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

SHAREHOLDERS' MEETING

12 April 2017 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 2) ON THE AGENDA - EXTRAORDINARY SESSION

prepared pursuant to Article 125-ter of Legislative Decree no. 58 of 24 February 1998 and article 72 of the CONSOB regulation approved with resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented.

ITEM 2) ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 125-TER OF THE LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND ARTICLE 72 OF THE CONSOB REGULATION APPROVED WITH RESOLUTION NO. 11971 OF 14 MAY 1999

Dear Shareholders,

you were convened to attend a meeting to resolve upon the following item on the agenda of the extraordinary session of the shareholders' meeting:

2) Amendments to Articles 15 and 19, inherent and subsequent resolutions.

Premise

The project submitted to the attention of the Shareholders' Meeting includes proposals for the amendment to the by-laws to be made in order to complete the its adjustment in light of the Supervisory Provisions of the Bank of Italy (Circular 285/2013, hereinafter "**Supervisory Provisions**"), following the updates of the same in the area of "corporate governance" (Part I, Title IV, Chapter 1), in order to ensure consistency and compliance with the evolution of the rules, principles and guidelines developed at international and European level (in particular Directive 2013/36 / EU - so called "**CRD IV**" and the guidelines issued by the EBA in 2011 on internal governance) in coordination with the clarifications and application guidelines provided by the Bank of Italy in the course of practical experience.

Please bear in mind that the Shareholders' Meeting held on April 16, 2015 approved, inter alia, a first set of amendments to the By-Laws (articles 13, 17 and 23), for the purposes of the adjustment of the by-laws to the Supervisory Provisions in particular in terms of: i) tasks and powers of the Board of Directors, ii) committees within the board, iii) powers of the Chairman of the Board of Directors, and iv) remuneration policies. At that time, the choice of the the Board was to limit, to the maximum extent possible, the amendments the By-Laws, thud proposing only those amendments which, according to the aforementioned legislation, were mandatorily to be approved within the deadline for the approval of the financial statements as of 31 December 2014 .

These Further changes are submitted to the Shareholders' Meeting to fully implement the aforementioned Supervisory Provisions within the deadline of 30 June 2017, as provided for in that piece of legislation.

The amendments submitted to the resolution of the Shareholders' Meeting are described below, evidencing the proposed amendments to each article of the by-laws.

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Explanation of the proposed amendments of the By-Laws

- ✓ *Composition of the collective corporate bodies (Article 15 paragraph 2)*

Article 15 of the By-Laws provides that the Board of Directors consists of a number of members that is determined by a minimum of nine (9) and a maximum of seventeen (17).

The proposed amendment relates to the decrease of the maximum number of members of the Board of Directors from seventeen (17) to fifteen (15), within the quantitative limit set out by the Supervisory Provisions (limit currently respected by the composition of the Board in charge determined in 14 members by the Shareholders' Meeting held on April 16, 2015).

Currently the Board is made of thirteen (13) members following the resignation (on 28 December 2016) of the Director Whamond and the reduction of the number of members of the Board of Directors from the current fourteen (14) to thirteen (13) members is at the agenda of this Meeting in ordinary session.

Please note that, according to the Supervisory Provisions, the boards made from more than fifteen (15) members are considered exceptional cases, to be analytically evaluated and motivated. Therefore the current maximum of seventeen (17) directors could be maintained only upon the occurrence of specific reasons to be analytically and properly evaluated and motivated.

In this respect, it should be noted:

- i) the number of Directors is fourteen (14) , therefore below the limit set by Supervisory Provisions;
- ii) in the document on "Quantitative and qualitative composition of the Board of Directors of Banca Monte dei Paschi di Siena", prepared on the occasion of the appointment of the Board in April 2015, the optimal size of the Board has been set in a number between 12 and 14 Directors, its adequacy has been confirmed on the self-assessment of the Board made in March 2016 and in February 2017.

The decrease of the maximum number of Directors is consistent with Bank of Italy' regulation and is therefore also consistent with the current reality and with the optimal composition of the Board, having no impacts on current governance.

✓ *The Chairman of the Board of Directors (Article 19, paragraphs 1, 3 and 4)*

Article 19 of the By-Laws contains provisions governing the composition and functioning of the Executive Committee.

The proposed change concerns the deletion of the reference to the Chairman of the Board as an *ex officio* member of the Executive Committee, replaced by the provision that the Chairman can attend meetings of the Executive Committee without enjoying any voting right.

The Supervisory Provisions on corporate governance devote a special paragraph to the "Role of the Chairman", with the aim to enhance this figure within the Board of Directors, emphasizing the role of "guarantor" of the efficiency of board work.

In this context, the Supervisory Provisions state that the Chairman, in order to effectively perform its function, must have a non-executive role and shall not carry out any management functions. In addition, it falls within the role of the Chairman to encourage in a neutral way the dialectic between executive and non-executive members and to invite the active participation of non-executive members to the Board.

Therefore, the Supervisory Provisions specify that the Chairman may not be a member of the Executive Committee and, if useful to assure an effective information link between the strategic supervision and that of management, may participate but without voting rights in Executive Committee's meetings.

Therefore, an intervention on Article. 19 of the By-Laws relating to the Executive Committee is necessary, in order to:

- i) cancel the provision according to which the Chairman of the Board of Directors, and for completeness the Vice-Chairman/ Vice-Chairmen, is a member by right of the Executive Committee;
- ii) clarify that the remaining members of the Executive Committee are elected by the Board from among its members, including the Chairman, assuming a new maximum number of seven (7) members, compared to the current maximum number of nine (9);
- iii) introducing the appointment of the Chairman of the Executive Committee by the Committee itself, by choosing it internally, adapting accordingly the powers and functioning of the Committee; and
- iv) provide that the Chairman of the Board of Directors may attend meetings of the Executive Committee, without enjoying any voting rights.

Although, for the time being, the Executive Committee has not been formed, the change at hand shall be submitted to the Shareholders' Meeting in order to amend the By-Laws and to comply with Bank of Italy's regulation in the event of a possible reconstitution of the Executive Committee.

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Please note that the proposed amendments are subject to the authorization of the Bank of Italy pursuant to art. 56 of Legislative Decree No. 385/1993.

The proposed amendments to Articles 15 and 19 of the Articles of Association are transcribed below by comparing the current text and the proposed text.

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CURRENT VERSION ¹	PROPOSED VERSION ²
<p style="text-align: center;">CHAPTER V (Board of Directors) <u>Article 15</u></p> <p>1. The Board of Directors is composed of a number of members established by the Ordinary Shareholders' Meeting which cannot be less than nine or more than seventeen. Subject to removal from office, no BMPS director shall be entitled, at the same time, to hold the office of director or of member of the council of management or the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the supervisory authority and operate in the markets of bank funding or ordinary credit in Italy. In the event that a BMPS director accepts to hold one of the above-mentioned offices, he/she must promptly notify the BMPS Board of Directors which will declare his/her prompt removal from office. Directors' term of office is three years and expires on the day of the shareholders' meeting called to approve the financial statements of the most recent financial year of their term. Directors may be re-appointed for a maximum of two consecutive terms after the first one, and are elected according to the list voting system, as follows:</p>	<p style="text-align: center;">CHAPTER V (Board of Directors) <u>Article 15</u></p> <p>1. The Board of Directors is composed of a number of members established by the Ordinary Shareholders' Meeting which cannot be less than nine or more than seventeen fifteen. Subject to removal from office, no BMPS director shall be entitled, at the same time, to hold the office of director or of member of the council of management or the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the supervisory authority and operate in the markets of bank funding or ordinary credit in Italy. In the event that a BMPS director accepts to hold one of the above-mentioned offices, he/she must promptly notify the BMPS Board of Directors which will declare his/her prompt removal from office. Directors' term of office is three years and expires on the day of the shareholders' meeting called to approve the financial statements of the most recent financial year of their term. Directors may be re-appointed for a maximum of two consecutive terms after the first one, and are elected according to the list voting system, as follows:</p>
(1.1) The Board of Directors is appointed on the basis of lists submitted by the shareholders in accordance with the following paragraphs, in which the	<i>(unchanged)</i>

¹ This column contains the existing text of the by-laws

² This column contains the proposed amendment. The barred words are those part of the text to be deleted, the words in bold are those to be inserted.

<p>candidates are listed by consecutive number. Each list must contain and specifically indicate at least two candidates who meet the independence requirements established by law for statutory auditors and the further independence requirements established by the Self-regulation Code of listed companies.</p>	
<p>(1.2) Lists with a number of candidates equal to or above three must include candidates of both gender in alternating order and in equal proportions if there is an even number, in any case, as provided for in the Shareholders' Meeting notice of call, for the purpose of complying with applicable legislation regarding gender balance. The lists shall not include candidates who are 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 indicated for the office of Chairman of the Board of Directors and for the office of Chief Executive Officer, as provided for by Article 13, para. 3 letter b) and Article 18, para. 4, respectively. The lists submitted by the shareholders must be filed at the Company's registered office at least twenty-five days prior to the date set for the Shareholders' Meeting on first call, and published in accordance with applicable regulations.</p> <p>Lists with a number of candidates equal to or above three, furthermore, must specifically indicate at least two candidates and, in any case, equal to at least one third of the candidates in the list, who meet the independence requirements established by law for statutory auditors and the further independence requirements established by the Self-regulation Code of listed</p>	<p><i>(unchanged)</i></p>

<p>companies.</p> <p>In the event that this share is not a whole number, it shall be rounded up.</p>	
<p>(1.3) Each shareholder may submit or contribute to the submission of one list only, in compliance with the provisions of the second paragraph of this article, and each candidate may stand for election in one list only, under penalty of ineligibility.</p>	<p><i>(unchanged)</i></p>
<p>(1.4) Only shareholders that, either individually or together with other shareholders, collectively hold shares representing at least 1% of the Company's share capital with voting rights at the Ordinary Shareholders' Meeting or a different percentage required by applicable regulations are entitled to submit lists. In order to prove ownership of the number of shares required for submission of lists, shareholders who submitted the lists must submit and/or send the documentation proving ownership of the minimum shareholding required to submit lists to the Company's registered office, when filing the lists or at a later date but within the term provided for the publication of the lists. Ownership is determined by taking into account the shares registered to the shareholder on the date on which the lists are filed.</p>	<p><i>(unchanged)</i></p>
<p>(1.5) Each list shall be filed at the Company's registered office, within the deadline for their filing, together with: (i) declarations by the candidates in which they accept their candidacy and certify, under their own responsibility, that there are no reasons for ineligibility and incompatibility, as well as the fact that they meet the requirements prescribed for the office as laid down by applicable law and regulations; (ii) declarations by</p>	<p><i>(unchanged)</i></p>

<p>the candidates indicated as independent in the list certifying that they meet the independence requirements pursuant to foregoing para.1.1; and (iii) the <i>curricula vitae</i> showing the personal and professional characteristics of each candidate, indicating the management and control positions held in other companies. In particular, the candidates must declare that they do not hold the office of director or of member of the council of management or the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the Italian supervisory authority and operate in the markets of bank funding or ordinary credit in Italy. Lists submitted that do not comply with the statutory provisions cannot be voted.</p>	
<p>(1.6) Each shareholder entitled to vote may vote only one list. The Board of Directors is elected as follows:</p> <p>a) the Directors representing half of the members to be elected - with rounding down to the lower unit in the case of a fractional number – shall be drawn from the list obtaining the majority of the votes expressed, in the progressive order with which they are listed;</p> <p>b) the remaining Directors shall be drawn from the other lists; to this purpose, the votes obtained by the lists shall be divided subsequently by one, two, three, four and so on according to the number of directors still to be elected. The quotients obtained shall be assigned progressively to the candidates of each list according to their related order. The quotients assigned to the candidates of the various lists shall be</p>	<p>(unchanged)</p>

listed in decreasing order.

The candidates obtaining the highest quotients shall be elected.

If several candidates have obtained the same quotient, the candidate of the list that has not yet elected a director or that has elected the lowest number of directors shall be elected.

If none of these lists has elected a director or if all of them have elected the same number of directors, the candidate of the list that has obtained the highest number of votes shall be appointed among these lists. In the event of equal number of votes and quotients, the entire Ordinary Shareholders' Meeting shall hold a new voting and elect the candidate obtaining the simple majority of the votes.

However, also notwithstanding the foregoing provisions, at least one director must be drawn from the minority list which has obtained the highest number of votes and is in no way linked, either directly or indirectly, with the parties that submitted or voted the list ranking first by number of votes.

If, as a result of the voting, at least one third of the directors that meet the independence requirements provided for by previous paragraph 1.1 have not been appointed, the required number of last non-independent directors shall be replaced with independent candidates - drawn from the same lists of the replaced candidates - who have obtained the highest quotient.

The candidate replaced for the purpose of allowing the appointment of the minimum number of independent directors shall in no case be drawn from the minority list which obtained the

majority of votes and no way be linked, directly or indirectly, with the parties that submitted or voted the list which obtained the majority of votes. In this case, the non-independent candidate which ranked last but one by quotient achieved shall be replaced.

In addition, if application of the foregoing procedures does not ensure compliance with current regulations on gender balance, the quotient of votes to be assigned to each candidate from the lists shall be calculated by dividing the number of votes obtained by each list by the progressive number of listing of each candidate. The candidate of the most represented gender with the lowest quotient among the candidates taken from all the lists is replaced by the candidate of the least represented gender who has obtained the highest quotient in the same list as the replaced candidate. If candidates from different lists have obtained the same quotient, the candidate of the list with the highest number of directors, or the candidate from the list with the lowest number of votes or, at a parity of votes, the candidate obtaining the lowest number of votes from the Shareholders' Meeting during a specific voting, shall be replaced.

In the event of application of the above procedures, should the number of Directors necessary to comply with the minimum number of independent Directors and of Directors of the least represented gender not be appointed due to an insufficient number of independent directors or of the least represented gender, the Shareholders' Meeting shall appoint the missing Directors by resolution approved by simple majority on the basis of the

<p>candidatures proposed, there and then, primarily by the parties that submitted the list of the candidate or candidates to be replaced.</p>	
<p>(1.7) With respect to the appointment of the Directors who were not appointed for any reason whatsoever in compliance with the procedure provided for herein, the Shareholders' Meeting shall resolve pursuant to and with the majorities provided for by law, without prejudice to the criteria envisaged by legislation in force and by the By-Laws with regard to independent directors and gender balance.</p>	<p><i>(unchanged)</i></p>
<p>2. The members of the Board of Directors must meet the requirements provided for by pro-tempore laws and regulations in force.</p>	<p><i>(unchanged)</i></p>
<p>3. In order to replace any Directors terminating their office during their term, the provisions of law shall apply, in accordance with the criteria envisaged by legislation in force and by the By-Laws with regard to independent directors and gender balance. If the majority of Directors terminates office, the whole Board of Directors shall be deemed to have resigned, with effect from the date it is re-established. Directors may be revoked by the Shareholders' Meeting at any time, subject to the Director's right to compensation for damages, if his/her revocation is without just cause.</p>	<p><i>(unchanged)</i></p>
<p style="text-align: center;">CHAPTER VI (Executive Committee)</p> <p style="text-align: center;"><u>Article 19</u></p> <p>1. The Executive Committee is composed of:</p> <p>a) the Chairman;</p>	<p style="text-align: center;">CHAPTER VI (Executive Committee)</p> <p style="text-align: center;"><u>Article 19</u></p> <p>1. The Executive Committee is composed of:</p> <p>a) the Chairman;</p> <p>b) the Deputy Chairman or the Deputy</p>

<p>b) the Deputy Chairman or the Deputy Chairmen;</p> <p>c) the Chief Executive Officer/s, if appointed;</p> <p>d) members of the Board of Directors appointed annually by the Board itself on the first meeting following the Shareholders' Meeting approving the financial statements, so that the Executive Committee is made up of minimum five to maximum nine members.</p>	<p>Chairmen;</p> <p>a) the Chief Executive Officer/s, if appointed;</p> <p>b) members of the Board of Directors, excluding the Chairman of the Board of Directors, appointed annually by the Board itself on the first meeting following the Shareholders' Meeting approving the financial statements, so that the Executive Committee is made up of minimum five to maximum of nine seven members.</p>
	<p>2. The function of Chairman of the Executive Committee was held by the Chief Executive Officer. In the event that the Chief Executive Officers are more than one, the Executive Committee shall appoint its Chairman choosing from one of them</p>
	<p>3. The Chairman of the Board of Directors, to ensure an effective information connection between the functions of strategic supervision and the management, may participate in the meetings of the Executive Committee without voting rights.</p>
<p>2. The General Manager attends the Executive Committee meetings, without the right to vote.</p>	<p><i>(unchanged, will become paragraph 4)</i></p>
<p>3. The Committee is convened by the Chairman who sets the agenda for each meeting. The meeting is normally convened every fifteen days using the same methods set out in the By-Laws for convening the Board of Directors, as a rule and in urgent cases. The Executive Committee may also be convened by the Board of Statutory Auditors, or by each member of the Board of Statutory Auditors separately, subject to written notice to the Chairman of the Board of Directors. Members are also allowed to attend the meetings of the Executive Committee by using teleconference and videoconference systems in accordance with the provisions of the By-Laws regarding the attendance of Board of Directors meetings.</p>	<p>5. The Committee is convened by the Chairman of the Executive Committee who sets the agenda for each meeting. The meeting is normally convened every fifteen days using the same methods set out in the By-Laws for convening the Board of Directors, as a rule and in urgent cases. The Executive Committee may also be convened by the Board of Statutory Auditors, or by each member of the Board of Statutory Auditors separately, subject to written notice to the Chairman of the Executive Committee, also sent to the Chairman of the Board of Directors. Members are also allowed to attend the meetings of the Executive Committee by using teleconference and videoconference systems in accordance with the provisions of the By-Laws regarding the attendance of Board of</p>

	Directors meetings.
4. The Secretary of the Committee is chosen among the Executives of the Company by the Board of Directors, upon the Chairman's proposal.	6. The Secretary of the Committee is chosen among the Executives of the Company by the Board of Directors, upon the Chairman's of the Executive Committee proposal.
5. The Committee resolves by majority vote of the attending members.	<i>(unchanged, will become paragraph 7)</i>
6. Meetings are duly constituted in the presence of the majority of members.	<i>(unchanged, will become paragraph 8)</i>
7. The Statutory Auditors attend the meetings of the Committee.	<i>(unchanged, will become paragraph 9)</i>
8. The minutes of each single meeting, recorded in a specific register, are made available to the Board of Directors.	<i>(unchanged, will become paragraph 10)</i>

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With regard to the proposed amendments to Articles 15 and 19 of the By-Laws, the Board of Directors believes that there are not the prerequisites for the right of withdrawal provided for by law.

Dear Shareholders

In view of the foregoing we hereby invite you to adopt the following resolution:

"The extraordinary shareholders' meeting, after considering the proposals made by the Board of Directors

RESOLVE

(A) to amend Articles 15 and 19 of the By-Laws that will assume the following formulation:

"Article 15

The Board of Directors is composed of a number of members established by the Ordinary Shareholders' Meeting which cannot be less than nine or more than fifteen. Subject to removal from office, no BMPS director shall be entitled, at the same time, to hold the office of director or of member of the council of management or the supervisory board of competitor banks, which do not belong to the BMPS Group, have a banking license issued by the supervisory authority and operate in the markets of bank funding or ordinary credit in Italy. In the event that a BMPS director accepts to hold one of the above-mentioned offices, he/she must promptly notify the BMPS Board of Directors which will declare his/her prompt removal from office. Directors' term of office is three years and expires on the day of the shareholders' meeting called to approve the financial statements of the most recent financial year of their term. Directors may

be re-appointed for a maximum of two consecutive terms after the first one, and are elected according to the list voting system, as follows:

(1.1) unchanged;

(1.2) unchanged;

(1.3) unchanged;

(1.4) unchanged;

(1.5) unchanged;

(1.6) unchanged;

(1.7) unchanged;

2. unchanged;

3. unchanged.

Article 19

1. The Executive Committee is composed of:

a) the Chief Executive Officer/s, if appointed;

b) members of the Board of Directors, excluding the Chairman of the Board of Directors, appointed annually by the Board itself on the first meeting following the Shareholders' Meeting approving the financial statements, so that the Executive Committee is made up of minimum five to maximum of seven members.

2. The function of Chairman of the Executive Committee was held by the Chief Executive Officer. In the event that the Chief Executive Officers are more than one, the Executive Committee shall appoint its Chairman choosing from one of them

3. The Chairman of the Board of Directors, to ensure an effective information connection between the functions of strategic supervision and the management, may participate in the meetings of the Executive Committee without voting rights.

4. Unchanged ex paragraph 2;

5. The Committee is convened by the Chairman of the Executive Committee who sets the agenda for each meeting. The meeting is normally convened every fifteen days using the same methods set out in the By-Laws for convening the Board of Directors, as a rule and in urgent cases. The Executive Committee may also be convened by the Board of Statutory Auditors, or by each member of the Board of Statutory Auditors separately, subject to written notice to the Chairman of the Executive Committee, also sent to the Chairman of the Board of Directors. Members are also allowed to attend the meetings of the Executive Committee by using teleconference and videoconference systems in accordance with the provisions of the By-Laws regarding the attendance of Board of Directors meetings.

6. The Secretary of the Committee is chosen among the Executives of the Company by the Board of Directors, upon the Chairman's of the Executive Committee proposal.

7. *Unchanged ex paragraph 5;*
8. *Unchanged ex paragraph 6;*
9. *Unchanged ex paragraph 7;*
10. *Unchanged ex paragraph 8.”*

Siena, 10 March 2017

For the Board of Directors

Mr Alessandro Falciai

The Chairman of the Board of Directors