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

SHAREHOLDERS' MEETING

May 18, 2020 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 4) ON THE AGENDA

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

**AUTHORISATION TO CARRY OUT DISPOSALS OF TREASURY SHARES
PURSUANT TO ARTICLE 2357-*TER* OF THE ITALIAN CIVIL CODE; RELATED
AND CONSEQUENT RESOLUTIONS.**



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

Dear Shareholders,

You have been called to the Shareholders' Meeting to resolve on the following topic, listed as **item 4** of the agenda:

Authorisation to carry out disposals of treasury shares pursuant to article 2357-*ter* of the Italian Civil Code; related and consequent resolutions.

A. Foreword

As at 31 December 2019, the share capital of the Parent Company Banca Monte dei Paschi di Siena S.p.A. (hereinafter the "**Bank**" or "**BMPS**" or the "**Parent Company**" or "**Company**") amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares (the "**BMPS shares**" or "**Treasury Shares**").

These Treasury Shares, of which 21,511,753 held directly by BMPS and 14,768,995 held indirectly, through the subsidiary MPS Capital Services S.p.A. ("**MPSCS**"), originated from the capital strengthening interventions carried out during 2017 pursuant to Law Decree no. 237 of 23 December 2016 containing "*Urgent measures to protect savings in the credit sector*", converted, with amendments, into Law no. 15 of 17 February 2017 ("**237 Decree**") and the Decree of the Minister of Economy and Finance published in the Official Gazette no. 175 on 28 July 2017 containing "*Capital strengthening interventions for Banca Monte dei Paschi di Siena...*", which ordered, *inter alia*, the application of the burden-sharing measures ("**Burden-Sharing Decree**") pursuant to article 18, para. 2 and article 22, paras. 2 and 4, of the 237 Decree.

In fact, these measures provided for the conversion into newly issued ordinary shares of the Bank of the Additional Tier 1 and Tier 2 equity instruments included in the Group's regulatory capital: against the portion of these instruments which was held in the portfolios of BMPS and MPSCS as part of the burden sharing, the two companies therefore received a corresponding quantity of shares in the Bank.

Pursuant to the provisions of article 2357-*ter*, para. 3, of the Italian Civil Code, the Treasury Shares act as a reduction to shareholders' equity, through the recognition in a specific item of balance sheet liabilities, with a negative sign, until the shares are transferred or cancelled. Specifically, in the Group's consolidated financial statements as at 31 December 2019, there is a specific negative component of shareholders' equity amounting to EUR 313.7 mln, corresponding to the "purchase" value of the Treasury Shares, calculated based on the unit price used to convert the subordinated instruments, equal to EUR 8.65 as established by the Burden-Sharing Decree.



The possibility to dispose of the Treasury Shares held in the portfolio as at 31 December 2019 would allow the Bank to increase its consolidated shareholders' equity for an amount equivalent to the proceeds that could be realised through the sale/disposal of said shares and, therefore, contribute to strengthening the capital structure through a corresponding increase in the Group's regulatory capital, in the higher quality components (CET 1).

Hence, the Board of Directors proposes to the BMPS Shareholders' Meeting the authorisation, pursuant to and for purposes of article 2357-ter of the Italian Civil Code, to undertake operations for the sale, disposal and/or use of the Treasury Shares at any time, without time limits and with the methods deemed most suitable, in one or more transactions and in gradual degrees as deemed appropriate for the Company's interests, including through an intermediary appointed for this purpose.

MPSCS will make the relative resolutions to proceed with the disposal and sale of the BMPS Shares that it holds, in accordance with the resolutions of the Parent Company BMPS.

In compliance with the requirements of article 73 and Annex 3A of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended ("**Issuers' Regulation**"), the reasons justifying the proposal and its general characteristics are described below.

B. Reasons for which authorisation is requested

Based on the statements in the foreword, the Board of Directors considers it opportune for the Bank to proceed with the disposal of treasury shares held in order to:

- take advantage of opportunities to increase the value of the securities that are offered by current market trends, realising - through sales and disposals - a consequent strengthening of the consolidated shareholders' equity with a view to optimising the Bank's capital structure;
- allow the use of Treasury Shares in any transaction for exchange, transfer or assignment, or in service of capital transactions or other extraordinary corporate and/or financial transactions that involve the assignment or disposal of Treasury Shares.

C. Maximum number and category of shares to which the authorisation refers.

The BMPS Shares subject to authorisation are the ordinary shares held by the Bank as at today's date, equal to 21,511,753 and corresponding to 1.89% of the share capital. BMPS Shares have no par value.

D. Duration of the authorisation



The authorisation to dispose of the Treasury Shares is requested without time limits, given that there are no regulatory constraints in this regard and the possibility of having maximum flexibility, including in terms of time horizon, to carry out the disposal or sale of Treasury Shares.

E. Minimum and maximum amount on the basis of which prices will be determined, appropriate to allow an unambiguous identification of the minimum and maximum amounts for the disposal transactions of Treasury Shares

The operating conditions for the sale of Treasury Shares will be consistent with the provisions of the “Market practices inherent in activities supporting market liquidity”, as amended by Consob. Although the objective of these practices is not ascribable to the transaction in question, applying the operational instructions envisaged therein provides a safeguard for purposes of Italian and EU legal and regulatory compliance in the area of market abuse (known as “MAR”), currently in force. Given the above, therefore:

- the price of sell offers entered or modified as part of continuous trading must not be lower than the lowest price between the price of the last independent transaction and the current price of the lowest independent sell offer on the market in which the sell offers are entered or modified;
- the price of the offers entered or modified as part of sales auctions must be higher than the theoretical price of the auction. If the theoretical price has not yet formulated, the price of the offers entered or modified during the auction must follow the condition indicated in the previous point, if necessary referring to transactions concluded in the previous trading session. In any case, the offers are entered, modified or cancelled during the auction on the condition that they do not influence the final price of the auction and that the other participants have sufficient time to react;
- the number of financial instruments sold on a market on a trading day must not exceed 15% of the daily average of those financial instruments traded on the same market in the previous 20 trading days.

Sales transactions should preferably be carried out on the regulated market; in exceptional cases, where this is not possible, they will be carried out over the counter. In this case, the minimum sale price cannot be more than 5% lower than the official price recorded by the security in the stock exchange session prior to the disposal transaction.

If carried out as part of transactions for exchange, transfer or assignment, or in service of capital transactions or other extraordinary corporate and/or financial transactions that involve the assignment or disposal of Treasury Shares - the disposals must be carried out with price criteria that is in line with the relative transaction or according to the amount envisaged by the specific Italian and EU legal and regulatory provisions applicable to the specific case.



F. Procedures by which the disposals may be carried out

Disposals of Treasury Shares may be carried out by an independent intermediary appointed for this purpose and at any time, in full or in part, in one or more transactions, by selling them on the regulated stock exchanges or through “off-market” transactions, in compliance with the limits and conditions referred to in the previous paragraph, as well as with current laws and regulations in force regarding the execution of trades on listed securities and market abuse (“MAR”).

MPSCS will make the necessary resolutions to proceed with similar disposals and sales of the BMPS Shares that it holds, in accordance with the resolutions of the Parent Company BMPS.

The appointed intermediary must not have a control relationship with the issuer and must decide on the sales transactions independently. The procedures for compensating the intermediary must be consistent with the objective of the activity and must not encourage the intermediary to influence prices or exchanges. The operating unit of the intermediary appointed to decide on the transactions must not receive any confidential information from the issuer.

Disposals of Treasury Shares may occur in one or more transactions and in gradual degrees deemed appropriate for the Company’s interests.

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Dear Shareholders,

We ask you to approve this proposal, representing **item 4)** of the agenda and, therefore, to make the following resolution:

“The Shareholders’ Meeting of Banca Monte dei Paschi di Siena S.p.A., having heard the Board of Director’s proposal

RESOLVES:

1. to authorise, pursuant to article 2357-*ter* of the Italian Civil Code, the disposal and use at any time, in full or in part, in one or more transactions, of the 21,511,753 Treasury Shares held by the Bank as at the date of this resolution, without time limits, through sales on regulated stock markets or “off-market” transactions or with the disposal terms, methods and conditions deemed most appropriate in the Company’s interest and, in any case, in compliance with the provisions of applicable laws and regulations *pro-tempore* in force and in pursuit of the objectives referred to in this resolution proposal,



including in the context of transactions of exchange, transfer or assignment, or in service of capital transactions or other extraordinary corporate and/or financial transactions that involve the assignment or disposal of Treasury Shares.

With regard to transactions carried out on regulated markets, the price of sell offers entered or modified as part of continuous trading must not be lower than the lowest price between the price of the last independent transaction and the current price of the lowest independent sell offer on the market in which the sell offers are entered or modified; The price of the offers entered or modified as part of sales auctions must be higher than the theoretical price of the auction. Moreover, the number of financial instruments sold on a market on a trading day must not exceed 15% of the daily average of those financial instruments traded on the same market in the previous 20 trading days.

Lastly, with regard to over-the-counter transactions, the minimum price of the disposals cannot be more than 5% lower than the official price recorded by the security in the stock exchange session prior to each individual transaction and, in any case, in compliance with limits as well as Italian and EU legal and regulatory provisions, including those pertaining to market abuse (“MAR”), *pro-tempore* in force. This minimum amount is not applicable for disposals other than sales and, in particular, in the case of the use of transactions of exchange, transfer or assignment, or in service of capital transactions or other extraordinary corporate and/or financial transactions that involve the assignment or disposal of Treasury Shares. In these cases, the price will be determined with different criteria in line with the objectives pursued at a given time and in accordance with legal and regulatory provisions applicable to the individual case;

2. to grant, separately, to the Chairperson of the Board of Directors and to the CEO, with the express power of sub-delegation, any broader power to carry out the disposals - including sales - referred to in this resolution, as well as to carry out any other formalities related thereto, including the possible appointment of intermediaries authorised by law; the disposals of Treasury Shares will in any case be conducted in compliance with laws and regulations in force regarding the execution of trades in listed securities and market abuse (“MAR”) and the applicable accounting standards and may take place in one or more transactions in gradual degrees deemed appropriate in the Company’s interests.

Siena, 25 February 2020

For the Board of Directors
Prof. Avv. Stefania Bariatti
Chairman of the Board of Directors