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

SHAREHOLDERS' MEETING

24 November 2016 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 2. ON THE AGENDA - Extraordinary session

drawn up pursuant to article 125-*ter* of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented, and pursuant to article 72 of the Regulation adopted by Consob by resolution no. 11971 of 14 May 1999, as subsequently amended.

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## ITEM 2. ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING

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

Dear Shareholders

The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (the “**Bank**” or the “**Company**” or “**BMPS**”) has called you, among other things, to take part in an Extraordinary Meeting in Siena, Viale Mazzini 23, on 24 November 2016 at 9.30, on single call, to discuss and resolve upon the following agenda of the extraordinary meeting:

**2) Grouping of the ordinary shares of Banca Monte dei Paschi di Siena S.p.A. in the ratio of 1 new ordinary share with regular entitlement per 100 existing ordinary shares; relevant amendments to the Articles of Association, and connected and subsequent resolutions.**

This Explanatory Report of the Board of Directors (the “**Report**”), drawn up pursuant to Article 125-ter of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented (the “**Unified Financial Act**” or “**UFA**”) and pursuant to Article 72 of the Regulation adopted by Consob by resolution no. 11971 of 14 May 1999, as subsequently amended (the “**Issuers’ Regulation**”) and as provided for by Annex 3A of the Issuers’ Regulation, aims to provide the necessary information on the item on the Agenda of the Extraordinary Meeting.

### **1. Description of the transaction**

The share capital of the Company is currently composed of no. 2,932,079,864 ordinary shares without par value.

With reference to the proposed share capital increase referred to in item 3 on the Agenda of the Extraordinary part of the meeting (the “**Capital Increase**”), this proposed reverse stock split, which involves the reduction in the number of outstanding shares, aims to streamline the administrative management of the shares, the number of which is to increase significantly following the Capital Increase.

In light of the purposes and of the connection with the Capital Increase, it is provided that the reverse stock split proposed in the ratio of no. 1 new ordinary share with regular entitlement for each 100 outstanding ordinary shares (the “**Stock Split Transaction**”) shall be carried out before the start of the Capital Increase, according to the timeline and procedures to be agreed with Borsa Italiana S.p.A. and with the other competent Authorities and in any case not later than on 30 June 2017.

The Stock Split Transaction shall be carried out pursuant to the applicable legislation by the authorised intermediaries who are members of the clearing system operated by Monte Titoli S.p.A., and without any expenses to be incurred by the shareholders.

To optimise the numerical ratios of the Stock Split Transaction it shall be necessary to cancel up to no. 64 ordinary shares. For this purpose the Bank shall, before the execution of the Stock Split Transaction, identify an intermediary prepared to purchase, if necessary, to waive and to carry out a reconciliation service, all of which without changing the amount of the share capital.

In any case, in order to manage any fractions (*resti*) resulting from the Stock Split Transaction, a service shall be made available to the shareholders for processing any non-groupable fractions of shares, based on the official market price and without any extra fees or expenses and according to the technical procedures to be notified upon the execution of the transaction.

## **2. Amendments to the Articles of Association**

In the light of the foregoing, following the Stock Split Transaction, Article 6, paragraph 2, of the Articles of Association will have to be amended to reflect the total number of shares representing the share capital as a result of the Stock Split Transaction. Therefore, it is proposed that Article 6 of the Articles of Association shall be amended accordingly, by inserting a new last paragraph reflecting the resolution adopted by the Extraordinary

Meeting in relation to this proposal, and acknowledging the powers granted to the Chairman and to the Managing Director in office *pro tempore* - whether jointly or severally - to carry out the consequent amendments and/or supplements to the Articles of Association following the execution of the grouping, adjusting the numerical values provided for therein.

With reference to the above, below is the wording of article 6 of the Articles of Association, together with the comparison column relating to the amendments proposed in this item 2 of the agenda (the amendments are shown in bold and the current paragraph 8 is shown as strikethrough being proposed its cancelation, in light of its provisional nature and being its function exhausted).

WORDING IN FORCE INCLUDING THE PROPOSALS REFERRED TO IN ITEM 1 AND IN ITEM 3 ON THE AGENDA OF THE EXTRAORDINARY PART OF THE MEETING	PROPOSED WORDING
<b>Article 6</b>	<b>Article 6</b>
1. The Company's share capital amounts to EUR [•] ([•]) and is fully paid up.	<i>(unchanged in respect of the wording proposed in item 1 of the agenda of the extraordinary part and assuming the approval of the said item)</i>
2. The Company's share capital is represented by no. 2,932,079,864 (two billion nine hundred and thirty two million seventy nine thousand eight hundred sixty four) ordinary shares with no par value. All shares are issued in dematerialised form.  Procedures for the circulation and legitimation of shares are governed by law.  Shareholders who did not participate in the approval of resolutions regarding the introduction or removal of constraints on the circulation of shares shall have no right of withdrawal.	<i>(unchanged)</i>
3. Ordinary and preference shares are registered in the name of their holders and are indivisible. Each share entitles to one vote. Preference shares do not entitle to vote in the ordinary shareholders' meetings.	<i>(unchanged)</i>

<p>4. Preference shares are held in one or more deposit accounts managed with the Company and the Company shall be the sole authorised depositary. The transfer of preference shares are promptly notified to the Company by the transferring shareholder and determine the automatic at par conversion of preference shares into ordinary shares.</p>	<p><i>(unchanged)</i></p>
<p>5. Under no circumstances shall the shareholder that qualifies as a bank foundation ("Bank Foundation") under Law no. 461 of 23 December 1998 and Legislative Decree no. 153 of 17 May 1999, as subsequently amended and supplemented, or that is directly or indirectly controlled by a foundation, obtain conversion under its name of the preference shares it holds into ordinary shares.</p>	<p><i>(unchanged)</i></p>
<p>6. In the event of a capital increase with consideration not excluding or limiting the pre-emptive rights of existing shareholders, holders of preference shares shall have a right of pre-emption on preference shares having the same characteristics.</p>	<p><i>(unchanged)</i></p>
<p>7. The Shareholders' Meeting of 15 January 2004 resolved to increase the share capital of Banca Monte dei Paschi di Siena S.p.A. in support of the issuance of Convertible Preferred Securities by up to 406,846 ordinary shares, as later adjusted by the Shareholders' Meeting of 3 December 2010, and further to the implementation of the reverse stock split of ordinary shares, with effect from 5 May 2014, in compliance with the resolution of the Shareholders' Meeting held on 28 December 2013, and further to the implementation of the reverse stock split of ordinary shares, with effect from 18 May 2015, in compliance with the resolution of the Shareholders' Meeting held on 16 April 2015, with dividend payable as of date of conversion, with no par value, for an amount of up to EUR 176,874,323.76, as adjusted by the Shareholders' Meetings of 15 December 2005 and 3 December 2010. It is understood that (i) the capital increase in support of the issuance will expire on 30 September 2099, (ii) directors will procure</p>	<p><i>(unchanged)</i></p>

<p>that shares are issued to holders of Convertible Preferred Securities by the end of the calendar month following the date of request for conversion, which may be submitted each year in September from 2004 to 2010 and subsequently at any time, no later than the end of the month following automatic conversion (or conversion upon redemption of the Convertible Preferred Securities), so that shares are eligible for dividend payment as of the date of conversion and (iii) directors will file the notarial deed attesting to the increase in share capital with the Register of Companies, within one month from the date of conversion. In response to the requests for conversion of Preferred Securities received as at 30 December 2011, a total of 221,755,923 ordinary shares (before the implementation of the reverse stock split of ordinary shares, with effect from 5 May 2014, in compliance with the resolution of the Shareholders' Meeting held on 28 December 2013), were issued, for an amount of EUR 134,952,651.33.</p>	
<p><del>By a resolution of the Extraordinary Shareholders' Meeting of 25 January 2013 the Board of Directors was empowered (i) to increase share capital, in one tranche, under exclusion of pre-emptive rights of existing shareholders, pursuant to Articles 2443 and 2441 paragraph 5 of the Italian Civil Code through the issuance of ordinary shares for an amount of up to EUR 4,500,000,000.00 (four billion five hundred million/00), including share premium if any, at the exclusive service of the exercise of the Bank's right to convert the New Financial Instruments provided for by Law Decree no. 95 of 6 July 2012, converted with amendments by Law no. 135 of 7 August 2012 as subsequently amended; and/or (ii) to increase share capital, in one or more tranches, again in exclusion of the pre-emptive rights of existing shareholders, pursuant to Articles 2443 and 2441, paragraph 5 of the Italian Civil Code, through the issuance of ordinary shares for an amount of up to EUR 2,000,000,000.00 (two billion/00), including share premium if any, 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 Law Decree no. 95</del></p>	<p><b>8. On 24 November 2016 the Extraordinary Meeting resolved as follows:</b></p> <ul style="list-style-type: none"> <li>- to approve the stock split of the outstanding ordinary shares of Banca Monte dei Paschi di Siena according to the ratio of no. 1 new ordinary share with regular entitlement per no. 100 existing ordinary shares;</li> <li>- to optimise the numerical ratios of the above-mentioned stock split transaction, to grant the Board of Directors the power to cancel up to no. 64 ordinary shares of Banca Monte dei Paschi di Siena based on the waiver of the shares to be expressed by an intermediary prepared to purchase them if necessary and carry out a reconciliation service before the execution of the transaction, all of which without modifying the amount of the share capital, and consequently amending the number of shares specified under Article 6, paragraph 2, of the Articles of Association accordingly. All of the above is without prejudice to the fact that, in any case, for the management of any fractions (<i>resti</i>) arising from the stock split, a service shall be made available to the shareholders for the processing of any non-groupable fractions of shares, based on the</li> </ul>

~~of 6 July 2012, converted with amendments by Law no. 135 of 7 August 2012, as subsequently amended. Said power may be exercised for a maximum period of 5 (five) years as of the date of the above resolution of the Shareholders' Meeting of 25 January 2013.~~

~~When exercising its delegated powers, the Board of Directors shall be entitled inter alia to set the date of the dividend pay out and the price of issuance of newly issued ordinary shares (including share premium if any) according to the above-mentioned limits, as set out in the Report of the Board of Directors to the Shareholders' Meeting and as required by relevant regulations.~~

~~By a resolution of the Extraordinary Shareholders' Meeting of 25 January 2013 the Board of Directors was empowered (i) to increase share capital, in one tranche, under exclusion of pre-emptive rights of existing shareholders, pursuant to Articles 2443 and 2441 paragraph 5 of the Italian Civil Code through the issuance of ordinary shares for an amount of up to EUR 4,500,000,000.00 (four billion five hundred million/00), including share premium if any, at the exclusive service of the exercise of the Bank's right to convert the New Financial Instruments provided for by Law Decree no. 95 of 6 July 2012, converted with amendments by Law no. 135 of 7 August 2012 as subsequently amended; and/or (ii) to increase share capital, in one or more tranches, again in exclusion of the pre-emptive rights of existing shareholders, pursuant to Articles 2443 and 2441, paragraph 5 of the Italian Civil Code, through the issuance of ordinary shares for an amount of up to EUR 2,000,000,000.00 (two billion/00), including share premium if any, 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 Law Decree no. 95 of 6 July 2012, converted with amendments by Law no. 135 of 7 August 2012, as subsequently amended. Said power may be exercised for a maximum period of 5 (five) years as of the date of the above resolution of the Shareholders' Meeting of 25 January 2013.~~

~~When exercising its delegated powers, the Board of Directors shall be entitled inter alia to set the date of the dividend pay out and the price of issuance of newly issued ordinary shares (including share premium if any)~~

official market price and without charging fees or expenses;

- to grant the Chairman of the Board of Directors *pro tempore* and the Managing Director *pro tempore*, whether jointly or severally, to the extent permitted by the law, the following:

(i) the power to determine, in line with the technical timeframes required and specified by the competent persons and in any case not later than on 30 June 2017, the time when the grouping shall be carried out;

(ii) the power to make the subsequent amendments and/or supplements to the Articles of Association after the execution of the grouping, adjusting the numerical values provided for therein, with the explicit prior declaration of approval and ratification, and to file the wording of the updated Articles of Association with the Companies' Register.

~~according to the above mentioned limits, as set out in the Report of the Board of Directors to the Shareholders' Meeting and as required by relevant regulations.~~

~~On 21 May 2015 the Board of Directors in partial implementation of the above delegation resolved to increase the share capital as of 1 July 2015, in the form inseparable and with exclusion of pre-emptive right, for EUR 243,073,800.00 (two hundred forty three million seventy three thousand eight hundred / 00) at the exclusive service of the payment in shares of the interest accrued as at 31 December 2014 to be paid to the MEF in accordance with the rules of New Securities under the Decree Law 6 July 2012, n. 95, converted with amendments by Law 7 August 2012, n. 135, as amended, as of 1 July 2015, with the total liberation as of the date of 1 July 2015 in terms of said legislation, and statutory netting and settlement as of that date, through the issue, always on 1 July 2015, of 117,997,241 ordinary shares with regular dividend attributable to the effect completely and simultaneously to the MEF on the same date. The above also considering the reverse stock split previously carried out and the launch of the capital increase (rights issue) up to Euro 2,993,160,608.10 and giving the President and Chief Executive Officer, severally, the broadest powers to give effect to the above.~~

The envisaged amendments to the Articles of Association are subject to the authorisation, if any, by the competent authorities pursuant to the applicable legislation.

### **3. Assessment of the existence of the right of withdrawal**

This proposed stock split of the ordinary shares does not provide for any cases of exercise of withdrawal rights by the shareholders pursuant to Article 2437 of the Italian civil code.

### **4. Proposed resolution**

In light of the above, the Board of Directors proposed to the Shareholders the adoption of the following resolution:

*“The Extraordinary Shareholders’ Meeting, having regard to the proposal submitted by the Board of Directors,*



*resolved*

1. *to approve the reverse stock split of outstanding ordinary shares of Banca Monte dei Paschi di Siena in the ratio of no. 1 new ordinary share with regular entitlement per 100 existing ordinary shares;*
2. *to optimise the numerical ratios of the stock split transaction referred to above, to grant the Board of Directors the power to cancel up to no. 64 ordinary shares of Banca Monte dei Paschi di Siena based on the waiver of the shares to be expressed by an intermediary prepared to purchase them if necessary and to carry out a reconciliation service before the execution of the transaction, all of which without amending the amount of the share capital, and consequently modifying the number of the shares specified under Article 6, paragraph 2, of the Articles of Association. All of the above is without prejudice to the fact that in any case, for the management of any fractions resulting from the stock split transaction, a service shall be made available to the shareholders for processing any non-groupable fractions of shares, based on the official market price and without any extra fees or expenses;*
3. *to grant the Chairman of the Board of Directors pro tempore and the Managing Director pro tempore, whether jointly or severally, to the extent permitted by the law, the following:*
  - (i) *the power to determine, in line with the technical timeframes required and specified by the competent persons and in any case not later than on 30 June 2017, the time when the grouping shall be carried out;*
  - (ii) *the power to make the subsequent amendments and/or supplements to the Articles of Association after the execution of the grouping, adjusting the numerical values provided for therein, with the explicit prior declaration of approval and ratification, and to file the wording of the updated Articles of Association with the Companies' Register;*
4. *to amend Article 6 of the Company's Articles of Association accordingly, so that the wording is the one specified below:*

*"Article 6:*

1. unchanged in respect of the wording proposed in item 1 of the agenda of the extraordinary part and assuming the approval of the said item;
2. unchanged;
3. unchanged;
4. unchanged;
5. unchanged;
6. unchanged;
7. unchanged;
8. On 24 November 2016 the Extraordinary Meeting resolved as follows:
  - to approve the stock split of the outstanding ordinary shares of Banca Monte dei Paschi di Siena according to the ratio of no. 1 new ordinary share with regular entitlement per no. 100 existing ordinary shares;
  - to optimise the numerical ratios of the above-mentioned stock split transaction, to grant the Board of Directors the power to cancel up to no. 64 ordinary shares of Banca Monte dei Paschi di Siena based on the waiver of the shares to be expressed by an intermediary prepared to purchase them if necessary and carry out a reconciliation service before the execution of the transaction, all of which without modifying the amount of the share capital, and consequently amending the number of shares specified under Article 6, paragraph 2, of the Articles of Association accordingly. All of the above is without prejudice to the fact that, in any case, for the management of any fractions (*resti*) arising from the stock split, a service shall be made available to the shareholders for the processing of any non-groupable fractions of shares, based on the official market price and without the charging of fees or expenses;
  - to grant the Chairman of the Board of Directors *pro tempore* and the Managing Director *pro tempore*, whether jointly or severally, to the extent permitted by the law, the following:
    - (i) the power to determine, in line with the technical timeframes required and

specified by the competent persons and in any case not later than on 30 June 2017, the time when the grouping shall be carried out;

(ii) the power to make the subsequent amendments and/or supplements to the Articles of Association after the execution of the grouping, adjusting the numerical values provided for therein, with the explicit prior declaration of approval and ratification, and to file the wording of the updated Articles of Association with the Companies' Register.”

Milan, 24 October 2016

For the Board of Directors  
Mr Massimo Tononi  
Chairman of the Board of Directors