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

ORDINARY SHAREHOLDERS' MEETING

11 April 2019 (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, PURSUANT TO THE COMBINED PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF THE CONSOLIDATED FINANCIAL ACT, FOR APPROVAL OF A PLAN CONCERNING THE USE OF OWN SHARES FOR THE PAYMENT OF SEVERANCE FOR THE MONTEPASCHI GROUP PERSONNEL, TOGETHER WITH THE AUTHORIZATION TO DISPOSE OF OWN SHARES PURSUANT TO ARTICLE 2357 AND ARTICLE 2357-TER OF THE ITALIAN CIVIL CODE; RELATED AND CONSEQUENT RESOLUTIONS**

## 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, PURSUANT TO THE COMBINED PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF THE CONSOLIDATED FINANCIAL ACT, FOR APPROVAL OF A PLAN CONCERNING THE USE OF OWN SHARES FOR THE PAYMENT OF SEVERANCE FOR THE MONTEPASCHI GROUP PERSONNEL, TOGETHER WITH THE AUTHORIZATION TO DISPOSE OF OWN SHARES PURSUANT TO ARTICLE 2357 AND ARTICLE 2357-TER OF THE ITALIAN CIVIL CODE; RELATED AND CONSEQUENT RESOLUTIONS.**

Premise

In accordance with the specific supervisory provisions on remuneration and bonus policies and practices issued by the Bank of Italy<sup>1</sup> ("**Supervisory Provisions**"), the Group's Remuneration policies - as shown in the "2019 Remuneration Report" pursuant to art. 123-ter of the Consolidated Financial Act ("**2019 Remuneration Policies**"), - submitted to the necessary prior approval of this Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. ("**Bank**" or "**BMPS**"), provide that a portion of the variable remuneration of Identified Staff (i.e. employees whose activities have an impact on the risk profile of the Bank or Banking Group, hereinafter "**Identified Staff**") shall be paid in financial instruments, and more specifically, shares or related instruments<sup>2</sup>.

The notion of variable remuneration, as defined in the current Supervisory Provisions, also includes any amounts paid to the Identified Staff as an incentive for early termination of employment or early termination of office (so-called severance)<sup>3</sup>.

Given the theoretical possibility that this requirement could occur, the Bank must define the type of financial instruments and the relative amounts to be allocated to such possible future commitments.

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<sup>1</sup> See Supervisory Provisions Part One-Title IV-Chapter 2-Section III.

<sup>2</sup> See paragraph 10.2.3 of Section I and Section II of the "2019 Remuneration Report".

<sup>3</sup> The incentive amount is determined by the general agreement component (so-called severance) recognised in the agreements for the termination of employment that eventually exceeds the cost of the notice period (excluding the legally-applicable employment termination indemnity and including the amount of any non-competition agreement, for an amount that exceeds one year of fixed remuneration of the beneficiary), also taking into account any exemption thresholds established by the Bank in compliance with the Supervisory Provisions (currently at EUR 100,000).

Considering the availability at Group level of 36,280,748 ordinary shares of BMPS<sup>4</sup>, we therefore submit for approval by the Shareholders' Meeting an **annual plan for the use of treasury shares** to be paid to the Identified Staff as the portion of financial instruments of severance, for a total of 6 million shares (the "**Plan**").

The characteristics of the Plan are in line with the provisions of the applicable remuneration laws, more specifically the Supervisory Provisions, as better described below and which will be described in further detail in the disclosure that will be made available to the public, in accordance with article 84-bis of the Consob regulation adopted with resolution no. 11971 of 14 May 1999, as subsequently amended (the "**Issuers' Regulations**"), along with this Explanatory report.

In accordance with prevailing laws and regulations, the proposal of the Plan described in this report has been approved by the Bank's Board of Directors, with the favourable opinion of the Remuneration Committee and Board of Statutory Auditors (the latter also pursuant to article 2389 of the Italian Civil Code), for the necessary approval by the shareholders' meeting of this report prepared for the benefit of the shareholders to support the proposed resolutions.

## **1. Beneficiaries of the Plan**

The potential beneficiaries of the Plan are the directors and employees included within the scope of Identified Staff of the Group, identified annually by the delegated bodies based on the criteria established by the regulations in force at the time and who, only in the case of completion - during the period of validity of the Plan - of an agreement for early termination of the employment relationship or early termination of the office, receive severance to be paid partly in financial instruments.

Specifically, to date (subject to changes to the current Plan), the Directors are the Chief Executive Officer of the Bank and Chief Executive Officer of Widiba S.p.A.

The employees, to date (subject to changes in the current Plan), are those 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 and, therefore, specifically, the "Key Executives" identified, in accordance with the regulations in force, as the Division managers of the Bank and the other managers reporting directly to the Chief Executive Officer and Administrative Bodies.

## **2. Reasons behind the adoption of the Plan**

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<sup>4</sup> Of which 21,511,753 held by the bank itself and 14,768,995 by subsidiary MPS Capital Services Banca per le Imprese S.p.A. ("**MPSCS**").

The Plan aims to enable the Bank and its subsidiaries to comply with the provisions of the Supervisory Provisions, where they dictate that any severance should be paid out in part<sup>5</sup> 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 any amounts determined upon mutual agreement for early termination of the employment relationship 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, that of approving the proposals with regard to:

- the Plan Regulations and any updates;
- assignment of treasury shares to the beneficiaries of the Plan.

To the extent permitted by the 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, according to the times and methods defined in the 2019 Remuneration Policies, in accordance with the Supervisory Provisions as approved by the Shareholders' Meeting, 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 2019 Remuneration Policies, verification of the so-called malus conditions must be verified for each allocation, as identified by the Remuneration Policies in effect at that time.

Moreover, as set forth in the Supervisory Provisions and in the 2019 Remuneration Policies, the Bank and its subsidiaries reserve the right to activate clawback mechanisms in the cases envisaged by the 2019 Remuneration Policies and by any exit agreements, and to apply the appropriate 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, as well as the Bank's equity and liquidity levels.

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<sup>5</sup> See previous notes 2 and 3.

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 in the 2019 Remuneration Policies.

The management of any exceptions to the above lies with the relevant corporate bodies, according to the respective powers of the Board of Directors, the Remuneration Committee and the CEO, in accordance with the provisions set out in the 2019 Remuneration Policies. They are subject to any decisions made by a competent third party (such as a legal authority and/or arbitration board).

## **5. Characteristics of the assigned instruments**

The Plan, as stated, provides solely for the assignment of the treasury shares of BMPS, held by the Bank or by subsidiary MPSCS.

Note that the reference date to calculate the number of shares provided to each beneficiary - determined based on the arithmetic mean of prices recorded in the last month according to the TUIR - will be that of subscription (the so-called "protected date") 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 (such as extraordinary transactions on the Bank's capital, legislative or regulatory amendments, guidelines by the regulatory entities and/or supervisory authorities or other events that could impact the shares or the plan), 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 any 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 the Plan for the use of the Bank’s Treasury Shares, pursuant to and in accordance with articles 2357 and 2357-ter of the Italian Civil Code, within the limit of no. 6 million shares, as indicated in this report, in the event of the granting of severance payments to “Identified Staff” members in 2019 following the early termination of employment or termination of office in the context of a mutual agreement, for the allocation of the quota in financial instruments in compliance with current legislation, under the terms and in the manner described above as well as contained in the information document provided pursuant to art. 84-bis of the Issuers Regulation in view of today’s Shareholders’ Meeting;
- (ii) to vest the Board of Directors, Chairman of the Board of Directors and the 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 and sign 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 this 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, 11 March 2019

On behalf of the Board of Directors

Stefania Bariatti

Chairperson of the Board of Directors