



English translation for courtesy purposes only. In case of discrepancies between the Italian version and the English version, the Italian version shall prevail

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

EXTRAORDINARY SHAREHOLDERS' MEETING

4 October 2020 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON ITEM 1 ON THE AGENDA

Report on the proposed partial proportional demerger of MPS Capital Services Banca per le Imprese S.p.A. in favour of Banca Monte dei Paschi di Siena S.p.A. in accordance with Articles 2505 and 2506-*bis* of the Italian Civil Code

(drafted in accordance with Article 125-*ter* of Legislative Decree no. 58 of 24 February 1998 and Article 84-*ter* of Consob Regulation no. 11971/99).



REPORT OF THE BOARD OF DIRECTORS IN ACCORDANCE WITH ARTICLE 125-TER OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (THE “TUF”) AND ARTICLE 84-TER OF CONSOB REGULATION NO. 11971/99 (THE “ISSUERS’ REGULATION”) ON ITEM 1 ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS’ MEETING CALLED FOR 4 OCTOBER 2020.

Dear Shareholders,

The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (“**MPS**”, the “**Bank**” or the “**Beneficiary Company**”) has called an Extraordinary Shareholders’ Meeting to submit for your approval, among other things, the proposal for a proportional demerger of MPS Capital Services Banca per le Imprese S.p.A. (“**MPS CS**” or the “**Demerged Company**”) in favour of MPS in accordance with Articles 2505 and 2506-*bis* of the Italian Civil Code (the “**Intra-group Demerger**” or the “**Transaction**”).

This explanatory report (the “**Explanatory Report**”) has been drafted in accordance with Article 125-*ter* of the TUF and Article 84-*ter* of Issuers’ Regulation, to explain the Intra-group Demerger from a legal and economic point of view. Pursuant to Article 2506-*ter*, fifth paragraph, of the Italian Civil Code, the “simplified procedure” under Article 2505, first paragraph, of the Italian Civil Code is applicable to the Intra-group Demerger. The “simplified procedure” exempts the Boards of Directors of the companies participating in the Intra-group Demerger from the obligation to draft the explanatory report referred to in Article 2501-*quinquies* of the Italian Civil Code, as referred to in Article 2506-*ter*, paragraph five, of the Italian Civil Code.

1. COMPANIES PARTICIPATING IN THE INTRA-GROUP DEMERGER

A) Demerged Company

MPS Capital Services Banca per le Imprese S.p.A., a “*società per azioni*” (joint-stock company incorporated under Italian law) with registered office at Via Pancaldo 4, 50132 Florence, fully paid-up share capital of EUR 1,669,516,282.10, tax code and registration number with the Florence Companies’ Register under no. 00816350482, MPS VAT Grouping – VAT no. 01483500524.

The Demerged Company has a sole shareholder and is subject to the management and coordination of Banca Monte dei Paschi di Siena S.p.A., belonging to the Monte dei Paschi di Siena Banking Group.

The share capital of the Demerged Company, divided into 16,051 ordinary shares with no par value, is wholly owned by the Beneficiary Company.

B) Beneficiary Company

Banca Monte dei Paschi di Siena S.p.A., a joint-stock company with registered office and General Management at Piazza Salimbeni 3, 53100 Siena, share capital of EUR 10,328,618,260.14, tax code and registration number with the Arezzo-Siena Companies’ Register 00884060526, MPS VAT Grouping - VAT number 01483500524.

The Beneficiary Company is the parent company of the Monte dei Paschi di Siena Banking Group, registered in the banking groups register and a member of the *Fondo Interbancario di Tutela dei Depositi* (Interbank Deposit Protection Fund) and the *Fondo Nazionale di Garanzia* (National Compensation Fund).

The share capital of the Beneficiary Company is divided into 1,140,290,072 ordinary shares with no par value, traded on the *Mercato Telematico Azionario* (Italian Equities Market) (MTA) organised and managed by Borsa Italiana S.p.A. (ISIN code: IT0005218752). Based on the information received by the Beneficiary Company in accordance with the applicable regulations on the transparency of the shareholding structure, the following parties have significant shareholdings in the Beneficiary Company’s share capital:

- (i) Italian Ministry of Economy and Finance: 68.247%; and



- (ii) Assicurazioni Generali S.p.A. (through subsidiaries): 4.319%.

At the date of this Explanatory Report, the Beneficiary Company holds an amount of ordinary treasury MPS shares equal to 36,280,748, of which 21,511,753 are held directly by the Bank and 14,768,995 are held indirectly through the subsidiary MPS CS representing a total of 3.18% of the share capital.

2. REASONS FOR THE INTRA-GROUP DEMERGER

The Intra-group Demerger is part of the Bank's overall de-risking project, set out in the 2017-2021 MPS restructuring plan, aimed at strengthening MPS's capital structure in the medium-term through the deconsolidation of a large portfolio of non-performing exposures of the group, in compliance with the commitments undertaken by the Bank towards the Directorate General for Competition of the European Commission ("**DG Comp**").

More specifically, the Bank shall transfer a portion of the assets, liabilities and legal relationships that form part of the Demerged Compendium (as defined below) to AMCO - Asset Management Company S.p.A. ("**AMCO**"), a company wholly owned by the Italian Ministry of Economy and Finance, by virtue of a partial non-proportional demerger ("**MPS/AMCO Demerger**"), for which this Shareholders' Meeting is also called to resolve upon (see item 2 on the agenda).

Please note that the effectiveness of the Intra-group Demerger is a condition precedent for the effectiveness of the MPS/AMCO Demerger.

3. EXPLANATION AND LEGAL ASPECTS OF THE INTRA-GROUP DEMERGER

The Transaction consists of a partial proportional demerger, on the basis of which the Demerged Company shall assign to the Beneficiary Company a portion of its assets (including a portfolio of non-performing exposures), as better described in the Intra-group Demerger plan approved on 29 June 2020 by the Boards of Directors of MPS and MPS CS in accordance with Articles 2506-*bis* and 2505 of the Italian Civil Code (the "**Intra-group Demerger Plan**"), filed on 30 June 2020 at the registered offices of MPS and MPS CS in accordance with Article 2501-*quater*, second paragraph, of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, and made available to third parties and shareholders within the terms and procedures set forth by law. The Demerged Company's share capital is wholly owned by MPS. Therefore, in application of the "simplified procedure" under Article 2505, first paragraph, of the Italian Civil Code, as referred to in Article 2506-*ter*, fifth paragraph, of the Italian Civil Code, no exchange ratio or allocation of shares in favour of the shareholders of the Demerged Company is provided for.

By virtue of the above provisions, the provisions of Article 2501-*ter*, first paragraph, nos. 3), 4), 5) of the Italian Civil Code shall not apply to the Intra-group Demerger. Accordingly, the Intra-group Demerger Plan does not include information relating to:

- (i) the exchange ratio between the shares of the Demerged Company and the Shares of the Beneficiary Company and any cash adjustment;
- (ii) the procedures for the allocation of the shares of the Beneficiary Company to the shareholders of the Demerged Company (these shareholders correspond to the Beneficiary Company itself); and
- (iii) the date from which the shares of the Beneficiary Company will entitle the holder to participate in the profits.

Moreover, in accordance with the same above provisions, the management body's report under Article 2501-*quinquies* of the Italian Civil Code (that must indicate the criteria for determining the exchange ratio) and the experts' report under Article 2501-*sexies* of the Italian Civil Code (that assesses the fairness of the exchange ratio) have not been prepared. The Intra-group Demerger (i) will entail a reduction in MPSCS's share capital for an amount not exceeding EUR 152.4 million and equal to the amount of the net equity included in the Demerged Compendium on the Effective Date of the Intra-group Demerger (as defined below), gross of the reserves resulting from assessment, while (ii) it will



not entail a capital increase of the Beneficiary Company.

The implementation of the Intra-group Demerger is subject to the European Central Bank's authorisation in accordance with Article 57 of Legislative Decree no. 385/1993 (the "**TUB**") and Title III, Chapter 4, Section III, of Bank of Italy's Circular no. 229 of 21 April 1999 and, insofar as necessary, in accordance with Articles 77 and 78 of Regulation (EU) no. 575/2013. The authorisation was issued on 2 September 2020. As a result, on 3 September 2020, the Intra-group Demerger Plan was filed with the companies' registers in accordance with Article 2501-*ter*, of the Italian Civil Code.

Moreover, the Intra-group Demerger will only be implemented once the 15-day term under Article 2503 of the Italian Civil Code and Article 57 of the TUB for the opposition by the company's creditors has elapsed.

In accordance with Article 2506-*quater* of the Italian Civil Code, the Intra-group Demerger will be effective for statutory purposes (towards third parties) as from the latest of the following dates: (i) the date of the last of the required filings of the demerger deed with the competent Companies' Register or (ii) 26 November 2020 (the "**Effective Date**").

For the purposes of recording the transactions of the Demerged Company in the Beneficiary Company's financial statements, in accordance with the provisions of Article 2506-*quater* of the Italian Civil Code, as well as for tax and accounting purposes, the Intra-group Demerger will take effect as from the Effective Date.

4. DESCRIPTION OF THE ASSETS AND LIABILITIES COVERED BY THE INTRA-GROUP DEMERGER

The reference balance sheet positions under Article 2501-*quater* of the Italian Civil Code, as referred to in Article 2506-*ter* of the Italian Civil Code, consist of the 2019 financial statements of MPS CS ("**MPS CS Financial Statements**") and the 2019 financial statements of MPS ("**MPS Financial Statements**"), respectively, which, together with the MPS CS Financial Statements, are defined as the "**Financial Statements**".

The following assets and liabilities (the "**Demerged Compendium**") shall be assigned to the Beneficiary Company at the net book value at which they will be recorded on the Effective Date of the Intra-group Demerger. These corporate assets and liabilities are reported as represented in the Financial Statements of the Demerged Company as at 31 December 2019:

Assets:

- Non-performing exposures classified by MPSCS as non-performing loans for a net book value of EUR 362 million (gross book value of EUR 781 million);
- Non-performing exposures classified by MPSCS as "unlikely to pay" for a net book value of EUR 346 million (gross book value of EUR 561 million);
- Bonds and shares for a book value of EUR 2 million;
- Derivative contracts for a book value of EUR 0.3 million;
- Deferred tax assets for a total of EUR 14 million.

Liabilities and net equity:

- Liabilities arising from intra-group deposits for a book value of EUR 614 million;
- Derivative contracts for a book value of EUR 0.04 million;
- Net equity amounting to EUR 110 million, including a negative OCI reserve of EUR 42.4 million, attributable to securities classified as "Financial assets assessed at fair value impacting on total profit", which are part of the compendium covered by the Intra-group Demerger.

The Demerged Compendium shall be assigned as existing on the Effective Date. Any changes to the composition of the Demerged Compendium deriving from the operations after 31 December 2019 will be settled between the Demerged Company and the Beneficiary Company through debit and credit items without resulting in any changes in the overall value of the Demerged Compendium. It is understood that, in accordance with the agreements between



the parties, in the event of any changes to the overall value of the Demerged Compendium due to the failure to transfer receivables, the non-transferable receivable shall be replaced by an equivalent receivable owned by the Demerged Company and, only if such replacement is impossible, the change in the Demerged Compendium will be settled in cash. Variations deriving from write-downs or revaluations of components of the Demerged Compendium will instead be booked as a decrease/increase the net equity transferred on the Effective Date.

The Intra-group Demerger in favour of the Beneficiary Company will be made at the book values of the transferred assets and liabilities as recorded in the accounts of the Demerged Company on the Effective Date.

5. REFERENCE TO THE INTRA-GROUP DEMERGER PLAN

For further information regarding the Transaction, please refer to the Intra-group Demerger Plan which, together with the annexes that form an integral part thereof, has been made publicly available at the registered office of MPS CS (in Florence, Via Pancaldo, 4) and at the registered office of MPS (in Siena, Piazza Salimbeni, 3) and is also available on the companies' websites at <http://www.mpscapiaservices.it/> and <http://www.gruppomps.it/>.



Dear Shareholders,

In light of the above, we invite you to approve the following proposal:

“The Extraordinary Shareholders’ Meeting, having regard to the proposals made by the Board of Directors and, specifically,

- *having regard to the draft demerger plan drafted in accordance with Articles 2505 and 2506-bis of the Italian Civil Code and the relevant annexes;*
- *having acknowledged the explanatory report of the Board of Directors drafted in accordance with Article 125-ter of Legislative Decree no. 58 of 24 February 1998 and Article 84-ter of the Regulation adopted by Consob resolution no. 11971/99;*
- *having acknowledged that the authorisations required in connection with the demerger have been obtained from the competent Supervisory Authorities (including the authorisation in accordance with Article 57 of Legislative Decree no. 385 of 1 September 1993, as subsequently amended);*
- *having acknowledged that all the filing and disclosure formalities required by law have been complied with in accordance with Article 2501 et seq. of the Italian Civil Code (as referred to in Article 2506-ter of the Italian Civil Code), and specifically that: (i) the demerger plan was filed on 4 September 2020 with the Arezzo-Siena Companies’ Register and was filed on 3 September 2020 with the Florence Companies’ Register, with the waiver of Banca Monte dei Paschi di Siena S.p.A. (“MPS”), in its capacity as sole shareholder of MPS Capital Services Banca per le Imprese S.p.A. (“MPS CS”), in accordance with the term provided for by Article 2501-ter, paragraph 4, of the Italian Civil Code; (ii) MPS has filed the documents required by Article 2501-septies of the Italian Civil Code with its registered office within the terms set forth by law and has waived the compliance of the aforesaid terms for filing the documents with the registered office of MPS CS, in accordance with Article 2501-septies, paragraph 1 of the Italian Civil Code;*

RESOLVED

1. *to approve the partial proportional demerger plan (as illustrated above and attached hereto as “Annex A”) of MPS Capital Services Banca per le Imprese S.p.A. (“MPS CS”) in favour of Banca Monte di Paschi di Siena S.p.A. (“MPS”) with the relevant annexes (the “MPSCS Project”);*
2. *having acknowledged that, as a result of the demerger referred to in point 1) above the share capital of MPS CS will be reduced by approximately EUR 152.4 million and equal to the amount of net equity included in the demerged compendium gross of the reserves resulting from assessment, which, on the effective date of the demerger, shall be allocated to MPS, to approve the reduction of the share capital of MPS CS of EUR 152,439,897.79 without cancellation of shares of the Demerged Company, as they have no par value;*
3. *to grant the Chairperson and the Chief Executive Officer, severally and individually, with the power to sub-delegate and appoint special attorneys-in-fact for individual actions and categories of actions, all powers to:*
 - a) *implement the above resolution, and specifically to execute the demerger deed, with the power to negotiate all clauses and terms of the aforementioned deed in compliance with the MPSCS Plan;*
 - b) *perform all the activities and certifications necessary following the approval of the resolution for the reduction of MPS CS’s share capital, as well as to perform any and all necessary or appropriate activities for this purpose;*
 - c) *execute any supplementary and/or amending agreements to the demerger deed, negotiating all clauses and terms; consent to the transfer of title to the demerged compendium described in the MPSCS Plan, as well as to carry out any fulfilment, publication, notice, filing and communication necessary or appropriate to fully implement the above resolutions, including any changes, registrations (trascrizioni), annotations, amendments or rectifications to registrations in public registers and in any other competent office, exempting public offices from any liability;*
 - d) *make any deletions and additions to these minutes that may be required by the relevant authorities for statutory publicity requirements and make any necessary or appropriate non-material changes;*
 - e) *carry out anything that is required, necessary and appropriate to fully implement the above resolutions.*



Siena, 4 September 2020

For the Board of Directors

Ms Maria Patrizia Grieco

Chairperson of the Board of Directors