Courtesy translation: *in case of discrepancy between the Italian language original text and the English language translation, the Italian text shall prevail*

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

ORDINARY SHAREHOLDERS' MEETING

12 April 2018 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON ITEM 3 OF THE AGENDA

drawn up in accordance with article 114-bis and article 125-ter of Italian Legislative Decree no. 58 of 24 February 1998,

as subsequently amended.

PROPOSAL, IN ACCORDANCE WITH THE JOINT PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED LAW ON FINANCE), FOR THE APPROVAL OF THE PLAN FOR THE USE OF TREASURY SHARES TO SERVICE SEVERANCE PAYMENTS TO BE MADE TO MONTEPASCHI GROUP PERSONNEL, WITH THE AUTHORISATION TO CARRY OUT THE DISPOSAL ACTIONS ON TREASURY SHARES PURSUANT TO ARTICLES 2357 AND 2357-TER OF THE ITALIAN CIVIL CODE; RESOLUTIONS PERTAINING THERETO AND RESULTING THEREFROM.

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

REPORT BY THE BOARD OF DIRECTORS IN ACCORDANCE WITH ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

Dear Shareholders,

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

3) PROPOSAL, IN ACCORDANCE WITH THE JOINT PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED LAW ON FINANCE), FOR APPROVAL OF THE PLAN FOR THE USE OF TREASURY SHARES TO SERVICE SEVERANCE PAYMENTS TO BE MADE TO MONTEPASCHI GROUP PERSONNEL, WITH THE AUTHORISATION TO CARRY OUT THE DISPOSAL ACTIONS ON TREASURY SHARES PURSUANT TO ARTICLES 2357 AND 2357-TER OF THE ITALIAN CIVIL CODE; RESOLUTIONS PERTAINING THERETO AND RESULTING THEREFROM.

Whereas

The Group Remuneration Policies - as reported in the 2018 Remuneration Report which was submitted to the necessary prior approval of the Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. ("**Bank**" or "**BMPS**") - provide, in accordance with specific provisions issued by the Bank of Italy, that a portion of the variable remuneration of "Identified Staff" (i.e. those whose activities have an impact on the risk profile of the Group) shall be paid in financial instruments, and more specifically, shares or related instruments.

We therefore submit an **annual plan for the use of treasury shares** to the Shareholders' Meeting for approval, to be used for the aforementioned purpose, and in particular for the payment of the portion in financial instruments of the so-called Severance for a total number of 6 million shares ("**2018 Treasury shares Plan**" or "the **Plan**"); this is in consideration of the availability, at Group level, of 36,280,748 BMPS ordinary shares (of which 21,511,753 held by the bank itself and 14,768,995 by the subsidiary MPS Capital Services Banca per le Imprese S.p.A. ("**MPSCS**").

The Bank actually intends to prudentially reserve a part of these shares to meet possible future commitments connected to the payment of amounts in the form of incentives for the early termination of employment (severance)(1*).*

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

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

1. Beneficiaries

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

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

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

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

([1])The incentive amount is determined by the so-called severance component of the general agreement that eventually exceeds the cost of the notice period, also taking into account any exemption thresholds established by the Bank in compliance with the Supervisory Provisions and Group Remuneration Policies.

regulations in force, as the Division managers and the other managers reporting directly to the Chief Executive Officer and Administrative Bodies.

2 Reasons behind adoption of the Plan

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

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

3. Governance of the Plan

Under the Plan, the Board of Directors is granted all the powers necessary to implement it, including, purely by way of an example, approving the proposals of the competent bodies with regard to:

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

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

4. Allocation procedures

The Plan provides for the allocation of Bank shares corresponding to a specific amount in cash to be paid to the Beneficiary as mutually agreed for the early termination of the employment relationship (for the portion exceeding the cost of the notice period) or upon early termination of office.

In addition, in line with the 2018 Remuneration Policies, subject to the prior approval of the Shareholders' Meeting:

- the so-called **malus** conditions must be verified for each allocation, as identified by the Remuneration Policies in effect at that time;
- it must be verified that the Beneficiary has not incurred a significant **compliance breach**, i.e. has not been subject to a disciplinary measure and no losses attributable to his/her work have been reported.

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

Moreover, a clawback provision applies to incentives granted and/or paid to individuals who have conspired to cause damage to the integrity of the Bank's and Group's assets, income, finances or reputation, or have engaged in fraudulent conduct, in the presence of wilful misconduct or gross negligence or not. These measures shall also apply in the event of a breach of the obligations referred to in article 26 of Legislative Decree No. 385 of 1 September 1993 (the "**TUB**") (Corporate Officers) or when the individual is a concerned party within the meaning of the provisions in article 53, paragraphs 4 et seq. of the TUB, or of remuneration and incentive obligations.

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

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

5. Characteristics of the assigned instruments

The Plan, as stated, provides solely for the assignment of the treasury shares of BMPS.

It is to be noted that the reference date for the calculation of the number of shares provided to each Beneficiary - determined based on the arithmetic average prices recorded in the last month according to the TUIR will be that of subscription (in the so-called "protected location") of the severance agreements or the date specified in the associated individual communications.

6. Funding

The maximum number of treasury shares to be allocated for the purposes indicated is 6 million. This provision has been included in the financial plans approved by the Bank and communicated to the market.

7. Changes and amendments to the Plan

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

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

8. Accounting and tax aspects

The accounting standards provide that the assignment of treasury shares related to the variable remuneration of personnel will be accounted for in the income statement based on the services provided in the reference period (service condition); in the case in question, the right accrues on termination of the employment relationship and, subsequently, on verification of the other conditions set forth in the Plan. The cost is normally equal to the value of the payment at the time of allocation, adjusted if necessary for the probabilistic elements related to the Plan (actuarial parameters, etc.). The treasury shares will be subject to taxation and social security contributions in accordance with prevailing law in the country of tax residence of each Beneficiary.

9. Other information

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

For the purposes of executing the Plan, also in consideration of the involvement of the Bank's subsidiaries, regulatory activities may also be carried out, also at the request of the supervisory authorities.

Dear Shareholders,

We invite you to approve the proposal on the agenda, and therefore make the following resolution:

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

RESOLVES

(i) to authorise, pursuant to and in accordance with articles 2357 and 2357-ter of the Italian Civil Code, to dispose of the treasury shares of the Bank as indicated in this report and, therefore, to adopt a plan that, in line with current legislation, shall provide for the granting of treasury shares to selected members of the Group's employees, under the terms and in the manner described above and in the information document provided in accordance with the applicable regulations in view of today's Shareholders' Meeting;

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

  a) to implement this resolution and provide information to the market, prepare and/or finalise any document necessary or useful to implement the aforementioned plan, and adopt any further measure that is necessary, or simply useful, for the implementation of the resolution, also with reference to "identified staff" of the Group companies, providing them with indications in that regard so that they can adopt the necessary and appropriate decisions in order to fully implement this resolution, as well as carrying out any regulatory activity, also at the request of the supervisory authorities;

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

Siena, 12 March 2018

On behalf of the Board of Directors
Stefania Bariatti
Chairman of the Board of Directors