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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 - Ordinary Part

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

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ITEM 2. ON THE AGENDA OF THE ORDINARY MEETING

REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 125/3 OF LEGISLATIVE
DECREE NO. 58 OF 24 FEBRUARY 1998

Dear Shareholders

You were convened to attend a meeting to resolve upon the following item on the agenda of the ordinary meeting:

2) Appointment of a director to complete the board of directors following co-option. Connected and consequent resolutions.

Please note that on 14 September 2016 the Board of Directors (the “**Board**”) of Banca Monte dei Paschi di Siena S.p.A. (the “**Bank**” or “**BMPS**” or the “**Company**”), on a proposal from the Appointment Committee and by a resolution approved by the Board of Statutory Auditors, appointed as a director of your Company, pursuant to article 2386 of the Italian Civil Code, Mr Marco Morelli to replace Mr Fabrizio Viola, who held the office of General Manager and Managing Director. During the same session, the Board appointed Mr Marco Morelli Managing Director and General Manager. Both appointments are effective as from 20 September 2016.

In compliance with the provision of article 2386 of the Italian Civil Code Mr Morelli, as the appointed Director, shall continue in office until the next Meeting.

You are invited to appoint a director to complete the Board of Directors of the Bank, in compliance with article 15, paragraph 1, paragraph 1.7 of the Articles of Association and, therefore, with the quorums required by the law, as in this case (appointment of a director by the replacement of an outgoing director during the latter’s term of office) the regulations on the voting list provided for by the Articles of Association and by Legislative

Decree no. 58/1998 as subsequently amended (the “**Unified Financial Act**”) shall not apply, subject to compliance with the principles of independence and gender equality set forth by the legislation in force.

In this respect please note that the Meeting held on 16 April 2015 appointed the current Board of Directors by setting the number of its members at 14 (fourteen), determining that 8 (eight) Directors in office met the independence requirements provided for by the Unified Financial Act and by the Self-regulation Code of listed companies, and by establishing that the male and female genders were equally represented on the Board (7 men and 7 women). Therefore, the minimum requirements provided for by the law and by the Articles of Association as to the number of independent directors (at least one third) and to gender proportions (at least one fifth) on the Board of Directors are adequately met.

The appointment process follows the provisions of Legislative Decree no. 385/1993 as subsequently amended (the “**Italian Banking Act**”) and the criteria set forth by the Supervisory Provisions of the Bank of Italy on corporate governance (Bank of Italy Circular no. 285 of 17 December 2013, Title IV, Chapter 1 - the “**Supervisory Provisions**”), as well as Directive no. 2013/36/EU - Capital Requirements Directive (CRD IV) and Regulation (EU) no. 575/2013 - the Capital Requirements Regulation (CRR), with specific reference to the prior identification by the Board, supported by the Appointment Committee, of what is deemed to be its optimal qualitative and quantitative composition, identifying and justifying the profile (including the characteristics of professionalism and independence, if applicable) of the candidates considered to be suitable for these purposes, so that the selection of the candidates to be submitted reflects the professional characteristics required.

In the latter respect please note that the Board of Directors, on a proposal from the Appointment Committee, resolved upon the appointment of Mr Marco Morelli, considering the criteria identified by the Board upon the qualitative and quantitative self-evaluation carried out on 25 February 2016 with the support of the Appointment Committee. At that meeting, the Board assessed the adequacy of its size, composition and functioning and deemed its structure to be well-balanced, even if varied in terms of expertise and professionalism. The Board also indicated those areas in which expertise could be reinforced, with the banking business given the highest priority.

Upon the verification of the optimal quantitative and qualitative composition after the appointment of Mr Morelli, the Board reiterated its assessments as to its adequacy in terms of size, composition and functioning, and specified the requirements for a candidate to be appointed as Director.

Without prejudice to the fact that any candidates may be proposed at the Meeting itself, to facilitate the functioning of the meeting, Shareholders are invited to submit their proposals to the registered office in advance, indicatively at least five days before the Meeting. The candidacies may be accompanied by a declaration of acceptance by the candidate and by a résumé, in Italian and English, highlighting the candidate's professional characteristics and past directorship (or similar) experience in other companies.

The candidates shall certify, under their own responsibility, the absence of any basis for ineligibility and incompatibility, the compliance with the age limits provided for by the Articles of Association, the absence of any relevant situation pursuant to article 36, "Protection of competition and personal cross-shareholdings in the credit and financial markets" of Legislative Decree no. 201/2011, converted into Law no. 214/2011 and the meeting of the requirements prescribed by the law and by the Articles of Association and by articles 147-ter and 148, paragraph 3, of the Unified Financial Act and by the Corporate Governance Code of listed companies, if applicable. The candidates shall also declare that they are not members of the board of directors, management board (*consiglio di gestione*) or supervisory board (*consiglio di sorveglianza*) of any entity having a banking licence issued by the supervisory authority which, not being part of the MPS group, is involved in bank funding or ordinary lending in Italy.

In compliance with the Supervisory Provisions (Circular no. 285 of 17 December 2013, as subsequently amended and supplemented) on the composition of corporate bodies, please note that the Board of Directors, during the Shareholders' Meeting held on 16 April 2015, provided Shareholders, by way of a document published and available on the Bank's website (www.mps.it) and filed with the registered office and the market management company, the Board's assessment of its qualitative and quantitative composition deemed as optimal when compared to the targets specified in the above-mentioned Supervisory Provisions and the profile (including professional qualifications and, if applicable, independence) of the candidates deemed to be suitable for these purposes, so that the

choice of the candidates may reflect the professional competence and the requirements imposed. In this respect, please also refer to the Report on Corporate Governance and the Ownership Structures drawn up pursuant to article 123-*bis* of the Unified Financial Act, approved by the Board of Directors on 25 February 2016, submitted to the Meeting held on 14 April 2016 and available on the website of the Bank *www.mps.it*.

Please also note that, since the members of the Board of Directors are also bank officers, the candidates must also meet the integrity and professionalism requirements set forth by the Italian Civil Code, the Italian Banking Act and the supervisory rules and regulations. Subsequent to the appointment, the Board of Directors will verify compliance with the integrity and professionalism requirements and with the prohibition on interlocking directorates.

In this respect please note that the regulations of the requirements for banking officers set forth under article 26 of the Italian Banking Act were amended by Legislative Decree no. 72/2015. The latter implemented the European legislation ("**Capital Requirements Directive IV**" or "**CRD IV**") setting out further requirements for banking officers, providing that the officers in charge with management and control of the bank have to be *eligible* to carry out such functions (as set forth in the CRD IV and in the guidelines issued by the EBA).

For the purposes of "eligibility", in addition to the requirements of integrity (which are the same for all the officers), professionalism and independence (varying according to principles of proportionality), the officers must meet competence and fairness requirements, whose meaning shall be clarified by a decree of the Ministry of Economy and Finance (the "**MEF**") adopted after consultation with the Bank of Italy. As of the date of this document, the ministerial decree has not been published.

The abovementioned article 26 of the Italian Banking Act (in its new wording, not yet in force) provides that the competence requirement shall be "*consistent with the office to be held and with the characteristics of the bank, and of adequate composition of the body*", and that the notion of "fairness" – which is completely new to the Italian legal system – shall take into consideration, "*among other things, the business relations of the officer, the behaviours shown vis-à-vis the supervisory authorities, the sanctions or corrective measures*

issued by them, restrictive orders concerning professional activities carried out, and any other element that is likely to affect the fairness of the officer”.

The MEF shall be responsible for establishing the restrictions on the accumulation of offices, *“according to principles of proportionality and considering the size of the intermediary”,* and *“the causes entailing the temporary suspension from office and its duration”.*

Although the new requirements provided for by article 26 of the Italian Banking Act are still being phased in, pending the implementation of the relevant decrees, the Board, upon verification of the requirements met by the newly appointed Directors, shall also consider the eligibility criteria specified above, as instructed by the European Central Bank (ECB).

With specific reference to the appointment of Mr Marco Morelli, please note that the Board of Directors, in the light of the qualitative and quantitative self-assessment described above, unanimously concluded that Mr Marco Morelli, given his international experience coupled with extensive knowledge of the Italian banking system, was the most eligible person to hold the offices of Managing Director and General Manager.

Furthermore, upon the appointment of Mr Marco Morelli on 14 October 2016, the Board, after considering, among other factors, the above-mentioned eligibility criteria, unanimously confirmed that Mr Morelli met the professionalism, integrity, competence and fairness requirements.

On the basis of the Board’s assessment of Mr Morelli’s expertise and his compliance with other requirements, carried out at the time of his appointment, the Board deems Mr Marco Morelli suitable for holding the office of Managing Director and General Manager of the Bank and, therefore, hereby proposes the Meeting to appoint Director Mr Marco Morelli as director of Banca Monte dei Paschi di Siena S.p.A. His *curriculum vitae* is available on the Bank’s website, together with the meeting documentation.

In any case, the shareholders may propose any further candidates, even during the Meeting, in compliance with the criteria and procedures specified above. After the proposal of appointment of Mr Marco Morelli by the Board of Directors and in case of

failure to appoint the Chairman, any other candidates (submitted to the Shareholders' Meeting) will be voted upon in accordance with the Shareholders' Meeting Rules. It is understood that after any appointment, the Board shall verify compliance with the current requirements of integrity and professionalism, and the prohibition on interlocking directorates.

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Dear Shareholders

In view of the foregoing we hereby invite you to adopt the following resolution to complete the Board of Directors, maintaining the overall number of the members of the Board of Directors for the 2015-2016-2017 financial years, as determined by the Meeting held on 16 April 2015 at fourteen Directors:

- appoint Mr Marco Morelli, as director of Banca Monte dei Paschi di Siena S.p.A.

The appointed Director shall stay in office until the date of the Meeting convened for the approval of the financial statements for the 2017 financial year; said Director shall be entitled to receive the remuneration for the members of the Board of Directors as established by the Shareholders' Meeting held on 16 April 2015 for the 2015-2016-2017 financial years, to the following extent *pro tempore* due: EUR 65,000 (sixty-five thousand) as annual remuneration; EUR 15,000 (fifteen thousand) as additional remuneration for the members of the Executive Committee, if any; EUR 400 (four hundred) as attendance fee to be awarded to the each Director for attending the meetings of the Board of Directors and of the Executive Committee, for each session and excluding plurality of fees for meetings held on the same day; reimbursement to the Directors of any expenses incurred to carry out their functions. With regard to remuneration for the Managing Director and General Manager, please refer to the BMPS press release of 14 September 2016.

Milan - 24 October 2016

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