replace him or her;

e) the chairmanship will be held by the standing member from the list ranked second in terms of number of votes and which is not connected, including indirectly, according to the applicable legal and regulatory provisions, with individuals who submitted or voted the list ranked first by number of votes.

In the event of death, resignation or forfeiture of the office of Chairman of the Board of Statutory Auditors, until the board is reconstituted pursuant to Article 2401 of the Civil Code, this position will be assumed by the Alternate Auditor elected from the list ranked second in terms of number of votes and which is not connected, including indirectly, according to the applicable legal and regulatory provisions, with individuals who submitted or voted the list ranked first by number of votes.

In the event of death, resignation or forfeiture of the office of a Standing Auditor, the Alternate Auditor belonging to the same list as the Standing Auditor will replace him.

If, based on the aforementioned criteria for the replacement of the Alternate Auditor, the gender balance is not observed, the Standing Auditor will be replaced by an Alternate Auditor belonging to the less represented gender regardless of the fact said individual belongs to the list of the replaced Auditor.

For the appointment of Statutory Auditors who are not, for any reason, appointed in accordance with the procedure described above, the shareholders' meeting resolves on the basis of the legal majorities, except in the case of compliance with the principle of the necessary representation of minorities and the gender balance principle set forth by the applicable legislation.

The appointment of the Statutory Auditors for the composition of the Board pursuant to Article 2401 of the Civil Code is made by the shareholders' meeting based on a relative majority. This is done, at any rate,

except in the case of compliance with the principle of the necessary representation of minorities and the gender balance principle set forth by the applicable legislation.

Persons whose situation is incompatible pursuant to the law and who do not meet the requirements as set forth in applicable provisions, cannot be elected as Statutory Auditors, or if they are elected, they will forfeit their position. This is without prejudice to the limits on the maximum number of positions established by the applicable legislation. Statutory Auditors cannot hold other positions in banks other than those belonging to the MontePaschi Group and those in which a joint control situation is in place.

The Statutory Auditors are not allowed to take offices in bodies other than the control bodies in other Group companies or a financial conglomerate, or the companies in which the Bank holds, even indirectly, a strategic equity investment.

At least one of the Standing Auditors and at least one of the Alternate Auditors, appointed in accordance with the methods established in paragraph 3 of this article, must be registered with the Register of Auditors and have been auditors for a period no less than three years.

A maximum number of two standing auditors and one alternate auditor can be appointed, including persons who do not fulfil the requirements above, provided they have total experience of at least three years in:

- a) the administration or control or management of joint stock companies with a share capital no lower than Euro two million, or
- b) professional activities or university teaching in legal, economic, financial, credit, insurance and technical scientific areas, which are strictly related to the Company's activities, or
- c) managerial functions with public entities or public administrations operating in the credit, financial or insurance sector or which are closely connected to the Company's activities, meaning subjects and sectors strictly related to the Company's activities.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (per Article 123-bis, Par. 2, Letter d) of the TUF)

The Board of Statutory Auditors was appointed by the ordinary shareholders' meeting of 27 April 2012 and shall remain in office until the shareholders' meeting called to approve the 2014 financial statements. Two lists were presented for its appointment:

1. **List no. 1**, presented by shareholder Fondazione Monte dei Paschi di Siena nominating the following persons:
 - Paola Serpi and Claudio Gasperini Signorini, *for the office of standing auditor*;
 - Stefano Andreadis, *for the office of alternate auditor*.
2. **List no. 2**, presented jointly by Unicoop Firenze s.c., Finamonte Srl and Mr. Lorenzo Gorgoni (personally and as the special representative of another 58 shareholders), appointing the following persons:
 - Paolo Salvadori, *for the office of standing auditor*;
 - Gianni Tarozzi, *for the office of alternate auditor*.

The Chairman confirmed that, pursuant to Article 148, Paragraph 2 of the TUF and Article 144-quinquies of Consob Issuers' Regulation, the Board of Directors assessed that among the individuals that presented the "minority list" (no. 2 above) and the shareholders that hold, including jointly, the relative majority of the shareholdings – Fondazione Monte dei Paschi di Siena - there are no relations which had not been declared that result in the existence of an associate relationship as per the aforementioned articles of the TUF and Consob Issuers' Regulation.

List no. 1 obtained 4,209,890,074 votes equal to 67.889163% of the shares entitled to vote; List no. 2 obtained 1,661,204,747 votes or 26.788776% percent of the shares entitled to vote.

The number of votes against was 47,601,287 equal to 0.767624% of the shares entitled to vote and 280,371,768 abstained, or 4.521307 % of the shares entitled to vote.

The following persons were elected:

Standing auditors: Paolo Salvadori, Chairman, first on the minority list- standing auditor section; Paola Serpi, first on the majority list- standing auditor section; Claudio Gasperini Signorini, second on the majority list- standing auditor section;

Alternate auditors: Stefano Andreadis, first on the majority list- alternate auditor section; Gianni Tarozzi, first on the minority list- alternate auditor section.

On 28 May 2013, the alternate auditor Gianni Tarozzi resigned from office. On 18 July 2013, the Shareholders' Meeting appointed Franco Michelotti as an alternate auditor.

On 16 May 2014, the standing auditor Paola Serpi resigned and, therefore, was replaced by alternate auditor Stefano Andreadis, pursuant to the Articles of Association.

* * *

A short curriculum vitae for each standing and alternate auditor in office is provided below, showing the company management skills and experience acquired.

Paolo Salvadori. Holds a degree in Economics and Business. Registered with the Register of Auditors and the Roll of Certified Accountants and Auditors of Florence. A freelance professional since 1973.

Holds the role of Chairman of the Board of Statutory Auditors of AXA MPS Assicurazioni Danni, AXA MPS Assicurazioni Vita and MA Centro Inossidabili S.p.A.. Also holds the role of Commissioner and Liquidator for various insolvency proceedings. He has been the Chairman of the Board of Statutory Auditors of the Issuer since 28 April 2012.

Stefano Andreadis. Holds a degree in Economics and Business. He has been registered with the Register of Auditors and the roll of Certified Accountants and Auditors of Siena since 1985. He is a public accountant.

He also holds the following offices: Sole director of Il Trentunesimo S.r.l. and of D.& D. S.r.l., Member of the Board of Directors of Prometeo Immobiliare S.r.l.. Sole director of Logica Service di Betti e C. S.n.c.. Standing Auditor of Immobiliare Idea S.p.A. and Lega Italiana Lotta Tumori Onlus.

Claudio Gasperini Signorini. He holds a degree in Economics and Banking. He has been registered with the Register of Auditors and the roll of Certified Accountants and Auditors of Siena since 1995. He has been a public accountant since 1995.

He also holds the following offices: Chairman of the Board of Statutory Auditors of Co.Bio. Soc. Coop. Agricola; Standing auditor Consorzio Coop. Consumo Sardo and of SAGIM S.r.l.. He has held various roles in the past, including Standing Auditor Eutelia S.p.A; Director of MPS Banca Personale S.p.A. and Chairman of the Board of Statutory Auditors of Toscana Biomarkers S.r.l., Biofund S.p.A. and MPS Gestione Crediti Banca S.p.A..

Franco Michelotti. Holds a degree in Economics and Business. He has been registered with the Register of Auditors and the roll of Certified Accountants and Auditors of Pistoia since 1984. He is a public accountant.

He also holds the following offices: Chairman of the Board of Statutory Auditors of Le Professioni di Pistoia S.p.A.; Standing Auditor of B.P. Finanziaria S.p.A.; member of the Board of auditors at the Municipality of Prato.

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

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

Please see Table 2, attached, for the structure of the Board of Statutory Auditors.

During the 2014, the Board of Statutory Auditors met 62 times and the average duration of the meetings was 2 hours. The members of the Board of Statutory Auditors confirm that they continue to meet the independence requirements and the non-existence of situations which may influence their autonomy of judgment.

No schedule of meetings has been planned for 2015. As at the date of approval of this report, 10 meetings of Board of Statutory Auditors were held.

Pursuant to the applicable Corporate Governance Code (application criterion 8.C.3), any BMPS auditor who, on his own behalf or that of third parties, has any interest in a specific transaction of the Issuer, shall immediately and exhaustively inform the other auditors and the Chairman of the Board of Directors regarding the nature, terms and conditions, origin, and scope of this interest.

In order to adequately carry out its supervisory duties in fulfilment of the principles of correct administration, the Board of Statutory Auditors participated in 2 shareholders' meetings, 21 meetings of the Board of Directors and 16 meetings of the Executive Committee which were held during the year (with a participation percentage of 100% both for the Board of Directors and the Executive Committee), examining beforehand all the issues discussed at the above stages and, when considered necessary, these arguments were examined in further depth and clarified, including by requesting additional information from the Bodies of the Bank or other competent functions therein.

The Board will verify the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its own members and shall report its findings in a report to the Shareholders' Meeting convened for the approval of the financial statements as at 31 December 2014.

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

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

During 2014, the consolidated cooperation with the Supervisory Body pursuant to Italian Legislative Decree 231/2001 continued as part of the activities required of the two bodies pursuant to Italian Legislative Decree 231/2007 on "anti-money laundering."

The Board participated with its representative in most of the meetings of the Control and Risk Committee, the Related Party Transactions Committee, the Appointments and Remuneration Committee and the Supervisory Body pursuant to Italian Legislative Decree 231/2001.

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

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

The Board also supervised the Company's administrative and accounting System through assessments conducted either directly or through the periodic exchange of information with the audit firm, Reconta Ernst & Young.

As part of its own verification of the independence of the aforementioned audit firm, and with regard to compliance with the applicable laws, the Board of Statutory Auditors did not find any critical aspects and received confirmation in this regard pursuant to the provisions of Article 17, par. 9, letter a) of Italian Legislative Decree 39/2010.

The Board of Statutory Auditors also carried out the functions of the Committee for Internal Control and Audit required in public entities by the aforementioned Italian Legislative Decree 39/2010, supervising the financial disclosures process and analysing the contents of the work plan provided by the aforementioned

audit firm, verifying its adequacy in terms of the size and organisational and business complexity of said Company.

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

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

15. RELATIONS WITH SHAREHOLDERS

The Bank has focused over time on establishing the proper relations with the shareholders as a whole. In order to monitor its correct positioning within the market and the attractiveness of its own securities, BMPS has established dedicated company structures, in particular:

- the Research & Investor Relations Area – e-mail address: investor.relations@banca.mps.it - tel. 0577/296477-293038, fax 0577/295634, which handles relations with the major investors and operators in the domestic and international financial community; Mr. Massimo Molinari is the manager of this Area.
- Corporate and Legal Area – e-mail address: settore.societario@banca.mps.it - tel. 0577/294790, fax 0577/294109; Mr. Riccardo Quagliana is the manager of this Area.

In order to provide immediate and easy access to information that is significant for its shareholders, the Bank uses its own website, in Italian and English, for the dissemination of on-line information regarding Corporate Governance, financial statements and summary data, presentations, ratings, press releases, corporate events and presentations.

In particular, in order to promote relations with shareholders and major investors, the Bank has inserted the following section into the website:

<http://www.mps.it/Investor+Relations/Corporate+Governance/Assemblee> in which all useful documentation is published so that rights can be exercised in an informed manner.

Pursuant to Article 135-*undecies* of the TUF, at each shareholders' meeting the Bank designates a representative *“to whom the shareholders can confer, within the end of the second day on which the market is open prior to the date set for the shareholders meeting, including in a convocation subsequent to the first one, a power of attorney with voting instructions for some or all of the proposals on the agenda. This power of attorney will be applicable only to the proposals in relation to which voting instructions have been given. The power of attorney is provided by signing a special form, the content of which complies with the Consob regulation. The granting of the power of attorney does not involve any expenses for the shareholder ...”*.

On 10 February 2014, a memorandum of understanding was signed by Banca Monte dei Paschi di Siena and the Small Shareholders Associations “Azione MPS” and “Associazione Buongoverno MPS” and the Coordinamento Nazionale delle Associazioni di Piccoli Azionisti [the national coordination of small shareholders association], CONAPA. The memorandum provides a significant precedent in the relationship between Listed Companies and the shareholder base at large, in terms of a fruitful dialogue with small shareholders through the association they belong to. In compliance with the existing regulatory provisions and the respective institutional and functional autonomies, a joint analysis stage is being planned for the identification of the steps still to be taken, including amendments to the articles of association aimed at facilitating voting by the employees who are shareholders, as provided by Article 137 of the Consolidated Law on Finance (TUF).

At present, through its home banking system, Banca Monte dei Paschi di Siena can provide its Customers with the participation certification not only for its own Shareholders' Meetings, but also for those of all the other Listed Companies.

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

The BMPS Articles of Association provide that individuals with a right to vote who can demonstrate their legitimate right according to the procedures set forth within the applicable laws can do so at the Shareholders' Meeting.

Shareholders who, including jointly, represent at least one fortieth of the share capital can request, pursuant to the terms of the law, an addition to the agenda items, indicating in their request the additional issues proposed by them, or present a resolution proposal on issues already on the agenda by delivering a report containing the reasons for the request and the documentation to prove their legitimate right.

Communication will be provided, within the times set by the law and in the same forms prescribed for publication of the notice of convocation, of the additions to the agenda items that the Shareholders' Meeting will discuss and the presentation of the resolution proposals on issues already on the agenda, following the aforementioned request.

The addition to the list of issues to be discussed is not allowed for issues on which, pursuant to the terms of the law, the Shareholders' Meeting will deliberate on the proposal of directors or on the basis of a draft or report prepared by them other than those under Article 125 *ter*, Paragraph 1 of Italian Legislative Decree 58/98.

The Shareholders' Meeting usually takes place in Siena; it can also be convened to meet outside the corporate headquarters, provided the meeting place is in Italy.

Persons with a right to vote can be represented at the Shareholders' Meeting provided compliance with the provisions of the law is ensured. Persons with the right to vote are also entitled to grant their power of attorney by e-mail, according to the terms and procedures established by the law. Notification of the power of attorney by e-mail can take place through the appropriate section of the Company's website or, alternatively, by certified e-mail, to the specific e-mail address, pursuant to the terms and conditions established within the notice of convocation.

Persons who intend to take the floor at the Shareholders' Meeting are required to fill out the appropriate "request for intervention form" provided for the issues on the agenda, indicating their identification data, bringing with them the televoter provided to each individual with a voting right or the person delegated by the individual, which contains the identification code of the voter and the relative shares represented, and then to report to the special "Intervention collection" station, at the entrance to the shareholders' meeting room, to deliver it.

The Chairman has full powers to manage and coordinate the discussion and will exercise this prerogative in the interest of ensuring the correctness of the vote, establishing, where necessary, that the duration of the work carried out by the Shareholders' Meeting does not undermine the possibility of participating and casting a vote, while also ensuring that the regular execution of the Shareholders' Meeting is not disturbed. The Chairman establishes the terms and conditions with which to formulate requests for intervention and the maximum duration and order of the interventions. At each Shareholders' Meeting, the Chairman will report regarding the publication of the call notice as well as submission to the company's headquarters and Borsa Italiana S.p.A. of the documentation required by the applicable laws, so that it is at the disposal of the public.

Currently, the information concerning the Bank which is significant for its shareholders is available in the sections that have been established for this purpose within the company's website www.mps.it.

The applicable Shareholders' Meeting Regulation, approved by the Shareholders' Meeting on 29 April 2013, is made available to the public at each shareholders' meeting, through filing at the company's headquarters and Borsa Italiana S.p.A. while it is also inserted in the BMPS website <http://www.mps.it/Investor+Relations/Corporate+Governance/Assemblee>.

The regulation contains instructions regarding the conduct that is required for an orderly and functional meeting to take place, the correct sequence of interventions and the relative replies, as well as the flow of the meetings at the Shareholders' Meeting venues.

17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (per Article 123-*bis*, Par. 2, Letter a) of the TUF)

The additional corporate governance practices adopted by the Bank are specified, where they are present, in the previous sections of this Report dedicated to the various issues, to which reference should be made.

As fully illustrated within the Report, in implementation of the provisions within Italian Legislative Decree 231/2001, the Bank has adopted the organisational model under Article 6 of the aforementioned Decree, updated recently in October 2013.

18. CHANGES SINCE THE CLOSING DATE OF THE REFERENCE YEAR

The various changes in the Corporate Governance structure as from the closing date of the financial year are indicated within the various associated articles.

TABLES

Table no. 1: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES
(as at 31 December 2014)

| Board of Directors | | | | | | | | | | | | | Control And Risk Committee (2) | | Appointments and Remuneration Committee (2) | | Related Party Transactions Committee (2) | | Executive Committee (2) | | Supervisory Body 231 | |
|------------------------------------------------------------------------------------------------------------|---------------------------|---------------|-----------------------------|----------------|---------------------------------------------------------------------------------|---------------|-------|-----------|--------------------|-----------------------|-----------------------------|----------|--------------------------------|---------|---------------------------------------------|---------|------------------------------------------|---------|-------------------------|-----|----------------------|--|
| Office | Members | Year of birth | Date of first appointment * | In office from | In office from shareholders' meeting called to approve the financial statements | List (M/m) ** | Exec. | Non-exec. | Indep. as per Code | Indep. as per the TUF | Number of other offices *** | (**) (%) | (*) (%) | (*) (%) | (*) (%) | (*) (%) | (*) (%) | (*) (%) | (*) (%) | | | |
| Chairman | Alessandro Profumo | 1957 | 27/04/2012 | 27/04/2012 | 2014 | M | | X | | | 2 | 100 | | | | | | | P | 94 | | |
| Deputy Chairman (a) | Pietro Giovanni Corsa | 1955 | 27/04/2012 | 27/04/2012 | 2014 | m | | X | X | X | | 90 | P | 92 | M | 94 | | | M | 81 | | |
| Chief Executive Officer (●) (Λ) | Fabrizio Viola | 1958 | 27/04/2012 | 27/04/2012 | 2014 | M | X | | | | 3 | 100 | | | | | | | M | 100 | | |
| Director | Alberto Giovanni Aleotti | 1972 | 27/04/2012 | 27/04/2012 | 2014 | m | | X | | | | 81 | | | | | | | M | 75 | | |
| Director | Béatrice Bernard | 1963 | 24/09/2013 | 24/09/2013 | 2014 | n.a | | X | | X | 3 | 81 | | | | | | | | | | |
| Director | Daniele Discepolo | 1947 | 14/11/2013 | 14/11/2013 | 2014 | n.a | | X | X | X | 2 | 90 | M | 100 | | | P | 100 | | | | |
| Director | Angelo Dringoli | 1947 | 27/04/2012 | 27/04/2012 | 2014 | M | | X | X | X | | 100 | | | M | 94 | M | 100 | | | | |
| Director | Lorenzo Gorgoni | 1942 | 27/04/2003 | 27/04/2012 | 2014 | m | | X | | | 1 | 100 | | | M | 100 | | | M | 100 | | |
| Director | Roberto Isolani | 1964 | 09/10/2014 | 09/10/2014 | 2014 | n.a | | X | | X | | 100 | M | 67 | | | | | M | 60 | | |
| Director | David Manuel Martinez (1) | 1957 | 09/10/2014 | 09/10/2014 | Resignation 27/2/2015 | n.a | | X | | X | 3 | 100 | M | 0 | M | 0 | | | | | | |
| Director | Marco Miccinesi | 1956 | 14/11/2013 | 14/11/2013 | 2014 | n.a | | X | X | X | | 100 | M | 100 | P | 100 | M | 100 | | | | |
| Director | Marina Rubini | 1969 | 14/11/2013 | 14/11/2013 | 2014 | n.a | | X | X | X | 1 | 90 | | | | | | | | M | 100 | |
| Directors who resigned during the financial year under review | | | | | | | | | | | | | | | | | | | | | | |
| Deputy Chairman | Marco Turchi | 1961 | 27/04/2012 | 27/04/2012 | Resignation 18/09/2014 | M | | X | | | | 100 | | | | | | | P | 100 | | |
| Director | Paola Demartini | 1962 | 27/04/2012 | 27/04/2012 | Resignation 18/09/2014 | M | | X | X | X | | 100 | M | 100 | | | M | 100 | | M | 100 | |
| Minimum participation in the capital required for submission of lists for the final appointment: 1% | | | | | | | | | | | | | | | | | | | | | | |

NOTES

- (a) Office of Deputy Chairman assumed on 29 April 2013.
- (●) The symbol indicates the Director in charge of the internal control and risk management system.
- (Λ) The symbol indicates the main Bank manager (Chief Executive Officer - CEO)
- * Date on which the director was appointed for the first ever time to the Issuer's Board.
- ** This column indicates M/m depending on whether the member was elected from a list voted by the majority (M) or the minority (m).
- *** This column shows the number of offices that a director or statutory auditor holds in other listed companies, in regulated markets, including abroad, in financial, banking, insurance companies or companies of a significant size. A list of these companies, with reference to each director, is attached to this Report, with a specification as to whether the company in which the office is held is part of the group which the Issuer is part of, or not.
- (*) This column indicates the role of the director in the Committee: "P"- Chairman; "M"- member.
- (**) This column shows the percentage of participation at meetings of the Board and the committees (no. of presences/no. of meetings held during the period that the individual was in office, expressed as a percentage).
- (1) On 27 February 2015, the Director David Manuel Martinez resigned from office. On 4 March 2015, the Board appointed Christian Whamond via co-optation.
- (2) For the Committees, the table shows the composition, as at 31 December 2014. For changes in the composition of the Committees, please refer to the body of the Report.

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

| DIRECTOR | LIST OF OFFICES | COMPANIES BELONGING TO THE MPS GROUP | |
|-------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------|----|
| | | YES | NO |
| Alessandro Profumo - Chairman | Member of the International Advisory Board of Itaù Unibanco | | X |
| | Member of the Supervisory Board of Sberbank | | X |
| Fabrizio Viola - Chief Executive Officer | Chairman of the Board of Directors of Banca Widiba SpA | X | |
| | Board Member at AXA MPS Assicurazioni Vita S.p.A. | | X |
| | Board Member at AXA MPS Assicurazioni Danni S.p.A. | | X |
| Béatrice Bernard - Director | General Manager at AXA MPS Assicurazioni Vita S.p.A. | | X |
| | General Manager at AXA MPS Assicurazioni Danni S.p.A. | | X |
| | Board Member at AXA MPS Financial limited | | X |
| Daniele Discepolo – Director | Board Member at Piaggio S.p.A. | | X |
| | Chairman of the Board of Directors of Risanamento S.p.A. | | X |
| Lorenzo Gorgoni – Director | Board Member at Telecom Italia Media S.p.A. | | X |
| David Manuel Martinez (resigned from office on 27 February 2015) | Board Member at Banco Sabadell | | X |
| | Board Member at Alfa SA | | X |
| | Board Member at Vitro SA | | X |
| Marina Rubini | Director of Finmeccanica S.p.A. | | X |

Table no. 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS
(as at 31 December 2014)

| Board of Statutory Auditors | | | | | | | | | |
|-----------------------------------------------------------------------------------------------------|-----------------------------|---------------|-----------------------------|----------------|----------------------------------------------------------------------------------|---------|--------------------------|-----|------------------------------|
| Office | Members | Year of birth | Date of first appointment * | In office from | In office until shareholders' meeting called to approve the financial statements | List ** | Independence as per Code | *** | Number of other offices **** |
| Chairman | Paolo Salvadori | 1947 | 27/04/2012 | 28/04/2012 | 2014 | m | YES | 95% | n.a |
| Standing Auditor | Stefano Andreadis | 1956 | 27/04/2012 | 16/05/2014 (1) | 2014 | M | YES | 94% | n.a |
| Standing Auditor | Claudio Gasperini Signorini | 1966 | 27/04/2012 | 28/04/2012 | 2014 | M | YES | 95% | n.a |
| Alternate Auditor | Franco Michelotti | 1958 | 18/07/2013 | 18/07/2013 (2) | 2014 | n.a | n.a | n.a | n.a |
| Statutory auditors who resigned during the financial year under review | | | | | | | | | |
| Standing Auditor | Paola Serpi | 1965 | 17/11/2009 | 28/04/2012 | M | YES | 100 | n.a | n.a |
| Minimum participation in the capital required for submission of lists for the final appointment: 1% | | | | | | | | | |

NOTES

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

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

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

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

(1) Appointed alternate auditor by the ordinary shareholders' meeting on 27 April 2012; took over office of standing auditor on 16 May 2014, following the resignation of standing auditor Paola Serpi.

(2) On 28 May 2013, the alternate auditor Gianni Tarozzi resigned from office. On 18 July 2013, the Shareholders' Meeting appointed Franco Michelotti as an Alternate Auditor.