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

SHAREHOLDERS' MEETING

18 December 2017 (on single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

CONCERNING ITEM 7) ON THE AGENDA - ORDINARY SESSION

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

ITEM 7 ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING

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 attend a meeting to resolve upon the following item on the agenda of the ordinary session of the Shareholders' Meeting:

- **Appointment of the Chairman and of the other members of the Board of the Statutory Auditors for the financial years 2017 - 2018 - 2019**

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As indicated in the Notice of Call, it should be noted that the items on the Ordinary Shareholders' Meeting will be submitted to the Shareholders' discussion and deliberation only subject to the adoption of the resolutions relating to item 2 of the agenda of the Extraordinary Shareholders' Meeting. The relevant resolutions adopted in ordinary session of the Shareholders' Meeting will be effective only after the registration at the Business Register of the deliberation referred to in item 2 in extraordinary session.

That being said, following the resignation - that shall be effective after the registration in the Business Register of the Meeting resolution concerning the amendments to the By-laws, under item 2 of the agenda of the extraordinary part of the Shareholders' Meeting - of the members of the Board of Statutory Auditors appointed by the Shareholders' Meeting at the meeting of 16 April, 2015, the new members of the aforementioned Audit Body should be appointed for the years 2017 - 2018 - 2019, and more specifically in this case, for the last part of the 2017 financial year, not yet concluded, and the entire exercises 2018 and 2019.

In this respect, please note that under the provisions of Article 23 of the By-Laws in the proposed new wording, the Board of Statutory Auditors is made up of three effective members and two deputy members.

Pursuant to the above mentioned provision of the By-Laws, the members of the Statutory Auditors will be appointed on the basis of lists submitted by the shareholders, divided into two sections: one for the appointment of the effective Statutory Auditors and one for the appointment of the Deputy Auditors. The candidates must be listed by progressive number and their number must not exceed the number of members to be elected. The lists with a number of candidates equal to or above three must include candidates of different gender in the first two places of the list under the section of the candidates for the office of effective Statutory Auditors, in compliance with the current regulation on gender equality. If the section of the Deputy Auditors of the above lists has two candidates, those should belong to different genders.

It should also be noted that persons who are in a situation of incompatibility under the applicable law or do not meet the requirements set forth in the applicable provisions, shall not be elected as Statutory Auditors and if elected, will vacate from their office without prejudice for the limits to the cumulation of appointments set forth in the applicable regulation legislation. Statutory Auditors cannot hold positions in other banks other than those forming part of the Monte dei Paschi Siena Banking Group and those in which exists a joint control .

Statutory Auditors may not assume positions in any corporate body other than audit corporate bodies in other companies of the Group or of the financial conglomerate, as well as in companies in which the bank holds, even indirectly, a strategic participation.

At least one of the effective Statutory Auditor and at least one of the Deputy Auditor shall be registered with the Register of Auditors and shall have carried out statutory auditing activities for at least three years.

A maximum number of two effective Statutory Auditors and one Deputy Auditor who do not meet the above-mentioned requirements, may be appointed if they have an overall experience of at least three years in:

- a) administration or audit tasks or a managerial role in a joint stock company with a share capital of no less than Euro two million, or
- b) professional activities or university teaching in law, economics, finance, credit, insurance or technical and scientific subjects strictly related to the Company's activities, or
- c) a managerial position in public entities or institutions operating in the credit, finance and insurance sectors or other sectors strictly related to the Company's field of business.

In particular, on the basis of Article 24 of the By-Laws in the proposed new wording, the Board of Statutory Auditors is elected as follows:

- the first two candidates of the list which has obtained the majority of votes and the first candidate of the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the persons who submitted or voted the list ranking first by number of votes shall be elected as effective Statutory Auditors;
- the first candidate of the list which has obtained the majority of votes and the first candidate - or the second candidate if the first is of the same gender as the first candidate of the list which has obtained the highest number of votes - of the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the persons who submitted or voted the list ranking first by number of votes shall be elected as Deputy Auditors;
- in case of parity of votes between the first two or more lists, the Shareholders' Meeting shall resolve again, choosing between the lists with equal votes. The same rule shall apply in the case of parity between the lists ranking second by number of votes which are not related, directly or indirectly, pursuant to applicable laws and regulations, to the persons who submitted or voted the list ranking first by number of votes;
- if an elected candidate cannot accept the appointment, the first non-elected candidate in the list of the candidate who did not accept shall be appointed;
- the effective Statutory Auditor taken from the list ranking second by number of votes which is not related, directly or indirectly, pursuant to applicable laws and regulations, to the persons who submitted or voted the list ranking first by number of votes shall be elected Chairman.

Please also note that each shareholder entitled to vote may vote only one list.

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Dear Shareholders, you are therefore invited to appoint the members of the Board of Statutory Auditors in compliance with the provisions of the By-Laws set forth above.

Siena, 7 November 2017

For the Board of Directors

Mr. Alessandro Falciai

Chairman of the Board of Directors