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

SHAREHOLDERS' MEETING

18 May 2020 (on a single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 7) ON THE AGENDA

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

**APPOINTMENT OF THE BOARD OF DIRECTORS MEMBERS FOR FINANCIAL YEARS 2020-
2021-2022**



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

Dear Shareholders,

you were convened to resolve upon the following **item 7)** on the agenda of the Shareholders' Meeting:

Appointment of the Board of Directors members for financial years 2020-2021-2022.

In accordance with the procedures and modalities set out in Article 15 of the By-Laws, the appointment of the new Board of Directors for financial years 2020-2021-2022 is made on the basis of the lists submitted by the Shareholders.

In each list, at least two candidates - or the only candidate or however at least one third of the candidates in case of lists composed of more than six (6) candidates - specifically indicated, shall meet the independence requirements set forth by the law applicable for the Statutory Auditors as well as the further independence requirements set forth by the Self-Governance Code for listed companies, to which the Bank adheres. Should the above mentioned number not correspond to a whole number, the latter shall be rounded up.

Each lists shall contain candidates of different gender in accordance with the applicable gender balance legislation (currently the least represented gender shall obtain at least two - fifths, rounded up, of the elected Directors - see Article 147-ter of Legislative Decree no. 58/98 Consolidated Financial Act (TUF) as amended by Law no. 160/2019). The lists shall not include candidates who are over 75 years old as at the date of the Shareholders' Meeting for the renewal of the Corporate Bodies, taking into account also the age limits set forth for the Chairperson of the Board of Directors (not over 70 years old at the time of appointment) and for the Chief Executive Officer (not over 67 years old at the time of appointment), pursuant to the provisions of the By-Laws. Please also note that no member of the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (hereinafter the "Bank" or "BMPS") can – under penalty of forfeiture of office – be at the same time a member of the Board of Directors, member of the Management Board ("*Consiglio di Gestione*") or the Supervisory Board ("*Consiglio di Sorveglianza*") of competitor banks which do not belong to the Monte dei Paschi di Siena Group, having a banking license issued by the Supervisory Authority and operate in the markets of bank funding or ordinary credit in Italy. The Director of BMPS who accepts one of the aforesaid offices shall immediately notify the Board of Directors which will declare his/her immediate forfeiture of office.

The Directors remain in office for three financial years and their term expires on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term of office; they may be re-elected for a maximum of two consecutive terms after the first one.



The appointment process follows the applicable laws and regulations, with particular reference to the prior identification by the outgoing Board of Directors, with the support of the Nominations Committee ("*Comitato Nomine*"), of its overall qualitative and quantitative composition deemed appropriate, identifying and justifying the theoretical profile (including as regards professional characteristics and possible independence) of the candidates deemed suitable for these purposes, so that the choice of candidates to be submitted can take into account the professional characteristic required.

In order to allow the Shareholders to make a choice of the candidates that takes into account the required profile, Shareholders may consult the document "*Guidelines of the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. to Shareholders on the size and composition of the new Board of Directors*" of 25 February 2020, available on the Bank's website www.gruppomps.eu - *Corporate Governance* section - *Shareholders' Meetings and Board of Directors' Meetings*, in the shareholders' meeting documentation, filed at the registered office and at the market management company, containing the assessments of the outgoing Board of Directors, defined with the support of the Nominations Committee ("*Comitato Nomine*"), regarding its overall qualitative and quantitative composition deemed appropriate in relation to the objectives set out in the above provisions, and the theoretical profile (including as regards professional characteristics and possible independence) of the candidates deemed suitable for these purposes.

Attention is also drawn to the need for the members of the Board of Directors to meet the eligibility requirements required for bank representatives, it being understood that the Board of Directors is required to carry out its own assessments with respect to the candidates elected for the purposes of the regulations in force regarding compliance with the requirements of integrity, professionalism, independence and suitability to hold office, as well as checks for the purposes of the so-called interlocking directorships ban.

In this regard, it should be noted that the regulations on the requirements of banking representatives set out in Article 26 of Legislative Decree no. 385/1993 (hereinafter the "**Consolidated Banking Law**" or "**TUB**") have been amended by Legislative Decree no. 72/2015, which, in implementation of European legislation (hereinafter the "**CRD IV Directive**") establishes new rules on the requirements of bank representatives, providing, in accordance with the CRD IV Directive and the guidelines issued by European Banking Authority (EBA) and the European Central Bank (hereinafter the "**ECB**"), that persons performing administrative, management and control functions in banks must be suitable for the performance of their duties.

For the purposes of "suitability", in addition to the requirements of honorability (uniform for all representatives), professionalism and independence (graduated according to the principles of proportionality), banking representatives shall meet criteria of competence and correctness, have the time necessary to carry out their assignment, aspects waiting to be set forth in an implementing decree of the Italian Minister of



Economy and Finance to be adopted after consultation with the Bank of Italy, which, at the date hereof, has not yet been issued.

The aforementioned Article 26 of the TUB (in the new formulation, not yet in force, pending the implementing decree) provides that the criterion of "*competence*" shall be regulated in a manner consistent "*with the office to be held and the characteristics of the bank, and of adequate composition of the corporate body*" and that the concept of "*correctness*" shall consider "*among other things, the business relations of the representative, the conduct towards the supervisory authority and the sanctions or corrective measures imposed by the latter, restrictive measures relating to professional activities carried out, as well as any other element which can affect the correctness of the representative*".

Although the new rules on requirements provided for in the new Article 26 of the TUB are still in a transitional regime, pending the issuance of the relevant implementing decree, the Board of Directors, when verifying the requirements of the its new members, will also take into account the eligibility criteria indicated above, as indicated by the ECB, which, during its verifications, assesses not only the requirements of professionalism, honorability and independence, but also the eligibility of banking representatives.

With respect to the Shareholders' Meeting appointment procedure with the voting list, please note that the Board of Directors will be elected as follows:

- all of the Directors to be elected less three (3) or the smaller number of Directors that exhausts the candidates of the list, shall be drawn from the list obtaining the majority of the votes expressed, in the progressive order with which they are listed in that list;
- the remaining Directors shall be drawn from the other lists; to this purpose, the votes obtained by the other lists will be divided subsequently by one, two, and so on, according to the number of Directors still to be elected. The quotients so obtained shall be assigned progressively to the candidates of each of said lists, according to their related order. The quotients assigned to the candidates of the various lists shall be 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 equal quotients, the entire Shareholders' Meeting shall hold a new voting and elect the candidate obtaining the simple majority of the votes.



However, also by way of derogation to 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, even indirectly, with the parties that submitted or voted the list ranked first by number of votes.

If, as a result of the voting, at least one third of the Directors who meet the independence requirements set forth above have not been appointed, the required number of last (among the elected) Non-Independent candidates shall be replaced with independent candidates - drawn from the same lists of the replaced candidates - who will 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 that is in no way linked, even 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 penultimate by quotient achieved, shall be replaced.

If, as result of the voting, the the applicable gender balance legislation – which, as indicated above, provides for the presence of at least two-fifths of the less represented gender, rounded up - is not fulfilled, the quotient of votes to be attributed to each candidate drawn from the lists shall be calculated dividing the number of votes obtained from each list by the progressive submission number of each of said candidates; the candidate belonging to the most represented gender with the lowest quotient among the candidates drawn from all the lists shall be replaced by the candidate belonging to the less represented gender who will have obtained the highest quotient in the same list of the replaced candidate. If candidates from different lists have obtained the same quotient, the candidate of the list from which the highest number of Directors has been drawn or, subordinately, the candidate from the list which has obtained the lowest number of votes or, in case of parity of votes, the candidate obtaining the lowest number of votes from the Shareholders' Meeting in a dedicated vote, shall be replaced.

If, as a result of the above mentioned procedures, the number of Directors necessary to comply with the minimum number of Independent Directors and of Directors of the least represented gender should 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 candidatures proposed, there and then, primarily by the parties that submitted the list of the candidate or candidates to be replaced.

With respect to the appointment of the Directors who were not appointed for any reason whatsoever in compliance with the foregoing procedure, the Shareholders' Meeting shall resolve pursuant to and with the majorities provided for by law, without prejudice to the criteria set forth by legislation in force and by the By-Laws with regard to independent directors and gender balance.

Lastly, it is recalled that each Shareholder who has the right to vote, may vote for one list only.



Dear Shareholders, you are therefore invited to appoint the members of the Board of Directors in accordance with the By-Laws provisions mentioned above.

Siena, 25 February 2020

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