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

EXTRAORDINARY SHAREHOLDERS' MEETING

15 September 2022 (on a single call)

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS

**CONCERNING ITEM 1) ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS'
MEETING**

drafted pursuant to article 125-*ter* of D. Lgs. no. 58 dated 24 February 1998 as subsequently amended (“**TUF**” or “**Consolidated Financial Act**”) and pursuant to article 74 of Consob Regulation adopted with Resolution no. 11971 dated 14 May 1999, as subsequently amended (“**Issuers’ Regulation**”).

**MEASURES PURSUANT TO ART. 2446 OF THE ITALIAN CIVIL CODE; RELATED AND
CONSEQUENT RESOLUTIONS.**



BOARD OF DIRECTORS' REPORT DRAFTED PURSUANT TO ART. 125-*TER* OF THE TUF AND ART. 74 OF ISSUERS' REGULATION

Dear Shareholders,

the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. (hereinafter, the “**Bank**” or the “**Company**” or “**BMPS**”) has called an Extraordinary Shareholders' Meeting in Siena on 15 September 2022 at 2.30 p.m., on a single call, to discuss and resolve, *inter alia*, upon the following item **no. 1** on the Agenda:

“Measures pursuant to art. 2446 of the Italian Civil Code; related and consequent resolutions.”

This Report by the Board of Directors (the “**Report**”) is prepared pursuant to article 2446 of the Italian Civil Code, in conjunction with article 125-*ter* of the Legislative Decree no. 58/1998 (“**TUF**” or “**Consolidated Financial Act**”) and article 74 of Issuers' Regulation, in accordance with the indications set out in Appendix 3A), Scheme 5, to the aforementioned Issuers' Regulation.

Shareholders are preliminarily reminded that:

- on 6 April 2021, the Shareholders' Meeting resolved, *inter alia*, “in accordance with the provisions of Article 6 of Decree Law no 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended by Law no. 178 of 30 December 2020, to postpone the decisions pursuant to Article 2446, paragraph 2 of the Italian Civil Code - regarding the reduction of the share capital - to the Shareholders' Meeting that will be convened to resolve upon the capital strengthening measures, in order to take into account the past losses and the loss for the year and, therefore, to carry forward the yearly loss amounting to 1,882,682,981 euros”;
- on 12 April 2022, the Shareholders' Meeting resolved, *inter alia*, “in accordance with the provisions of Article 6 of Decree Law no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended by Law no. 178 of 30 December 2020, to postpone the decisions referred to in Article 2446 paragraph 2 of the Civil Code - with reference to the coverage of the loss for the 2020 financial year - to the Shareholders' Meeting that will be called to resolve the Bank's capital strengthening measures”;
- the Consolidated Financial Statements as at 30 June 2022, approved by the Board of Directors on 4 August 2022, reported a profit equal to Euro 27.2 million.
- the Financial Statements of the Bank as at 30 June 2022, approved by the Board of Directors on 4 August 2022, reported a profit equal to Euro 97 million.

In light of the circumstance that the Extraordinary Shareholders' Meeting is also called to resolve upon the subsequent item 3 of the agenda to strengthen the Bank's capital by means of a capital increase against payment for a total maximum amount of EUR 2,500,000,000.00, to be carried out in divisible form, through the issue of ordinary shares with regular dividend entitlement to be offered to the Company's Shareholders, pursuant to article 2441 of the Italian civil code (the “**Capital Increase**”), taking into account the half-yearly report of the Bank as at 30 June 2022 approved by the Board of Directors on 4 August 2022 (the “**Half-Yearly Report**”), the purpose of this Report is to outlay the proposal that the Board of Directors is making to the Shareholders' Meeting in relation to the loss in fiscal year 2020, which, added to those of previous years, has decreased BMPS's share capital by more than one-third.

The Report, together with the observations of the Board of Statutory Auditors, to be prepared pursuant to article 2446 of the Italian Civil Code, will be provided to CONSOB and made available to the public at the Company's registered office, on its website at www.gruppompis.it, as well as on the authorized storage mechanism “EMARKET STORAGE”, available at the website www.emarketstorage.com within the terms provided by the law.



1. Certain considerations on the results for the year 2020.

For more information about the results for the year ended at 31 December 2020, in which BMPS reported a loss of Euro 1,882,682,981, please refer to the explanatory report of the Board of Directors prepared pursuant to article 125-ter of the TUF and article 74 of the Issuers' Regulations for the Shareholders' Meeting of 6 April 2021, published on the Company's website on 16 March 2021 and available at <https://www.gruppomps.it/corporate-governance/assemblea-azionisti/archivio-assemblee-year-2021.html>.

2. Considerations on the results as at 30 June 2022: Balance Sheet, Income Statement and Net Financial Position of the Bank as at 30 June 2022

As at 30 June 2022 the Bank recorded a profit of Euro 97 million.

At a consolidated level, also as at 30 June 2022, the Montepaschi Group (hereinafter also the “**Group**”) reported a profit of Euro 27.2 million.

Without prejudice to the fact that for more information on the Bank and the Group, you are kindly invited to refer, respectively, to the Bank's Half-Yearly Report as at 30 June 2022 and the Consolidated Half-Yearly Report as at 30 June 2022, both available at www.gruppomps.it, Investor Relations - Financial Results section, please find below the Bank's reclassified income statement (in Euro/million) as at 30 June 2022 and some additional information on the Bank's economics and financial situation as at 30 June 2022.



Reclassified Income Statement				
MONTE DEI PASCHI DI SIENA BANK	30 06 2022	30 06 2021	Change	
			Abs.	%
Net interest income	532,9	477,4	55,5	11,6%
Net fee and commission income	693,2	711,8	(18,6)	-2,6%
Income from banking activities	1.226,1	1.189,2	36,9	3,1%
Dividends, similar income and gains (losses) on investments	120,1	47,6	72,5	n.s.
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	84,5	155,4	(70,9)	-45,6%
Net profit (loss) from hedging	7,6	1,6	6,0	n.s.
Other operating income (expenses)	24,9	(5,0)	30,0	n.s.
Total Revenues	1.463,2	1.388,7	74,5	5,4%
Administrative expenses:	(948,2)	(955,8)	7,6	-0,8%
a) personnel expenses	(656,7)	(662,7)	6,0	-0,9%
b) other administrative expenses	(291,6)	(293,1)	1,6	-0,5%
Net value adjustments to property, plant and equipment and intangible assets	(34,9)	(39,8)	4,9	-12,3%
Operating expenses	(983,1)	(995,6)	12,5	-1,3%
Pre-Provision Operating Profit	480,1	393,2	87,0	22,1%
Cost of customer credit	(195,5)	(156,1)	(39,4)	25,2%
Net impairment (losses)/reversals on securities and loans to banks	1,5	(0,4)	1,9	n.s.
Net operating income	286,2	236,7	49,5	20,9%
Net provisions for risks and charges	(79,4)	(52,9)	(26,5)	50,1%
Other gains (losses) on equity investments	0,7	(3,1)	3,8	n.s.
Restructuring costs / One-off costs	(3,0)	(3,5)	0,4	-12,5%
Risks and charges associated to the SRF, DGS and similar schemes	(69,5)	(71,4)	1,9	-2,7%
DTA Fee	(26,8)	(27,1)	0,2	-0,9%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(9,4)	(26,0)	16,6	-63,8%
Gains (losses) on disposal of investments	0,3	11,0	(10,7)	-97,3%
Profit (Loss) for the period before tax	99,0	63,7	35,2	55,3%
Tax (expense)/recovery on income from continuing operations	(0,5)	67,4	(67,9)	n.s.
Profit (Loss) after tax	98,5	131,1	(32,6)	-24,9%
Profit (loss) for the period before PPA	98,5	131,1	(32,6)	-24,9%
PPA (Purchase Price Allocation)	(1,5)	(1,8)	0,3	-17,2%
Net profit (loss) for the period	97,0	129,3	(32,3)	-25,0%

As at 30 June 2022, the Bank had total Revenues of Euro 1,463 million, up 5.4% compared to the same period of the previous year.

This trend is mainly attributable to the growth in Net interest income (+Euro 56 million) and Other operating income/expenses (+Euro 30 million). Net fee and commission income, on the other hand, were down (–Euro 19 million).

Net interest income as at 30 June 2022 was Euro 533 million, up 11.6% compared to the same period of 2021. The growth was primarily driven by: (i) the increased contribution of the commercial segment, thanks to the lower cost of funding that more than offset the lower interest on loans; (ii) the positive effects related to access to TLTRO III auctions; (iii) the lower cost incurred for liquidity deposited at central banks, following the reduction



in the relative volumes; and (iv) the lower cost of market funding which benefitted from the maturity of some securities. It should be noted that the positive effects linked to access to TLTRO III auctions referring to the first half of 2022 amounted to Euro 145 million (Euro 128 million in the first half of 2021) and the cost of liquidity deposited with central banks amounted to Euro 48 million (Euro 52 million in the first half of 2021).

Net fee and commission income as at 30 June 2022, amounting to Euro 693 million, declined compared to the same period of the previous year (-2.6%). The decrease is attributable to lower income on asset management (-8.2%), mainly due to lower commissions on product placement. Income on protection and securities service also fell, while *continuing* commissions increased. Fee and commission income from traditional banking services (+Euro 11 million) recovered compared to the same period of the previous year.

Dividends, similar income, and gains (losses) on investments, amounted to Euro 120 million, up Euro 73 million compared to 30 June 2021, mainly due to higher income collected in insurance equity investments in AXA associates.

Net profit (loss) from trading, the *fair value* measurements of assets/liabilities, and Net gains (losses) on disposals/repurchases as at 30 June 2022 amounted to Euro 84 million, down compared to the values recorded in the same period of the previous year (amounting to Euro 155 million), mainly due to lower gains on the disposal of securities. An analysis of the main aggregates shows the following:

- Net profit (loss) from *trading* equal to +Euro 6 million, a decrease of Euro 9 million compared to 30 June 2021 due to the reduction in value of derivatives hedging the bond liabilities at *fair value option*. This reduction in value is offset by the benefit generated by the reduction in the value of the corresponding hedged bond liabilities and recorded under the item “Net results of other assets/liabilities measured at fair value through profit or loss”;
- Net results of other assets/liabilities measured at fair value through profit or loss equal to Euro 34 million, up compared to the previous year (amounting to +Euro 13 million) thanks to the capital gains recorded in particular on UCITs and the benefit generated by the reduction in the value of bond liabilities, which, as mentioned above, offsets the reduction in value recorded by the corresponding hedging derivatives and recognised in the item Net profit (loss) from *trading*;
- Net gains (losses) from disposals/repurchases (excluding customer loans at amortised cost) positive Euro 44 million, a decrease of Euro 83 million attributable to lower income on the disposal of securities.

The following items are also included in Revenues:

- Net profit (loss) from hedging positive for +Euro 8 million, up compared to 30 June 2021 (+Euro 2 million);
- Other operating income/expenses for a positive Euro 25 million, improved compared to the result recorded in the first half of 2021 (amounting to –Euro 5 million).

As at 30 June 2022, Operating Expenses amounted to Euro 983 million, down by 1.3% from 30 June 2021. A detailed examination of the individual aggregates reveals the following:

- Administrative Expenses stood at Euro 948 million, down about Euro 8 million from the same period of the previous year. A breakdown of the aggregate shows:
 - Personnel Expenses, which amounted to Euro 657 million, decreased by 0.9% compared to 30 June 2021, benefiting from the declining dynamics in the workforce;
 - Other Administrative Expenses, which amounted to Euro 292 million, were slightly down compared to the same period of the previous year (-0.5%);



- Net value adjustments to property plant and equipment and intangible assets as at 30 June 2022 amounted to Euro 35 million and were down from the same period of previous year (-12.3%).

As a result of the dynamics described above, the Bank's Pre-provision operating profit totalled Euro 480 million (Euro 393 million as at 30 June 2021).

As at 30 June 2022, the Bank recognised a Cost of Customer Credit equal to –Euro 195 million, an increase compared to the Euro 156 million recorded in the same period of the previous year mainly due to adjustments related to the sale of non-performing loans and, therefore, the use of sales scenarios in the estimation models.

As at 30 June 2022, the ratio between the Cost of Customer Credit and the sum of Customer Loans and the value of securities deriving from the sale/securitization of non-performing loans results in a Provisioning Rate of 61 bps (36 bps as at 31 December 2021).

The Bank's Net Operating Income as at 30 June 2022 was positive at about Euro 286 million, against a positive value of Euro 237 million reported in the same period of the previous year.

The following items also contribute to the formation of the Net profit for the period:

- Net provisions for risks and charges equal to –Euro 79 million, worsened compared to the same period of the previous year (amounting to –Euro 53 million) mainly due to provisions for legal risks. The aggregate also include reversal of provision due to the increase in discounting effect as a result of the interest rate dynamics recorded in the first half of the year, and reversals of provisions due to the improvements in the risk profile of certain liabilities;
- Other Gains (losses) from equity investments amounted to around +Euro 1 million, against a loss of Euro 3 million as at 30 June 2021;
- Restructuring costs/One-off costs, equal to –Euro 3 million, essentially stable compared to the same period of the previous year;
- Risks and charges associated with SRF, DGS and similar schemes, amounting to –Euro 70 million comprised of the contribution due from the Bank to the Single Resolution Fund (SRF), accounted for in the first quarter of 2022, compared to the balance of –Euro 71 million recorded in the same period of the previous year;
- DTA fee, amounting to –Euro 27 million. This amount, determined according to the criteria set forth in Decree Law 59/2016 converted into Law no. 119 of 30 June 2016, represents the fee as at 30 June 2022 on DTAs (*Deferred Tax Assets*) that can be converted into tax credits, after the shares recovered from the subsidiaries (amounting to –Euro 31 million and Euro 5 million, respectively);
- Net gains (losses) on property, plant and equipment and intangible assets measured at fair value, equal to –Euro 9.4 million as at 30 June 2022, fully recorded in the second quarter of 2022. As at 30 June 2021, the aggregate was negative for Euro 26 million;
- Gains on disposal of investments essentially zero. As at 30 June 2021, the aggregate was positive for Euro 11 million following the sale of the properties.

As a result of the above dynamics, the Bank's Profit before tax for the period was equal to Euro 99 million, compared a profit of Euro 64 million recorded as at 30 June 2021.

Tax expense (recovery) on income tax from continuing operations provided a negative contribution of Euro 1 million (+Euro 67 million as at 30 June 2021).



It should be noted that in the valuation of DTAs, the estimated taxable income for future years was determined based on the basis of the income projections used for the 2021 Financial Statements, with the exception of the expected result for 2022, which was updated as a result of the performance of the first half of the year.

Considering the net effects of PPA (–Euro 1.5 million), the Bank's Net profit (loss) for the period was equal to Euro 97 million, against a profit of Euro 129 million achieved in the first half of 2021.

For the Bank's balance sheet and P&L aggregates, in addition to the above, please refer to the Bank's Half-Yearly Report as at 30 June 2022.

For more information on the financial position, in referring to the Consolidated Half-Yearly Report as at 30 June 2022, it should be noted that the Bank, given the solid liquidity position established in previous years and the good level at which its indicators stand, estimates that it can maintain its higher *targets*, with an adequate *buffer*, compared to the minimum threshold. As at 30 June 2022 on a consolidated basis, the LCR is 179.9%, the NSFR is 137 %, and the operating liquidity position has a level of uncommitted *Counterbalancing Capacity* of approximately Euro 26.7 billion.

3. Proposals regarding the measures to cover losses

The Board of Directors, taking into account that the Bank since the year 2020, as a result of the loss of the year 2020, is in the situation provided by article 2446, paragraph 1, of the Italian Civil Code, as the share capital (the “**Share Capital**”), as at 30 June 2022, is decreased from Euro 9,195,012,196.85 to Euro 4,954,119.492.44 and thus by more than one third, also considering the half-yearly result recorded by the Company, submits to the Extraordinary Shareholders' Meeting the proposal to proceed to cover the losses for a total of Euro 4,664,617,752.70, reduced to Euro 4,240,892,704.41 against the use of available reserves, for a total of Euro 326,759,888.33 and of the profit for the period for Euro 96,965,159.96, by reducing the Share Capital from Euro 9,195,012,196.85 to Euro 4,954,119,492.44. Since the Company's shares have no par value, the reduction will be carried out without cancellation, but by way of reducing the so-called implied par value of each share in accounting terms.

4. Initiatives that the Bank intends to undertake to ensure management recovery and to maintain going concern

4.1 Ongoing initiatives to ensure management recovery

As anticipated, the Extraordinary Shareholders' Meeting is called to resolve on item 3 of the agenda on the Capital Increase, aimed at rebalancing the Company's and the Group's financial equilibrium and strengthening its capital structure in order to have additional financial means to cover the capital and financial needs related to the full implementation of the Group's 2022-2026 industrial plan approved by the Board of Directors on 22 June 2022 (the “**Industrial Plan**” or the “**Plan**”). For further information on the Capital Increase and the Industrial Plan, please see, respectively, the relevant explanatory report by the Board of Directors prepared pursuant to article 125-*ter* of the TUF and pursuant to article 72 of the Issuers' Regulations, published on the Company's *website* at the same time as this Report and available at www.gruppompis.it Corporate Governance - Shareholders' Meetings and Board of Directors section, and to the press release published by the Bank on 23 June 2022.

4.2 Going Concern



Based on the current capital position, over a 12-month horizon from 30 June 2022, i.e. to 30 June 2023, taking into account the planned capital reduction related to the IFRS9 phase-in and the inflationary effects on risk-weighted assets related to the evolutions on credit risk measurement models as a result of the EBA Guidelines, on the consolidated Tier 1 capital aggregate it is estimated that a shortfall of approximately Euro 500 million could emerge. On the other hand, as at 31 December 2022, i.e. before the IFRS9 phase-in effect, the shortfall could be about Euro 50 million.

This estimate is conducted under the assumption of confirmation of the current business/operating model, not considering the effects of the Capital Increase and related initiatives (e.g. personnel early retirement schemes).

In order to address the prospective capital shortfalls, which also emerged in the adverse scenario of the EBA 2021 stress tests, as reported above, the Extraordinary Shareholders' Meeting is called to resolve - on item 3 of the agenda - on the Capital Increase.

Taking into account the Capital Increase, the Plan envisions on a consolidated basis a *fully loaded* CET1 of 14.2% to 2024 and 15.4% to 2026, with significant *buffers* against regulatory requirements.

5. Main items of the debt restructuring plan and foreseeable effects on the Company's operating performance resulting from its implementation

The Company has not resolved nor is in the process of resolving any debt restructuring plans.

6. Amendments to the By-Laws and right of withdrawal

If the proposal to reduce the share capital due to losses in accordance with Article 2446 of the Italian Civil Code referred to in this Report is approved, it will be necessary to amend and supplement Article 6 of the By-Laws in the following terms.

Actual text of the By-Laws	Proposed amendments
The Company's share capital amounts to EUR 9,195,012,196.85 (nine billion, one hundred ninety-five million, twelve thousand, one hundred ninety-six and eighty-five cents) and is fully paid up.	The Company's share capital amounts to Euro 4,954,119,492.44 (four billion, nine hundred fifty-four million, one hundred nineteen thousand, four hundred ninety-two and forty-four cents) and is fully paid up.
The Company's share capital is represented by no. 1,002,405,887 (one billion, two million, four hundred five thousand, eight hundred eighty-seven) ordinary shares with no par value. All shares are issued in dematerialised form. Procedures for the circulation and legitimation of shares are governed by law. Shareholders who did not participate in the approval of resolutions regarding the introduction or removal of constraints on the circulation of shares shall have no right of withdrawal.	(Unchanged)



Shares are registered and indivisible. Each share entitles the holder to a vote.	(Unchanged)
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The above outlined amendments to the By-Laws do not entitle the shareholders who will not have participated in the resolutions covered by this Report to any right of withdrawal.

The proposed amendments to the By-Laws are subject to the approval by the competent authorities in accordance with applicable laws and regulations.

Resolution proposal

Dear Shareholders, we invite you to adopt the following resolution:

“The Extraordinary Shareholders’ Meeting of Banca Monte dei Paschi di Siena S.p.A.,

- *having agreed with the contents and arguments of the Report by the Board of Directors Board, acknowledged the contents of the Observations of the Board of Statutory Auditors prepared pursuant to Article 2446 of the Italian Civil Code;*
- *considering that the Bank since the year 2020, as a result of the loss in the year 2020, is in the situation provided for in Article 2446 paragraph 1 of the Italian Civil Code, as the share capital is decreased by more than one third;*
- *considering that on 6 April 2021 and 12 April 2022, the Shareholders’ Meeting resolved, in compliance with article 6 of Law Decree 8 April 2020 no. 23, converted into law with amendments by Law 5 June 2020 no. 40, as amended by Law 30 December 2020 no. 178, to refer to the Shareholders’ Meeting, which will be called to resolve on capital strengthening measures, the decisions referred to in Article 2446, paragraph 2, of the Italian Civil Code, relating to the reduction of the share capital, and therefore to carry forward the loss for the year 2020;*
- *taking into account that the Bank’s Half-Yearly Report as at 30 June 2022 records a profit of Euro 96,965,159.96;*
- *taking into account the circumstance that the Shareholders’ Meeting called for 15 September 2022 is called to resolve, inter alia, the strengthening of the Bank’s capital by means of a paid capital increase for a maximum total amount of Euro 2,500,000,000.00;*

RESOLVES

1. *to approve the Bank’s Half-Yearly Report as at 30 June 2022, which records a profit of Euro 96,965,159.96;*
2. *to allocate the profit for the period of Euro 96,965,159.96 to cover the comprehensive loss as at 30 June 2022;*
3. *to approve the coverage of the total loss of Euro 4,664,617,752.70 reduced to Euro 4,240,892,704.41 as a result of the profit for the period of Euro 96,965,159.96 and the use of available reserves, equal to Euro 326,759,888.33, by means of the reduction by a corresponding amount of the share capital, which therefore stands at Euro 4,954,119.492.44, with no cancellation of shares, since they have no express par value, thus reducing the so-called implied par value of each share in accounting terms, defined as the quotient obtained by dividing the share capital amount by the number of shares, the latter number remaining unchanged, consequently amending the first paragraph of Article 6 of the By-Laws as follows;*
4. *to approve the consequent amendments to Article 6 of the By-Laws in the wording quoted below:*

“Article 6:



1. *The Company's share capital amounts to Euro 4,954,119,492.44 (four billion, nine hundred fifty-four million, one hundred nineteen thousand, four hundred ninety-two and forty-four cents) and is fully paid up.*
2. *Unchanged.*
3. *Unchanged."*
5. *to grant the pro-tempore Chairperson of the Board of Directors and the pro-tempore Chief Executive Officer, also acting severally, the power to sub-delegate, within the limits of law, with the widest possible powers to do anything deemed necessary or even merely useful to carry out, fully and in each single part, the resolutions passed, and carry out all the necessary formalities to ensure that all the resolutions adopted today obtain legal approval and do anything that is deemed fit for the complete implementation of said resolutions, with any and all powers required for that purpose, with no exception, including the power to add in the resolution itself and in compliance with its substance, all the amendments, additions and cancellations deemed necessary or even merely useful or possibly requested by the competent authorities when granting authorization and registration."*

Siena, 12 August 2022

On behalf of the Board of Directors
Patrizia Grieco
Chairperson of the Board of Directors

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

OBSERVATIONS OF THE BOARD OF STATUTORY AUDITORS ON THE EXPLANATORY REPORT OF THE BOARD OF DIRECTORS ON ITEM NO. 1 ON THE AGENDA OF THE EXTRAORDINARY SHAREHOLDERS' MEETING CALLED FOR SEPTEMBER 15, 2022 CONCERNING "MEASURES PURSUANT TO ARTICLE 2446, PARAGRAPH 1, OF THE CIVIL CODE; RELATED AND SUBSEQUENT RESOLUTIONS."

Dear Shareholders,

preliminarily recalled that:

- on April 6, 2021, the Shareholders' Meeting, in response to the proposal of the Board of Directors accompanied by the Observations of this Board of Statutory Auditors issued pursuant to Article 2446 paragraph 1 of the Civil Code, resolved, *inter alia*, "in accordance with the provisions of Article 6 of Decree Law 8 April 2020 no. 23, converted with amendments by Law 5 June 2020 no. 40, as amended by Law 30 December 2020 no. 178, to postpone the decisions pursuant to Article 2446, paragraph 2 of the Italian Civil Code - regarding the reduction of the share capital - to the Shareholders' Meeting that will be convened to resolve upon the capital strengthening measures, in order to take into account the past losses and the loss for the year and, therefore, to carry forward the yearly loss amounting to 1,882,682,981 euros."
- on April 12, 2022, the Shareholders' Meeting resolved, *inter alia*, "in accordance with the provisions of Article 6 of Decree Law no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended by Law no. 178 of 30 December 2020, to postpone the decisions referred to in Article 2446 paragraph 2 of the Civil Code - with reference to the coverage of the loss for the 2020 financial year - to the Shareholders' Meeting that will be called to resolve the Bank's capital strengthening measures."

WHEREAS:

- the Board of Directors, pursuant to Article 2446, paragraph 1, of the Civil Code, by a resolution dated 4.8.22, called the Shareholders' Meeting for September 15, 2022, so that the meeting, among other things, can take appropriate measures as a result of the establishment of losses of more than one-third of the share capital;
- the Directors, at the same meeting held on 4.8.22, approved the Consolidated Half-Year Financial Report as of June 30, 2022, which shows a profit of € 27.2 million and the Bank's Half-Year Financial Report as of June 30, 2022, which shows a profit of € 97 million; the latter Report, so approved, has been taken as a reference by the Directors for the purpose of illustrating the Bank's Balance Sheet, Income Statement and Net Financial Position as required by Annex 3, Schedule 5 of the Regulations adopted by Consob Resolution No. 11971 of May 14, 1999, as subsequently amended (Issuers' Regulations);
- In the same meeting of 4.8.22, the Board of Directors approved the Explanatory Report on item No. 1 on the agenda of the Extraordinary Shareholders' Meeting called for next September 15, prepared in accordance with Article 125-ter of Legislative Decree No. 58 of February 24, 1998, as subsequently supplemented and amended (TUF) and pursuant to Article 74 of the Issuers' Regulations;

- this Report contains the proposal that is made to the Shareholders' Meeting in relation to the provisions of Article 2446 of the Civil Code, namely:

"

1. *To approve the Bank's Half-Yearly Financial Report as of June 30, 2022, which shows a profit for the period of 96,965,159.96 euros;*
2. *To allocate the profit for the period of 96,965,159.96 euros to cover the comprehensive loss as of June 30, 2022;*
3. *to approve the coverage of the overall loss of 4,664,617,752.70 Euros reduced to 4,240,892,704.41 Euros as a result of the profit for the period of 96,965,159.96 Euros and the use of available reserves, totalling 326,759,888.33 Euros, by means of the reduction by a corresponding amount of the share capital, which thus stands at 4,954,119,492.44 Euros, without cancellation of shares, since they have no express par value, with the effect of reducing the so-called implied accounting parity of each share, considered as the quotient resulting from the division of the amount of the share capital by the number of shares, the latter number remaining unchanged, consequently modifying the first paragraph of Article 6 of the Bylaws... omissis..."*

All this in light of the circumstance that the same Shareholders' Meeting convened for September 15 is also called to resolve, under item 3 on the agenda below, to strengthen the Bank's capital by means of a capital increase for a total maximum amount of € 2.5 billion to be carried out in a divisible way through the issue of ordinary shares with regular dividend entitlement to be offered to the company's shareholders, pursuant to article 2441 of the Italian Civil Code;

- the Board of Statutory Auditors has received from the Board of Directors copies of the documents referred to in the preceding points, which, together with the Observations of this Board, will be made available to the Shareholders.

That being said and premised, the Auditors acknowledge the following:

- a) these Observations referring to the Half-Year Report of Banca Monte dei Paschi di Siena as of 6/30/22 also take into account for a more complete examination certain aspects set forth in the Consolidated Half-Year Report;
- b) That we have reviewed the Half-Yearly Financial Report of the Bank as of June 30, 2022 approved by the Board of Directors on August 4, 2022. Although the Board of Statutory Auditors has not been entrusted with the task of legally auditing the accounts, this Board has supervised the approach given to the same, its general compliance with the law, with regard to its formation and structure and, in this regard, has no observations to report; in particular, including in the frequent interlocutions that took place with the Directors, the Chief Executive Officer, the Executive in Charge and the auditing firm PricewaterhouseCoopers (PwC), the Statutory Auditors oversaw that the entire process followed was implemented in compliance with the law and regulations, finding no inconsistencies between the information received with the information provided in the Half-Year Report; also relevant in this regard are the attestations issued by the Chief Executive Officer and the Financial Reporting Officer attached to the Bank's Half-Yearly Financial Statements and the Consolidated Half-Yearly Financial Statements as of 30.6.22;
- c) The Half-Yearly Financial Report of Banca Monte dei Paschi di Siena as of June 30, 2022 includes the Interim Report on Operations and the Half-Yearly Condensed Financial Statements and has been prepared in accordance with the IAS/IFRS issued by the *International Accounting Standards Board* (IASB), as well as the related interpretations of the IFRS Interpretations *Committee* (IFRIC), endorsed by the European Commission and in force as of June 30, 2022, as established by EU Regulation No. 1606 of July 19, 2002;

- d) the Condensed Semi-Annual Financial Statements are prepared in summary form and in application of the provisions of IAS 34 "Interim Financial Reporting," in connection with the preparation of the Explanatory Report prepared in accordance with Article 2446 of the Civil Code, taking into account that the Shareholders' Meeting, called to resolve on measures to strengthen the Bank's capital, will take decisions on the appropriate measures pursuant to the said article with regard to the past losses that have reduced the Bank's share capital by more than one third;
- e) The provisions of Bank of Italy Circular No. 262 of December 22, 2005 "Bank Financial Statements: formats and rules for preparation" and subsequent updates (most recently the 7th update published on October 29, 2021) have been applied to prepare the formats of the Condensed Half-Year Financial Statements;
- f) the accounting principles adopted for the preparation of the Condensed Semi-Annual Financial Statements, with reference to the stages of classification, recognition, measurement, and derecognition of the various asset and liability items, as well as for the methods of recognizing revenues and costs, are unchanged from those applied to the Financial Statements as of December 31, 2021, to which the Semi-Annual Report refers for further details;
- g) to have conducted frequent meetings with the auditing firm PwC aimed at sharing the audit procedures adopted in the preparation of the Half-Year Report as of June 30, 2022 and exchanging information about the outcomes of those procedures and more generally about the adequacy of the administrative accounting system present in the Bank. In the course of this activity, no fact deemed reprehensible has been reported;
- h) PricewaterhouseCoopers Spa, on 11.8.22, transmitted the Limited Audit Reports on the Condensed half-yearly and consolidated financial statements in which, in sum, PwC, while not expressing an opinion on the two financial statements, attests that, on the basis of the limited audit carried out, no evidence has come to its attention that would suggest that the financial statements as of June 30, 2022 have not been prepared, in all material respects, in accordance with the applicable international accounting standard for interim financial reporting (IAS 34) as adopted by the European Union.
PwC therefore, in its report, expresses an unqualified and with no exceptions opinion while drawing attention to what the Directors described in the "Going Concern" section of the Notes to the Financial Statements with reference to the significant uncertainty related to the Bank's going concern.

Regarding the content of the Report prepared by the Directors, the Board notes the following:

- a) regarding the nature and causes of the losses, the Report prepared pursuant to Article 2446 of the Civil Code Condensed makes reference, with particular regard to the loss carried forward as of December 31, 2020 of € 1,882,682,981, to what was indicated in the Explanatory Report prepared for the Shareholders' Meeting of April 6, 2021. Reference is also made here to what this Board of Statutory Auditors reported in the Observations issued pursuant to Article 2446, paragraph 1, at that Shareholders' Meeting;
- b) the aforementioned Report contains the proposals regarding the measures to be taken to cover losses and taking into account that the Bank since the year 2020, as a result of the loss of the year 2020, is in the situation provided for in Article 2446 paragraph 1 of the Civil Code, as the share capital, as of June 30, 2022, has decreased from € 9.195,012,196.85 to € 4,954,119,492.44 and thus by more than a third, also considering the last consolidated infra-annual result recorded by the Company, submits to the Extraordinary Shareholders' Meeting the proposal to proceed to cover the losses for a total of € 4,664,617,752.70, reduced to € 4,240,892,704.41 against the use of the available reserves, totalling

€ 326,759,888.33, and the profit for the period of € 96,965,159.96, by reducing the Share Capital from € 9,195,012,196.85 to € 4,954,119,492.44; the capital thus reduced will be subsequently increased by means of the Capital Increase transaction (the subject of a subsequent item on the agenda of the Extraordinary Shareholders' Meeting), aimed at rebalancing the Company's and the Group's financial equilibrium and strengthening the capital structure in order to have additional financial means to cover the capital and financial requirements associated with the full implementation of the Group's Strategic Plan 2022-2026;

- c) the same Report, to which we refer for more details on the main elements of the plan, highlights in particular the initiatives that the Bank intends to take for the recovery of management and for the maintenance of the going concern highlighting in particular that the Board of Directors approved on 22.6.22 the Strategic Plan, which is built on three pillars: (i) *business* model with sustainable profitability through optimization of the organizational structure together with the revitalization of the commercial platform; (ii) solid and resilient balance sheet with significant strengthening of the Bank's capital position following the completion of the capital increase transaction for € 2.5; (iii) management of the Bank's *legacy* with fact-based approach and the experience gained in managing extraordinary legal risks. The implementation of this Plan is based on the completion of the capital increase operation for which the Ministry of Economy and Finance (MEF) has assured its support for its share, at market conditions, in compliance with national and European regulations and any requirements that may be established by the Supervisory Authorities. In implementation of the Plan, the Bank has already taken steps to establish three new Commercial Departments: (Retail, Corporate and Private, Large Corporate & Investment Banking) and a Cost Governance structure; with a view to simplifying the Group's structure, it has also approved plans to merge the three subsidiaries: MPS Leasing & Factoring, MPS Capital Services and Group Operating Consortium into the same Parent Company.

A project concerning the non-recourse assignment of impaired loans for a total gross exposure of €0.9 billion was also initiated with the signing of the relevant assignment contracts and effectiveness deferred to a date falling in the fourth quarter of the year, in order to keep the influence of these loans below *targets* among the best ones in the market.

Lastly, the Bank has activated the procedure related to the Solidarity Fund with the aim of identifying shared solutions capable of protecting as much as possible the prerogatives of the employees involved in the exit manoeuvre and the organizational, employment and contractual prospects of the employees who will continue to work within the Bank and the Group.

- d) regarding the going concern assumption, considers to highlight below the main assessments made by the Directors on the permanence of this assumption, on which this Board has paid particular attention.

As of June 30, 2022, as in previous quarters, no *shortfall* against *overall capital requirements* has emerged. At the end of the 12-month horizon from the reference date, i.e., June 30, 2023, considering the planned capital reduction related to the IFRS9 *phase-in* and the inflationary effects on *risk-weighted assets* related to evolutions on credit risk measurement models as a result of the EBA Guidelines, a *shortfall* of about € 500 million could emerge on the Tier 1 capital aggregate. As of December 31, 2022, on the other hand, i.e., before the IFRS9 *phase-in* effect, the *shortfall* could be about € 50 million.

In order to address the prospective capital shortfalls, which also emerged in the adverse scenario of the EBA 2021 stress tests, a capital strengthening operation of € 2.5 billion through a capital increase at market conditions is planned; this operation is the basis of the 2022-2026 Business Plan approved by the Board of Directors on June 22. The need for

capital strengthening is significant and therefore results in potential uncertainty about the use of the going concern assumption. This uncertainty is mitigated by the full support of the controlling shareholder, which has confirmed its willingness, to "*support the capital initiatives that the Bank will undertake to strengthen capital within the framework of the Strategic Plan 2022-2026 (...), for its share at market conditions and within the framework of the requirements that may be established by the supervisory and control authorities.*"

In addition, the Bank has signed a *pre-underwriting* agreement for the Capital Increase concerning the commitment - subject to conditions in line with market practice for similar transactions, including, inter alia, the positive *feedback* from institutional investors in relation to the prospective capital increase transaction and the agreement on the final terms and conditions thereof - to sign an underwriting agreement (c.d. "*underwriting agreement*"), relating to the newly issued ordinary shares that may remain not underwritten at the end of the offer of the rights not exercised pursuant to Article 2441, paragraph 3, of the Civil Code. BofA Securities, Citigroup, Credit Suisse and Mediobanca - Banca di Credito Finanziario will act as Joint Global Coordinators. Banco Santander, Barclays Bank Ireland, Société Générale and Stifel Europe Bank have also joined as Joint Bookrunners, becoming part of the underwriting syndicate.

It also notes the press release dated August 2, 2022 in which the Ministry of Economy and Finance (MEF) reports that the European Commission has informed the same MEF that it has approved the revision of the "Commitments" that had been undertaken by the Republic of Italy in order to allow, in accordance with EU and Italian regulations, the precautionary recapitalization of the Bank. The Commitments were found to be consistent with the objectives of the Business Plan recently approved by the Bank.

In implementation of the provisions of this Plan, on August 4, 2022, the Bank announced that it had reached an agreement with the trade unions to manage 3,500 voluntary exits as of December 1, 2022 thanks to a redundancy program based on the various pension options already accrued and the activation of the Sector Solidarity Fund.

In the outlined context, it cannot be ruled out that unforeseeable circumstances and elements may emerge at this stage that could affect the authorization process (DG Comp and ECB) and thus the Bank's capital strengthening path; moreover, even in the presence of said authorizations, there is no guarantee on the occurrence of the market conditions in order that the capital increase can actually be started and fully subscribed. This context therefore poses, in principle, significant uncertainties.

Lastly, the Directors gave information on MREL capacity by reporting that, as of June 30, 2022, the Parent Company, on a consolidated basis, has a temporary *breach* attributable to the postponement to 2022 of the execution of the Capital Increase and the absence of *eligible* MREL issues during 2021 for which, again, the expected capital increase assumes particular relevance. In this regard, the Directors point out that the Group's *funding* strategies aim, among other things, to ensure - with regard to public bond issuance plans in particular - that MREL requirements are met. These strategies are defined in line with the Group's strategic plans and, in this sense, their operational declination will be fully defined pending the completion of the authorization processes of the Strategic Plan 2022-2026 that the Bank has initiated with the competent Authorities.

Based on these considerations, taking into account the interlocutions held so far with the Authorities, the Bank believes that the prospective capital *shortfall* can be overcome through the implementation of a capital strengthening operation, subject to the completion of the authorization processes of the relevant Authorities.

The totality of these assessments support the reasonable expectation of continuing to operate as a going concern in the foreseeable future and the use of the going concern assumption in preparing the financial statements. The disclosure, consistent with IASB Scenario 3, is provided in the Half-Year Report in the section "Going Concern".

* * *

In the broader context of the exercise of its supervisory and monitoring duties on the occasion of the Bank's drafting and approval of the half-yearly report as of 6/30/22, we examined the specific issue of going concern on which the Directors decided to conclude as noted above. What has been represented to this Board of Statutory Auditors on this issue, to the best of its knowledge and competence, finds consistent disclosure in the Financial Report. Finally, on this subject, we refer to the conclusions reached by the Auditing Company and reported in paragraph (h) above.

* * *

In conclusion, the Board of Statutory Auditors has no objection to the Board of Directors' proposal submitted to the Shareholders' Meeting for approval of the coverage of the total loss of € 4,664,617,752.70 reduced to € 4,240,892,704.41 as a result of the profit for the period of 96,965,159.96 Euros and the use of available reserves, totalling 326,759,888.33 Euros, by reducing the share capital by a corresponding amount, which thus stands at 4,954,119,492.44 Euros.

These Observations, together with the Directors' Report, will be filed, within the terms provided for in Article 125-ter paragraph 2 of the TUF, at the Registered Office and on the Company's website, as well as in the other ways provided for by Consob with Regulations, so that Shareholders may examine them.

for THE BOARD OF STATUTORY AUDITORS
The Chairman
(Enrico Ciai)

Siena, August 12, 2022