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PRESS RELEASE

Structural and definitive solution to the bad loan legacy portfolio

De-risked and well-capitalized Bank

By means of a market solution the Bank confirms its standing as one of the leading institutions in the Italian banking system

ECB asset quality targets met in full

- **De-recognition of the entire bad loan portfolio through its transfer to a securitization vehicle ("Sec.Co") at a price equal to EUR 9.2 billion (or 33% of gross book value)[1] and the subsequent assignment of the junior tranche to BMPS shareholders. Quaestio Capital Management SGR S.p.A. ("Quaestio"), on behalf of the Atlante fund ("Atlante Fund"), will subscribe the mezzanine notes for up to ca. EUR 1.6 billion**

- **Recapitalization of the remaining de-risked business of BMPS for up to EUR 5 billion. The Transaction, which entails a rights issue up to EUR 5 billion , assisted by a pre-underwriting agreement from a consortium of primary international banks ("Rights Issue")**

- **The Bank, pro-forma for the transaction (31 March 2016), has best in class ratios in terms of:**

  - **CET1 ratio: 11.7% phased in, 11.4% fully loaded;**

  - **Asset quality: gross NPE ratio of 17.8%, fully compliant with ECB guidelines;**

  - **Texas ratio[2] of ~125% down from current ~260%;**

  - **Coverage ratio of 40% for unlikely to pay and past due loans, the highest level among major Italian banks**

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[1] Unaudited pro-forma figures as at 31 March 2016. Pro-forma figures as at 30 June 2016 (net of write-offs) do not significantly change the percentage of the price on net book value.

[2] Calculated as Net Non-Performing Exposure / Tangible Book Value

Siena, 29 July 2016 – The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. ("BMPS" or the "Bank") has approved the guidelines of a transaction (the "Transaction"), which is expected to allow for the de-recognition of the Group's entire bad loan portfolio (EUR 27.7 billion gross and EUR 10.2 billion net, 31 March 2016). The envisaged strengthening in coverage of non-performing exposures (i.e. bad loans, unlikely to pays and past due loans) and the de-recognition of the bad loan portfolio through the securitization structure, is expected to result, on a preliminary basis, in a capital shortfall of Euro 5.0 billion compared to a fully phased CET1 of 11.4%, as of 31 March 2016.

This preliminary estimate does not include any DTA benefit stemming from the said increase in non-performing exposure coverage.

The completion of the Transaction is subject, among others, to approval by the relevant supervisory and regulatory authorities. The Bank will submit to the ECB, at the earliest possible date, a comprehensive capital plan ("Capital Plan") including the Rights Issue aimed at obtaining a more than adequate capital position.

In this regard, we acknowledge that today the ECB has confirmed that MPS, subject to all parts of the Transaction being successfully completed, will be able to exclude/limit the impact stemming from the disposal of all bad loans as part of the Transaction, for the calculation of loss given default (LGD) estimates.

The Transaction, unprecedented in size and structure in the Italian market, represents a key milestone for the Bank and, at completion, will reaffirm BMPS as a leading player in the Italian banking sector, with a solid balance sheet, reduced risk profile, materially improved asset quality and future earnings growth potential for the benefit of all stakeholders.

Transaction structure

The Transaction encompasses a number of simultaneous and closely related actions, which should be regarded as indivisible components of a comprehensive solution, including the:

1. Increase in the coverage ratios of impaired exposures;
2. De-recognition of the entire bad loan portfolio;
3. Recapitalization of the Bank.

1. Increase in the coverage ratios of impaired exposures

For the purpose of the transfer of the bad loan portfolio (EUR 27.7 billion gross exposure and EUR 10.2 billion net exposure as of 31 March 2016) to Sec.Co, coverage ratios of BMPS bad loans will be increased from 63.3% to 67.0%[1].

In addition, in the context of the Transaction, the average coverage ratios of unlikely-to-pay (EUR 16.9 billion gross exposure and EUR 12.0 billion net exposure as of 31 March 2016 and coverage ratio of 29.1%) and past-due (EUR 2.6 billion gross exposure and EUR 1.9 billion net exposure as of 31 March 2016 and coverage ratio of 27.2%) will be increased to 40%.

The total amount of the above mentioned measures is estimated at c. EUR 1 billion for bad loans and c. EUR 2.2 billion for the other categories of non-performing loans.

2. De-recognition of the entire bad loan portfolio

Together with the above mentioned increase in coverage ratios, the BMPS bad loan portfolio will be fully transferred to a securitization vehicle (Sec.Co) under the Italian law (Law 130/99). It is envisaged that such transaction will be carried out at a price equal to EUR 9.2 billion (or 33% of gross book value[1], corresponding to the net book value of the bad loan portfolio, following the increase in the coverage ratios described above). Following a structuring and due diligence phase it is envisaged that Sec.Co will be funded via the issuance of securitization notes as follows:

- Senior notes for up to approx. EUR 6.0 billion, to be placed with investors and to be potentially eligible and assisted, for its investment grade component, by the GACS (*Garanzia Cartolarizzazione Sofferenze*);
- Mezzanine notes for up to approx. EUR 1.6 billion to be underwritten by the Atlante Fund;
- Junior tranche for up to approx. EUR 1.6 billion to be assigned to the shareholders of BMPS, in order to achieve simultaneous de-recognition of the bad loan portfolio from the BMPS balance sheet. It is also expected that the financial instrument to be assigned to existing BMPS shareholders shall be publicly traded, upon fulfillment of certain conditions, in order to improve liquidity of the financial instrument in the secondary market.

Given the timing objectives for the completion of the overall Transaction, which entails the capital increase to be completed by year end and the simultaneous deconsolidation of Sec.Co, should a term financing not be in place before the finalization of the underwriting agreement for the Rights Issue, it is anticipated that a bridge financing would be arranged and that could be complemented by a senior mezzanine financing that BMPS could directly provide, on a residual basis, as long as it does not affect the de-recognition of Sec.Co. This solution is consistent with the assignment of the Junior tranche to the current shareholders of BMPS.

Quaestio, on behalf of the Atlante Fund, has entered into a Memorandum of Understanding ("MoU") with BMPS that defines the steps and conditions for an investment of the Atlante Fund for up to EUR 1.6 billion in mezzanine notes simultaneously to the closing of the Rights Issue.

As part of the MoU, Quaestio is expected to appoint a Co-Arranger for the securitization and a Master Servicer of the bad loan portfolio. Furthermore, Quaestio will coordinate the definition of the Business Plan for the recovery of bad loans, which will be allocated to a number of Special Servicers, chosen by means of a competitive procedure. The sale of the BMPS credit recovery platform, which will be able to manage a third of the securitized portfolio, is confirmed.

The Atlante Fund will be granted warrants for the subscription of newly issued BMPS shares for 7% of the fully diluted share capital post-completion of the Rights Issue. The warrants will have the following main features:

- Strike price equal to the sum of (i) issue price of the new BMPS shares in the Rights Issue and (ii) the volume-weighted average trading price of the rights pertaining to the Rights Issue;
- Exercisable at any time within 5 years from issue date;
- No disposal or hedging of the position.

3. Recapitalization of the Bank

The Board of Directors of BMPS will convene a General Meeting for the approval of the:

1. divisible share capital increase, with pre-emption rights to BMPS shareholders, for up to EUR 5 billion, in order to restore a solid regulatory capital position for BMPS following the Transaction;
2. share capital increase with no pre-emption rights, dedicated to the warrants to be issued to the Atlante Fund;
3. constitution and simultaneous reduction of the share premium reserve for the assignment of the Junior tranche to BMPS shareholders.

J.P. Morgan and Mediobanca, acting as Joint Global Coordinators and Joint Bookrunners, and Banco Santander, BofA Merrill Lynch, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs International, acting as Co-Global Coordinators and Joint Bookrunners have entered into a pre-underwriting agreement - subject to standard terms and conditions for transactions of this nature and certain specific conditions related to the positive outcome of the deconsolidation of the bad loan portfolio and of the marketing activities - with the purpose to enter into an underwriting agreement for the subscription of the newly issued shares eventually unsubscribed at the end of the offering for an amount of up to EUR 5 billion.

Main effects of the Transaction

The Transaction will allow BMPS to:

- meet the bad loan portfolio downsize targets set forth by the ECB in its draft letter (the main terms of which were communicated to the market on 4 July 2016);
- reduce the Bank's risk profile;
- significantly increase its future profitability and therefore create value for all its stakeholders.

In particular, upon completion of the Transaction, the Bank will feature one of the highest coverage ratios of unlikely-to-pay and past-due loans of the Italian banking system, rising up to 40%[1]. Further, the de-recognition of the entire bad loan portfolio will place the Bank among the best-in-class Italian banks in terms of asset quality, featuring a 1Q2016 pro-forma Gross NPE ratio of 17.8%[1], significantly below market average and with a more favourable mix.

The Transaction will reduce the complexity and risk profile of BMPS. The de-recognition of bad loans and the increase in the coverage ratio of remaining non-performing exposures will translate into a de-risked balance sheet, a stronger liquidity position (loan-to-deposit ratio, as at 31 March 2016, at 85%[1] from 95%[1]), and an improved BMPS financial strength.

The de-risking following the completion of the Transaction is expected to have a positive impact on the Bank's future profitability , mainly thanks to lower cost of risk and cost of funding, thus allowing to accelerate the return to sustainable profitability and to seize potential future growth opportunities.

The current shareholders of BMPS will retain the opportunity to participate in the upside stemming from the recovery of the bad loan portfolios transferred into Sec.Co through the assignment of the above-mentioned Junior tranches.

The Bank's new profile

Upon completion of the Transaction the Bank, would report the following pro-forma capital and asset quality ratios (pro-forma as of 31 March 2016):

Capital requirements

- Phased-in CET1 ratio of approx. 11.7%; fully loaded CET1 ratio of approx. 11.4%;

Asset quality

- Gross non-performing exposures to total gross loans down from 34% to 17.8%;
- Net non-performing exposures to total net loans down from 21.2% to 11.6%;
- Average coverage ratio of unlikely to pay and past due loans at 40% (from 29.1% and 27.2%, respectively);
- Texas Ratio (net non-performing exposures / tangible book value) down to c. 125% from current c. 260%;

AFS portfolio

- AFS portfolio almost entirely composed by Italian Government bonds;

Liquidity position

- Stronger liquidity position, with a reduced loan-to-deposit ratio (85% from 95%);

Improved profitability profile

- Decreasing cost of funds stemming from the optimization of the funding structure through the redeployment of the new liquidity deriving from the Transaction and expected credit rating upgrades;
- Significantly reduced cost of risk, due to best-in-class provisioning and unique composition of non-performing portfolio with a low risk profile

Indicative timeline of the Transaction

By the end of September 2016, the Board of Directors will call a General Meeting of BMPS and approve a business plan for the Bank that will be presented to the financial community. The General Meeting for the approval of the Transaction will take place in October/ November, with the purpose of completing the Rights Issue and the de-recognition of the bad loan portfolio by the end of 2016.

The Transaction must be regarded as an operation composed of different agreements, each of which must be completed in order to close the Transaction.

J.P. Morgan and Mediobanca are acting as Financial Advisors to Banca Monte dei Paschi di Siena S.p.A., Global Coordinators on the Capital Increase and Arrangers on the securitization of the bad loans.

Lazard is acting as independent Financial Advisor to Banca Monte dei Paschi di Siena S.p.A. and BonelliErede is acting as Legal Advisor for the Transaction.

Professor Piergaetano Marchetti assists Banca Monte dei Paschi di Siena S.p.A. for corporate legal aspects and Professor Francesco Carbonetti for regulatory aspects.

This press release will be available at www.mps.it

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