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PRESS RELEASE

Banca Monte dei Paschi di Siena S.p.A. moves forward its project to build a de-risked and well-capitalized Bank. An overall solution is identified for the current portfolio of bad loans by means of a market transaction which is innovative for the Italian banking sector. The transaction allows to meet the ECB guidance on credit quality ahead of schedule.

A shareholders' meeting has been called for 24 November 2016 in order to resolve upon:

- **Capital reduction to cover past losses and losses on the balance sheet as at 30 September 2016**
- **Reverse stock split of 1 new share per 100 existing shares**
- **Capital increase of EUR 5 billion with exclusion of pre-emption rights, covered by a pre-underwriting agreement with primary financial institutions, and assignment of junior notes to the current shareholders of the Bank in order to complete de-recognition of portfolio of bad loans.**
- **Mandating the Board of directors to carry out the capital increase, also in on a divisable basis and-or with some tranches without exclusion of pre-emption rights, with a view to maintaining adequate flexibility**
- **Addition of new members of the Board of Directors and appointment of Chairman**

The objective of the Board of Directors is to tie the capital increase to the derecognition of the bad loans portfolio and an increase in coverage of unlikely to pay and past due loans. With this purpose, the transaction has the following principal characteristics

- **De-recognition of the portfolio of non-performing loans as at 30 June 2016 (up to Euro 27.6 billion GBV, excluding non-performing leasing loans equal to**

approx. 0.9 billion, to be transferred separately, and non transferable non-performing loans in the amount of approx. 0.4 billion) through the transfer to a securitization vehicle, established pursuant to Law No. 130 of 30 April 1999 ("Sec.Co"), at a price equal to approx. EUR 9.1 billion (or 33% of GBV) and the subsequent assignment of the junior notes to current BMPS shareholders. Quaestio Capital Management SGR S.p.A., on behalf of Atlante fund ("Atlante Fund"), will subscribe the junior mezzanine notes for approximately EUR 1.6 billion*.* The undertaking of the lenders with regard to the senior tranche during the bridge phase of the securitization is still being finalised.

- **Potential liability management exercise ("LME"), subject to the necessary regulatory authorisations, to be completed before, and conditional on, the beginning of the Capital Increase (as defined below). Where launched, the LME will allow the holders of the target securities to participate voluntarily in a cash tender offer, with the cash amount received to be mandatorily applied to subscribe for shares to be issued in the Capital Increase.**

- **Recapitalization of BMPS, with a significant reduction of its risk profile, up to a maximum amount of Euro 5 billion, also on an indivisible basis, with exclusion or limitation of pre-emption rights ("Capital Increase"), assisted by a pre-underwriting agreement from a consortium of primary financial institutions in the event of exclusion of pre-emption rights.**

- **The Bank, *pro forma* for the transaction (30 September 2016), has *best-in-class* ratios in terms of:**

    - **Asset quality: gross NPE ratio of 18.6%, fully compliant with ECB guidelines**

    - **Texas ratio[1] of 134% down from current 268%**

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

Milan, 25 October 2016 – The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. ("BMPS" or the "Bank") has approved, during the meeting held on 24 October 2016 and chaired by Massimo Tononi, to convene an Ordinary and Extraordinary Shareholders' Meeting in order to adopt the resolutions required to implement a transaction (the "Transaction"), aimed at (i) the de-recognition of the portfolio of non-performing loans of BMPS as at 30 June 2016 amounting to up to EUR 27.6 billion (GBV) (excluding non-performing leasing loans equal to approx. Euro 0.9 billion, to be transferred separately, and non transferable non-performing loans in the amount of approx. Euro 0.4 billion), through distribution of the junior notes to shareholders of the Bank, and (ii) carrying out a recapitalisation of the Bank of up to EUR 5 billion.

This innovative Transaction, unprecedented in the Italian market in its structure and size, represents a key milestone for BMPS which should enable the Bank to position itself, with renewed

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

strength, as one of the leading players in the Italian banking sector, with a solid balance sheet, a reduced risk profile, a materially improved asset quality and a renewed growth potential in terms of profitability for the benefit of all stakeholders.

Transaction structure

The Transaction, structured in continuity with what was announced to the market on 29 July and 26 September 2016, encompasses a number of simultaneous and interconnected actions, including:

1. De-recognition from the BMPS balance sheet of the portfolio of bad loans, with the exceptions referred to above;
2. Recapitalization of the Bank.

In the context of the Transaction, the increase in the coverage ratios of impaired exposures is also provided for.

1. De-recognition of the portfolio of non-performing loans at 30 June 2016

The Transaction provides that the BMPS portfolio of bad loans at 30 June 2016, net of non-performing leasing loans equal to approx. Euro 0.9 billion, to be transferred separately, and non transferable non-performing loans in the amount of approx. Euro 0.4 billion, will be transferred to a securitization vehicle (Sec.Co), established under the Italian law (Law 130/99). It is envisaged that such transaction will be carried out at a price equal to approx. EUR 9.1 billion (or 33% of gross book value). As of today it is envisaged that Sec.Co will be funded, in the bridge phase, as follows:

- Senior bridge facilities for up to approx. Euro 5 billion, to be refinanced – at the end of the bridge phase – through the placement with investors of term notes for which the GACS (*Garanzia Cartolarizzazione Sofferenze*) assistance will be requested for the investment grade portion;
- Senior Mezzanine bridge facilities for up to approx. Euro 1 billion to be underwritten by BMPS, which will be refinanced, net of the possible amount covered by GACS assistance, at the end of the bridge phase by term notes with a coupon in line with market levels and held by BMPS or transferred to third parties;
- Junior Mezzanine notes of approx. Euro 1.6 billion to be underwritten by the Atlante Fund;
- Junior notes for the residual amount to be assigned to the shareholders of BMPS, though the distribution of the share premium reserve, established simultaneously with the Capital Increase transaction, in order to obtain the de-recognition of the bad loans portfolio by BMPS.

As previously communicated to the market, Quaestio Capital Management SGR (“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 by Atlante Fund for up to EUR 1.6 billion in Junior Mezzanine Notes simultaneously with the closing of the Capital Increase. Quaestio has identified *Credito Fondiario* as Master Servicer of the Sec.Co portfolio and has launched a competitive procedure for the selection of the Special Servicers for the recovery of the bad loans.

BMPS, as already communicated to the market, is proceeding with the sale of BMPS' credit recovery platform, which, in accordance with the agreement reached with Quaestio, will be able to manage a third of the Sec.Co portfolio.

Instead of the warrants provided for in the MOU having as underlying newly issued shares of the Bank for an amount equal to 7% of the fully diluted share capital of the Bank after the completion of the Capital Increase, Quaestio and BMPS have agreed to negotiate in good faith an alternative non-dilutive solution.

2. Recapitalization of the Bank

The Board of Directors of BMPS has convened an Extraordinary Meeting of shareholders to resolve upon the approval, through a delegation mechanism pursuant to Article 2443 of the Italian Civil Code, of a Capital Increase of up to Euro 5 billion, also on a divisible basis, with exclusion or limitation of pre-emption rights, granting to the Board of Directors the ability, in the case of a change in relevant factual framework, to reserve a tranche to the shareholders. Such Capital Increase is structured to include the following components:

(i) a component to service a potential LME, which will give holders of securities targeted in the LME the right to voluntarily participate in a cash tender offer with the cash amount received mandatorily applied to subscribe for new shares to be issued in the context of the Capital Increase, with the subscription price for newly issued shares to be equal to the price fixed in the Capital Increase through a bookbuilding process

(ii) a cash component reserved to potential cornerstone investors, that may have expressed interest in acquiring a significant holding in the share capital of the Bank

(iii) an additional cash component, a portion of which may be reserved to current shareholders of the Bank.

The above three components of the Capital Increase, put together, will lead to the subscription of an amount equal to a maximum of Euro 5 billion, in the form to be established by the Board of Directors at a later stage closer to the beginning of the Transaction.

J.P. Morgan and Mediobanca, acting as Joint Global Coordinator and Joint Bookrunners, Banco Santander, S.A., Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International and Merrill Lynch International, acting as Co-Global Coordinators and Joint Bookrunners, and Banco Bilbao Vizcaya Argentaria, S.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Jefferies International Limited and Société Générale acting as *Joint Bookrunners* have entered into a pre-underwriting agreement – subject to standard terms and conditions for transactions of this nature and certain specific conditions linked to considerations relating to the Italian banking sector generally and more specifically to the Bank and its group, including the positive outcome of the deconsolidation of Sec.Co, marketing with institutional investors (including any cornerstone investors) and the LME – which provides for the entry into an underwriting agreement for the subscription of any newly issued shares that remain unsubscribed for a maximum amount of Euro 5 billion. Such maximum amount will be reduced in an amount equal to (a) the amount of shares that may be irrevocably underwritten by qualified and/or institutional investors prior to the date of the underwriting agreement, and (b) the amount of newly issued shares to be transferred to investors that participate in the LME whose participation can not be subject to withdrawal rights pursuant to art. 95bis, paragraph 2, of the Italian Financial Act.

3. Increase in the coverage ratios of impaired exposures

Simultaneously to the transfer of the bad loans portfolio to Sec.Co, the coverage ratios of BMPS' portfolio of non-performing loans will be increased as follows:

- Non-performing loans to be transferred (up to EUR 27.6 billion gross and Euro 9.1 billion net): increase of coverage ratio from 63% to 67%;
- Unlikely-to-pay (EUR 15 billion gross as of 30 September 2016): increase of coverage ratio on the basis of a particularly conservative policy from 29% in June 2016 to 42% in December 2016, part of which is already accounted for in the third quarter of 2016';

<u>Main effects of the Transaction</u>

The Transaction will allow BMPS to:

- meet earlier than required the bad loans portfolio downsize targets in line with ECB guidance (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 the highest average coverage ratio of unlikely-to-pay and past-due loans of the Italian banking system, equal to approximately 40% compared with the averaged of the principal listed Italian banks of 25% (as at 30 June 2016).

The complete de-recognition of the entire Sec.Co portfolio will place the Bank among the best-in class Italian banks in terms of asset quality, featuring a 3Q2016 pro-forma Gross NPE ratio of approximately 18.6%, in line with the market and with a more favourable asset mix (81% of unlikely-to-pay, 10.5% of past-due loans and 8.5% of bad loans).

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, and an improved financial strength of the Bank.

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 a return to sustainable profitability and to seize potential future growth opportunities.

Lastly, the current shareholders of BMPS (those who are shareholders prior to settlement of the Capital Increase), will maintain the opportunity to participate in the potential upside stemming from the recovery of the bad loans portfolios transferred into Sec.Co through the assignment of the above-mentioned junior notes. That assignment will take place by means of non-transferrable rights to receive instruments representing the junior notes followed by transfer of the instruments to shareholders, exclusively in the event that the transaction is completed as described above. As such, shares subscribed in the Capital Increase will not benefit from this right.

Other decisions taken by the Board of Directors

The Board of Directors resolved to submit the following proposals to the shareholders meeting

(i) to the extraordinary meeting, approval of the balance sheet as of 30 September 2016 and reduction of share capital from Euro 9,001,756,820.70 to Euro 7,365,674,050.07 to cover previous losses and the losses resulting from the balance sheet at 30 September 2016 (approved by the Board of Directors). Such proposal is justified in the context of the Transaction described above and aimed at allowing the Bank to pursue such Transaction in a more orderly situation characterised by the absence of losses, and at allowing the Bank to benefit from a more balanced share capital following the planned recapitalization,

(ii) to the extraordinary meeting, reverse stock split of 1 new share for every 100 existing shares. Such proposal is aimed at simplifying the management of the shares, the number of which will increase significantly following the Capital Increase,

(iii) to the ordinary meeting, addition of members to the Board of Directors and appointment of the Chairman.

The Bank's new profile

The Bank will have the following pro-forma asset quality ratios (pro-forma as of 30 September 2016):

Asset quality

- Gross non-performing exposures to total gross loans of approx. 18.6% (compared to approx. 35.5%);
- Net non-performing exposures to total net loans of approx. 12.0% (compared to approx. 21.5%);
- Average coverage ratio of unlikely–to-pay and past due loans of approx. 40% (compared to approx. 33%);
- Texas Ratio (net non-performing exposures / tangible book value) of approx. 134% compared to approx. 268%;

AFS portfolio

- AFS portfolio almost entirely comprised of Italian Government bonds;

Improved profitability profile

- Decreasing cost of funding 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

The General Meeting to resolve upon the Transaction has been called for 24 November 2016, with the aim of completing the Capital Increase and the de-recognition of the bad loans portfolio by the end of the current financial year.

The closing of the Transaction is subject to, *inter alia*, obtaining all regulatory approvals. In this regard, the ECB, on 29 July 2016, communicated to the Bank the resolution taken by the Supervisory Board, pursuant to which the Bank is authorized to exclude the impact arising from the disposal of the bad loans portfolio from the calculation of loss given default (LGD) estimates.

J.P. Morgan and Mediobanca are acting as Financial Advisors to Banca Monte dei Paschi di Siena S.p.A., Joint Global Coordinators and Bookrunners on the Capital Increase and, along with Citigroup Global Markets Limited, as Arrangers on the securitization of the bad loans. Clifford Chance Studio Legale Associato, Studio Legale RCC and Allen & Overy Studio Legale Associato are advising the banks respectively in relation to the Capital Increase, the securitisation and the LME.

Lazard is acting as independent Financial Advisor to Banca Monte dei Paschi di Siena S.p.A. and Bonelli Erede is Legal Advisor on the Transaction, Professor Piergaetano Marchetti assists Banca Monte dei Paschi di Siena S.p.A. for corporate legal aspects, Professor Francesco Carbonetti for regulatory aspects and Linklaters for international aspects.

Press release will be available on www.mps.it

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