***Courtesy translation:** in case of discrepancy between the Italian language original text and the English language translation, the Italian text shall prevail*

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

SHAREHOLDERS' MEETING

18 May 2020 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON ITEM 3) OF THE AGENDA

drawn up in accordance with article 114-bis and article 125-ter of Italian Legislative Decree no. 58 of 24 February 1998,

as subsequently amended.

PROPOSAL, PURSUANT TO THE COMBINED PROVISIONS OF ARTICLE 114-BIS AND ARTICLE 125-TER OF THE CONSOLIDATED FINANCIAL ACT, FOR APPROVAL OF A PERFORMANCE SHARE PLAN FOR THE PAYMENT OF SEVERANCE FOR MONTEPASCHI GROUP PERSONNEL; RELATED AND CONSEQUENT RESOLUTIONS.

REPORT BY THE BOARD OF DIRECTORS IN ACCORDANCE WITH ARTICLE 114-BIS AND ARTICLE 125-TER OF ITALIAN 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, put on the agenda as **item 3)**:

Proposal, pursuant to the combined provisions of article 114-bis and article 125-ter of the Consolidated Financial Act, for approval of a performance share plan for the payment of Severance for Montepaschi Group personnel; related and consequent resolutions.

Premise[1]

In accordance with the relevant applicable regulations and the supervisory guidelines and consistent with the specific supervisory provisions on remuneration and bonus policies and practices issued by the Bank of Italy[2] ("**Supervisory Provisions**"), the Group's Remuneration Policies - as shown in the "Report on remuneration policy and on amounts paid" pursuant to article 123-ter of the Consolidated Financial Act ("**2020 Remuneration Policies**"), - submitted to the necessary prior approval of this Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. ("**Bank**" or "**BMPS**"), provide that a portion of the variable remuneration of "Identified Staff" (i.e. employees whose activities have an impact on the risk profile of the Bank or Banking Group, hereinafter "**Identified Staff**") shall be paid in financial instruments, and, more specifically, shares or related instruments[3].

The notion of variable remuneration, as defined in the current Supervisory Provisions, also includes any amounts paid to the Identified Staff as an incentive for early termination of employment or early termination of office (so-called "Severance")[4].

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[1] The content of this Report takes into account the Definitions contained in the Information Document drawn up pursuant to article 84-bis of the Issuers' Regulation.

[2] See Bank of Italy Circular no. 285 of 17 December 2013, Part One - Title IV - Chapter 2 - Section III.

[3] See 2020 Remuneration Report.

[4] The term Severance means the amount acknowledged within the framework of early termination of employment agreements (for the portion exceeding the cost of the notice period and excluding the amount envisaged by law) or early termination of office, to be partly paid in the form of financial instruments in accordance with the Supervisory Provisions and the Remuneration Policies (including therein the remuneration of any non-compete clauses, for the amount exceeding one year's fixed remuneration of the Beneficiary.

Given the theoretical possibility that this requirement could occur, the Bank must define the type of financial instruments and the relative amounts to be allocated to such possible future commitments by drawing up a specific plan (the "**Plan**") to be submitted to the Shareholders' Meeting in accordance with the provisions of article 114-bis of the Consolidated Financial Act and article 13 of the By-Laws.

The proposal of the Plan illustrated in this Report was approved by the Bank's Board of Directors on 25 February 2020, with the favourable opinion of the Remuneration Committee, Risk Committee and Board of Statutory Auditors (the latter also pursuant to article 2389 of the Italian Civil Code).

Considering the additional proposal that the Board of Directors intends to submit to the Shareholders' Meeting regarding the authorization to dispose of its own shares pursuant to article 2357-ter of the Italian Civil Code for the reasons indicated in the relative explanatory report, note that the proposal of the Plan does not envisage the use of the Bank's own shares for the payment of the portion of Severance in financial instruments to Identified Staff, but is based on the allocation of synthetic financial instruments ("**Performance Shares**"), which will be converted into money based on the market value of the Bank's ordinary shares, according to the dates established in the specific agreements. Said synthetic instruments are considered suitable to achieve the same objectives and meet the requirements of the relevant legislation, including that of paying a variable remuneration aligned to the results and risks of the Bank and the Group to which it belongs, by using instruments (including alternatives to own shares) that are able to have the same effect - in terms of loss absorption - as shares or equivalent equity investments, also considering the cost and the level of capital and liquidity needed to cover the activities undertaken and structured so as to avoid generating incentives with conflicts of interest of the company in the long term.

Furthermore, the use of Performance Shares, i.e. the payment of a remuneration aligned to the value of the Bank's shares, enables the latter to address the use of its own shares in the portfolio to potential capital management transactions[5], also guaranteeing greater operational simplicity with respect to the allocation of own shares.

The characteristics of the Plan are in line with the provisions of the applicable remuneration laws, more specifically the Supervisory Provisions, as better described below and which will be described in further detail in the information document that will be made available to the public, pursuant to and in accordance with article

[5] For further details, refer to the Board of Directors' report, drawn up pursuant to article 125-ter of the Consolidated Financial Act on the subsequent item 4) on the agenda "Authorization to dispose of own shares pursuant to article 2357-ter of the Italian Civil Code; related and consequent resolutions."

84-bis of the Consob regulation adopted with resolution no. 11971 of 14 May 1999, as subsequently amended (the "**Issuers' Regulation**"), along with this Explanatory report.

1. Beneficiaries of the Plan

The potential beneficiaries of the Plan are the Directors and personnel included within the scope of Identified Staff of the Group, identified annually by the delegated bodies based on the criteria established by the relevant regulations in force at the time and who, only in the case of completion - during the period of validity of the Plan - of an agreement for early termination of the employment relationship or early termination of the office, may receive Severance to be paid, in accordance with the applicable legislation, partly in financial instruments. To date (and unless changes occur in the period of validity of the same) the above-cited potential beneficiaries include the Chief Executive Officer and General Manager of the Bank, the Chief Executive Officer of the subsidiary Consorzio Operativo Gruppo Montepaschi S.c.p.a. and the Group's "Key Executives", identified, in accordance with regulations in force[6], as the Division managers of the Bank and other managers reporting directly to the Chief Executive Officer and to the Board of Directors.

2. Reasons behind the adoption of the Plan

The Plan aims to enable the Bank and its subsidiaries to comply with the provisions of the Supervisory Provisions, where they dictate that any Severance should be paid out in part[7] through financial instruments, in this case, Performance Shares, to be converted on the dates agreed into a monetary amount aligned to the performance of the Bank's shares.

Specifically, therefore, the Plan permits alignment with the provisions of the regulations on the disbursement of any amounts determined upon mutual agreement for early termination of the employment relationship or early termination of office.

At the same time, it aligns the interests of management with the interests of the Shareholders to create medium-term value.

[6] Meaning those individuals with Senior Management responsibilities, who have regular access to inside information and can make management decisions that may impact the Bank's evolution and future prospects.

[7] See previous notes 2 and 3.

3. Governance of the Plan

Under the Plan, the Board of Directors is granted all the powers necessary to implement it, including, purely by way of an example, that of approving, within the framework of the 2020 Remuneration Policies approved by the Shareholders' Meeting, proposals regarding:

- the Plan Regulations and any updates;
- assignment of Performance Shares to the beneficiaries of the Plan.

To the extent permitted by the regulations, in force at the time, the Board of Directors may delegate its powers to the CEO or other Director(s), with the support of the Chief Human Capital Officer Division, and/or confer specific powers to perform any activity related to the management of the Plan.

4. Allocation procedures

The Plan provides for the allocation of Performance Shares, which may be converted into cash based on the market value trend of the Bank's shares, to be granted to the Beneficiary, according to the times and procedures defined in the Plan Regulations within the framework of the 2020 Remuneration Policies approved by the Shareholders' Meeting, as mutually agreed for the early termination of the employment relationship (for the portion exceeding the cost of the notice period, excluding the amount envisaged by law) or upon early termination of the office of Director.

With reference to the criteria and restrictions regarding use of Performance Shares when the Severance package applies, the Plan provides that the remuneration given must be agreed in accordance with the criteria established by the Shareholders' Meeting in the 2020 Remuneration Policies, also including the so-called malus conditions.

As set forth in the Supervisory Provisions and in the 2020 Remuneration Policies, the Bank and its subsidiaries therefore reserve the right to activate clawback mechanisms in the cases envisaged by the 2020 Remuneration Policies and by any exit agreements, and ex post correction mechanisms, intended, among other things, to reflect corporate performance levels once the risks actually taken have been accounted for, and to take into consideration individual behaviours, as well as the Bank's equity and liquidity levels.

The management of any exceptions to the above lies with the relevant corporate bodies, according to the respective powers of the Board of Directors, the Remuneration Committee and the CEO, in accordance with the provisions set out in the 2020 Remuneration Policies. They are subject to any decisions made by a competent third party (such as a legal authority and/or arbitration board).

5. Characteristics of the assigned instruments

As noted, the Plan only provides for allocation of Performance Shares, which may be converted into cash based on the market value trend of the Bank's shares, assigned to the Beneficiary. No credit instruments will therefore be given.

Note that the reference date to calculate the number of said synthetic instruments to assign to each Beneficiary - determined based on the arithmetic mean of prices recorded in the last month according to the TUIR - will be that of subscription (the so-called "protected date") of the Severance agreements or the date specified in the associated Individual Communications.

6. Funding

The maximum value of the variable remuneration to pay in the form of Performance Shares to which the Plan refers is **Euro 5.5 million**. This provision has been included in the financial plans approved by the Bank and communicated to the market.

7. Changes and amendments to the Plan

No specific procedures are envisaged for any changes to the Plan, apart from those related to the functions exercised by the corporate bodies.

In the case of extraordinary events (such as extraordinary transactions on the Bank's capital, legislative or regulatory amendments, guidelines by the regulatory entities and/or supervisory authorities or other events that could impact the shares or the Plan), the Board of Directors shall make, independently and without further approval from the Bank's Shareholders' Meeting, any changes and additions to the Plan as deemed necessary or appropriate to maintain the substantial and financial contents of the Plan unchanged, to the extent permitted by the legislation and provisions applicable at the time.

8. Accounting and tax aspects

The accounting standards provide that allocation of Performance Shares related to the variable remuneration of the personnel will be accounted for on the income statement as a cost in function of the services provided in the reference period (service condition). The cost is equal to the value of the payment at the time of allocation, adjusted for the probabilistic elements related to the Plan (actuarial parameters, etc.). In the event of complete implementation of the Plan, the cost of the variable remuneration in Performance Shares, as noted above, is estimated as a maximum amount of approximately **Euro 5.5 million**. This cost does not take account of the share volatility during the holding period[8], and must be allocated over the entire vesting period[9] that is expected to close upon activation of the Plan, once the necessary conditions have been met (it being understood that payment of the deferred amounts will be subject to the conditions provided for, inter alia, under point 4) above. The Performance Shares will be subject to taxation and social security contributions in accordance with prevailing law in the country of tax residence of each Beneficiary. For better Plan structuring, it is also envisaged that the CEO be specifically vested with the authority to devise an appropriate "hedging" strategy to protect the Group against the risk of volatility of the shares used as fundamental parameter for payment of the sums in the cases provided for by the Plan. The estimated annual cost of such hedging strategy will total approximately 6% per year of the value of the Performance Shares.

9. Other information

The Plan does not receive any support from the Special Fund for the promotion of employees' profit sharing, referred to in article 4, paragraph 112 of Law no. 350 of 24 December 2003.

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Dear Shareholders, We invite you to approve this proposal put on the agenda as item 3), and therefore make the following resolution:

"The Ordinary Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A., having heard the motion by the Board of Directors,

RESOLVES

1) to authorize the Plan for the use of Performance Shares for the payment, in 2020, of any Severance amounts to "Identified Staff" of the Montepaschi Group, who are beneficiaries of the Plan, in accordance with current legislation, in the event that, based on a mutual agreement for the early termination of employment or termination of office, amounts have been agreed and a portion of the same is to be allocated, in accordance with current legislation, in the form of financial instruments, under the terms and procedures described above, as well as contained in the information document provided to Shareholders pursuant to article 84-bis of the Issuers' Regulation;

[8] Period for which the financial instruments are held.

[9] Vesting period, namely the period within which all of the vesting conditions must be met (service conditions or conditions of reaching results) specified in the related share-based payment agreement.

2) to vest the Board of Directors, Chairperson of the Board of Directors and the CEO, separately from each other, with express authority to sub-delegate, all the broadest powers required or useful:

a) to implement this resolution and provide information to the market, prepare and/or finalise and sign any document necessary or useful to implement the aforementioned Plan, and adopt any further measure that is necessary, or simply useful, for the implementation of the resolution, also with reference to Identified Staff of the Group companies, providing them with indications in this regard so that they can adopt the necessary and appropriate decisions in order to fully implement this resolution, as well as carrying out any regulatory activity, also at the request of the supervisory authorities;

b) to make any change and/or addition to this resolution and to the aforementioned documents that constitute an integral part hereof (without altering their substance), as necessary or appropriate to adjust them to any new intervening legal provisions, regulations, corporate governance codes or guidelines of regulatory agencies and/or supervisory authorities."

Siena, 25 February 2020

On behalf of the Board of Directors
Stefania Bariatti
Chairperson of the Board of Directors