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

SHAREHOLDERS' MEETING

18 December 2017 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 3) ON THE AGENDA - ORDINARY SESSION

pursuant to Article 125-ter of Legislative Decree no. 58 of 24 February 1998,  
as subsequently amended and supplemented.

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

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

Dear Shareholders,

you were convened to attend a meeting to resolve upon the following item on the agenda of the ordinary session of the Shareholders' Meeting:

- **Appointment of members of the Board of Directors for the financial years 2017 - 2018 – 2019**

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As indicated in the Notice of Call, it should be noted that the items on the Ordinary Shareholders' Meeting will be submitted to the Shareholders' discussion and deliberation only subject to the adoption of the resolutions relating to item 2 of the agenda of the Extraordinary Shareholders' Meeting. The relevant resolutions adopted in ordinary session of the Shareholders' Meeting will be effective only after the registration at the Business Register of the deliberation referred to in item 2 in extraordinary session.

Please note that all the activities concerning the appointment of the new Corporate Bodies of the Company shall take place according to the the By-laws as amended by Extraordinary Shareholders' Meeting The new Board of Directors will be appointed for the financial years 2017 - 2018 - 2019 (and, more specifically, in the present case, for the last part of the 2017 financial year, which has not yet been concluded, and the entire financial years 2018 and 2019), on the basis of of the lists submitted by the shareholders, among which the members of the Board of Directors will be appointed according to the procedure and terms set forth by Article 15 of the By-Laws in the proposed new wording.

In each list that shall be submitted, at least two candidates - or the only candidate or anyway at least one third of the candidates in case of lists made up of more than six (6) candidates - specifically indicated, must meet the independence requirements set forth by the law applicable to Statutory Auditors and the further independence requirements set forth by the Self-regulation Code of listed companies, to which the Bank adheres. In case the number of candidates that shall meet the above mentioned independence requirements does not correspond to a rounded number, it shall be rounded up by excess.

Each lists must contain candidates of different gender in accordance with current gender equality legislation. The lists shall not include candidates who have reached 75 years of age as of the date of the Shareholders' Meeting for the renewal of the Corporate Bodies, also in view of the age limits set forth for the office of Chairman of the Board of Directors (i.e., no more than 70 years of age at the time of appointment) and for the office of Chief Executive Officer (no more than 67 years of age at the time of appointment), pursuant to the relevant By-Laws of the Company.

Please also note that any member of the Board fo Directors of BMPS cannot be – otherwise there will be decadence from the office – at the same time a member of the Board of Directors, member of the council of management or the supervisory board of a competitor banks outside the banking group Monte dei Paschi di Siena, that has a banking license issued by the Supervisory Authority and operate in the markets of bank funding or ordinary credit in Italy. Themember of the Board of Directors that accepts one of the aforesaid offices must immediately notify the Board of Directors which will declare the immediate decadence.

The appointment process complies with the provisions of Legislative Decree no. 385/1993 and subsequent amendments (hereinafter the "**TUB**") and the relevant criteria set forth in the Banca d'Italia Supervisory Provisions on Corporate Governance (Circular Banca d'Italia No. 285 of 17/12/2013 Title IV Chapter 1, hereinafter referred to as the "**Supervisory Provisions**"), as well as the Directive no. 2013/36 /EU *Capital Requirements Directive* (hereinafter the "**CRD IV Directive**") and Regulation (EU) no. 575/2013 on the so-called *Capital Requirements Regulation* (CRR), with particular reference to the prior assessment by the Board of Directors, with the support of the Nomination Committee, of the qualitative and quantitative composition, identifying and motivating the theoretical profile (including professional and independence, if the case, features of the members) of candidates considered appropriate for these purposes, so that the choice of candidates to be submitted for appointment to the Shareholders' Meeting can take into account the professional features required.

In this respect, in accordance with the Supervisory Provisions, jointly with this Report BMPS shall publish and make available to the shareholders a dedicated document - published and available on the Bank's website [www.gruppomps.it](http://www.gruppomps.it), in the section *Corporate Governance – Shareholders Meeting and BoD*, together with the meeting documents and filed at the Company's registered office and at the market management company -, the outgoing Board of Directors' evaluations, drafted with the support of the Nomination Committee, regarding its qualitative and quantitative composition considered optimal in relation to the purposes set out in aforesaid provisions and the theoretical profile (including features of professionalism and possible independence) of the candidates considered appropriate for these purposes in a timely manner so that the choice of candidates can take into account the profile required.

In addition, please note that the members of the Board of Directors must meet the requirements set forth in the relevant regulatory framework for bank representatives, provided that, after the appointment by the Shareholders' Meeting, the Board of Directors will be required to make its own assessment to ensure the fulfilment of the requirements set forth in the applicable regulation regarding integrity, professional and independence features, as well as the assessment of the compliance with the so-called prohibition of interlocking.

In this respect, it should be noted that the discipline on the requirements of bank representatives as set forth by Article 26 TUB has been amended by Legislative Decree No. 72/2015 which, implementing the relevant European regulation (i.e., CRD IV Directive), establishes a new discipline of the requirements of bank representatives, that requires, in accordance with the aforementioned CRD IV Directive and the guidelines issued by EBA and by the European Central Bank (hereinafter, "**ECB**"), any person performing administrative, management and control functions within a bank to be suitable for carrying out the assignment.

For the purposes of the "suitability" of the bank exponents, in addition to the requirements of integrity, (that are the same for all the members), and to professional and independence features (that instead are graduated according to the proportionality principle), these exponents shall meet the requirements of competence and fairness, also in respect to the timeframe needed to fulfil their mandate. All these features shall be set forth by the Minister of Economy and Finance (hereinafter the "**MEF**"), with a decree to be adopted after the consultation with the Bank of Italy. Moreover, it should be noted that, at the date hereof, the consultation on the draft of Ministerial Decree containing the requirements and eligibility criteria for carrying out the assignment of bank representatives has been completed, but the final version of the relevant decree has not yet been issued by the MEF.

The aforementioned Article 26 of the TUB (in the new wording, not yet in force) sets forth that the competence criteria must be regulated in a manner "*consistent with the position to be appointed for and with the specific features of the bank, and the proper composition of the corporate body*", while the "fairness" criteria - which is completely new in the Italian system - shall regard "among other things, the business relations of the exponent, the conduct towards the Supervisory Authority and the sanctions or

corrective measures imposed by the Supervisory Authority, restrictive measures relating to professional activities, as well as any other element likely to affect the fairness of the exponent."

Even if the regulation regarding the requirements of bank exponents under the new Article 26 of the TUB is still under a transitional regime, pending the issuance of the relevant implementing decrees, the Board of Directors will also take into account the eligibility criteria set out above, as indicated by the ECB when assessing the requirements of the new directors. In this respect, please note that the assessment of the requirements of the exponents appointed by the Parent Company and the Montepaschi Group Banks during 2016 - 2017 has been carefully evaluated by the Supervisory Authorities not only with respect to the requirements of professionalism, honorability and independence, but also with respect to the suitability of bank representatives.

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With reference to the Shareholders' Meeting appointment procedure with the voting list, please note that, assuming the approval of the amendments to the By-Laws set forth in item 2 of the agenda of the extraordinary session, the Board of Directors will be elected as follows:

- from the list that will obtain the majority of the votes expressed, in the progressive order with which they are listed in the list, will be selected all members of the Board of Directors to be elected except 3 (three), or the smaller number of directors which runs out all candidates in that list;
- the remaining directors will be drawn from the other lists; for this purpose, the votes obtained by the other lists will be divided for one, two, and so on, according to the number of directors still to be elected. The quotients so obtained will be assigned progressively to the candidates of each of these lists, according to their order respectively. The quotients so assigned to the candidates in the various lists will be placed in one decreasing ranking. Those who will have the highest quotients will be elected. If more than one candidate has obtained the same quotient, the candidate of the list which has not yet elected a Director or which has elected the fewer number of directors will be elected. In the event that none of these lists have yet elected a Director or all the lists have elected the same number of directors, among those lists will be elected the candidate of the list which has gained the highest number of votes. In case of equal votes and equal quotient, the whole Shareholders' Meeting will proceed to a new vote being and the candidate who obtains the simple majority of votes shall be appointed.

In any case, even by derogation to the foregoing provisions, at least one director must be drawn from the minority list that has obtained the highest number of votes and is not connected in any way, even indirectly, with the persons who submitted or voted the list ranked first by number of votes.

If, at the end of the vote, at least one third of the appointed directors are not in possession of the independence requirements, non-independent candidates who result to be last among the elected candidates will be replaced with independent candidates, drawn from the same lists of the replaced candidates, who have obtained the highest quotient. The candidate replaced to allow the appointment of the minimum number of independent directors can not, in any case, be the Director drawn from the minority list that has obtained the highest number of votes and is not related in any way even indirectly with the persons who have submitted or voted the list that obtained the majority of the votes. In that case, the non-independent candidate second to last per quotient will be replaced

If, at the end of the vote, the gender equality rules - which prescribe the presence of at least one third of the less represented gender - are not fulfilled, the quotient of votes to be assigned to each candidate from the lists will be calculated by dividing the number of votes obtained from each list for the progressive submission number of each of these candidates; the candidate belonging to the most represented gender with the lowest quotient among the candidates from all the lists will be replaced by the candidate belonging to the less represented gender who will have obtained the highest quotient within the same list

of the replaced candidate. If candidates of different lists have obtained the same quotient, the candidate of the list from which the largest number of directors has been drawn will be replaced or, subordinately, the candidate from the list which has obtained the lowest number of votes or, in case of equal votes, the candidate who receives less votes from the Shareholders' Meeting in a dedicated vote.

If, as a result of the above mentioned procedures, due to the lack of independent substitutes or of substitutes of the less represented gender, the directors will not be elected in an adequate number to comply with the minimum quota of independent directors and of directors of the less represented gender, the Shareholders' Meeting will elect the relevant directors with a resolution approved by the simple majority on the basis of a proposal submitted, during the meeting, by the persons who have submitted the list to which the candidate or candidates to be replaced belong.

For the appointment of directors not elected, for any reason, in accordance with the foregoing procedure, the Shareholders' Meeting resolves according to and with the majorities stated by the applicable law, without prejudice to the criteria established by the current legislation and the By-Laws on independent directors and equality of genders.

Lastly, it is recalled that every one who has the right to vote can only vote for one list.

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Dear Shareholders, you are therefore invited to make the appointment of the members of the Board of Directors in accordance with the statutory provisions mentioned above.

Siena, 7 November 2017

For the Board of Directors

Mr. Alessandro Falciai

Chairman of the Board of Directors