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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

CONERNING ITEM 3) 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 72 of Consob Regulation adopted with Resolution no. 11971 dated 14 May 1999, as subsequently amended (“Issuers’ Regulation”).

PROPOSAL TO INCREASE THE CORPORATE CAPITAL AGAINST PAYMENT UP TO A MAXIMUM OVERALL AMOUNT OF EURO 2,500,000,000.00 TO BE CARRIED OUT, IN DIVISIBLE FORM, THROUGH THE ISSUANCE OF ORDINARY SHARES, WITH REGULAR DIVIDEND ENTITLEMENT, TO BE OFFERED TO THE COMPANY'S SHAREHOLDERS, PURSUANT TO ARTICLE 2441 OF THE ITALIAN CIVIL CODE; RELATED AMENDMENTS TO THE BY-LAWS AND RELATED AND CONSEQUENT RESOLUTIONS.

This communication does not constitute an offer or an invitation to subscribe for or purchase any securities. The securities referred to herein have not been registered and will not be registered in the United States under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or in Australia, Canada or Japan or any other jurisdiction where such an offer or solicitation would require the approval of local authorities or otherwise be unlawful. The securities may not be offered or sold in the United States unless such securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available.



BOARD OF DIRECTORS' REPORT DRAFTED PURSUANT TO ART. 125-TER OF THE TUF AND ART. 72 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. 3** on the Agenda:

“Proposal to increase the corporate capital against payment up to a maximum overall amount of Euro 2,500,000,000.00 to be carried out, in divisible form, through the issuance of ordinary shares, with regular dividend entitlement, to be offered to the Company’s Shareholders, pursuant to Article 2441 of the Italian Civil Code; related amendments to the By-Laws and related and consequent resolutions.”

This Report by the Board of Directors (the “**Report**”) is prepared pursuant to article 125-ter of the Legislative Decree no. 58/1998 (“**TUF**” or “**Consolidated Financial Act**”) and article 72 of Issuers' Regulation, in accordance with the indications set out in in Appendix 3A), Scheme 2, to the aforementioned Issuers' Regulation, in order to illustrate to the Shareholders the proposal for a share capital increase against payment up to a maximum overall amount of Euro 2,500,000,000.00 to be carried out, in divisible form, through the issuance of ordinary shares, with regular entitlement, to be offered to the Company’s Shareholders, pursuant to article 2441 of the Italian Civil Code, to be discussed under this item **no. 3** on the Extraordinary Shareholders' Meeting Agenda (the “**Capital Increase**”).

1. Rationale of the Capital Increase

As indicated in the report under item 1 on the Extraordinary Shareholders' Meeting Agenda, prepared by the Board of Directors pursuant to article 2446 of the Italian Civil Code as well as article 125-ter of the TUF and pursuant to article 74 of the Issuers' Regulations - available on the Company’s website at www.gruppompis.it, section *Corporate Governance – Assemblee Azionisti e CdA* - the Capital Increase provides the basis for the implementation of the Group’s 2022-2026 industrial plan (the “**Industrial Plan**”). In particular, the execution of the Capital Increase would enable the significant strengthening of the Bank’s capital position coupled with the implementation of a sustainable funding strategy with the improvement of the risk profile by virtue of the lending policies adopted.

More specifically, the full execution of the Capital Increase would allow to:

- put in place approximately Euro 350 million in IT investments, most of whom would be performed in the first years of the Industrial Plan;
- carry out approximately Euro 0.82 billion in restructuring costs;
- strengthen the capital position of the Bank and meet the current MREL requirements.

On 3 February 2022, BMPS received the final decision of the European Central Bank (“**ECB**”) regarding the capital requirements to be met from 1 March 2022. According to this decision, the BMPS Group - at consolidated level - must comply with a Total SREP Capital Requirement (“**TSCR**”) of 10.75%, which includes a minimum requirement in terms of own funds - Pillar 1 (“**P1R**”) of 8% (of which 4.50% in terms of CET1) and an additional Pillar 2 requirement (“**P2R**”) of 2.75%, which is in line with the level already required for 2021, to be held at least for 56.25% in the form of CET1 - and 75% in the form of Tier 1 capital. The overall minimum requirement in terms of Total Capital Ratio, obtained by adding a Combined Buffer Requirement (“**CBR**”) of 2.75% to the TSCR, is 13.50%. The overall minimum requirement in terms of CET1 Ratio is 8.80%, equal to the sum of P1R (4.50%),



P2R (1.55%) and CBR (2.75%); the overall minimum requirement in terms of Tier 1 is 10.82%, including P1R of 6%, P2R of 2.06% and CBR of 2.75%.

In accordance with the above, the Industrial Plan provides a significant strengthening of the capital position of BMPS after the completion of the Euro 2.5 billion Capital Increase; CET1 fully loaded is expected to reach 14.2% by 2024 and 15.4% by 2026, with significant buffers versus the regulatory requirements, notwithstanding the future regulatory headwinds and the dividend distribution from 2025 onwards (with a pay-out ratio of 30% for both 2025 and 2026 results).

It should also be noted that the amount of the Capital Increase is consistent with the outcomes of the 2021 stress test sponsored by the European Banking Authority (EBA), which did not have a pass/fail threshold, but was instead designed to be used as an important source of information for SREP purposes.

2. Further information on the transaction

2.1 *Modality of the Capital Increase*

The Capital Increase is a capital increase against payment, to be offered for subscription to shareholders holding ordinary shares of the Company, pursuant to article 2441 of the Civil Code for a maximum amount of Euro 2,500,000,000.00, in divisible form, to be fully allocated to capital, to be carried out, by issuing ordinary shares with regular dividend entitlement, providing that if the Capital Increase is not fully subscribed by the deadline for its subscription, the share capital shall be deemed to be increased by an amount equal to the subscriptions collected by that date.

In accordance with market practices, the Board of Directors will determine the terms and modalities of the Capital Increase and, more specifically:

- will establish the timing of the offer for subscription in accordance with the above terms, and file it with the Companies' Register;
- will establish, close to the start of the period of the offer for subscription, the number of shares to be issued, the option ratio and the issue price, determining the issue price by also taking into account the general market conditions and the stock performance as well as the financial and economic outlook of the Company and its development prospects and considering market practice for similar transactions and without prejudice to the provisions of article 2346, paragraph 5 of the Italian Civil Code. The issue price will be determined, close to the start of the period of the offer for subscription of the Capital Increase, applying, according to market practices for similar transactions, a discount on the so called *Theoretical Ex Right Price* ("TERP") of ordinary shares, calculated according to current methodologies, on the basis of the official Stock Exchange price of the trading day preceding the price-fixing date;
- will establish the final amount of the Capital Increase within the maximum limit resolved by this Extraordinary Shareholders' Meeting;
- will determine any other element that is necessary for the above purposes.

2.2 *Authorization by the Competent Authorities*

The proposed transaction is subject to authorization by the competent Supervisory Authorities (BCE, Directorate-General for Competition – DG COMP), within the scope of their respective competencies, as well as to the approval by CONSOB of the Prospectus and listing of the shares issued as a result of the Capital Increase, carried out pursuant to articles 94 and ff. and 113 of the TUF, of the Regulation (EU) no. 2017/1129 of the European



Parliament and of the Council, and drawn up in accordance with the format prescribed by the applicable regulations to the European Economic Area.

2.3 *Underwriting syndicate*

On 22 June 2022, the Board of Directors approved the execution of a pre-underwriting agreement with BofA Securities, Citigroup, Credit Suisse and Mediobanca – Banca di Credito Finanziario S.p.A. (acting as Joint Global Coordinators) (the “**Joint Global Coordinators**”) in relation to the Capital Increase and concerning, *inter alia*, the commitment of the Joint Global Coordinators (subject to conditions in line with market practice for similar transactions, including, among other things, the positive feedback from institutional investors in relation to the envisaged Capital Increase and the agreement upon the final terms and conditions thereof) to enter with the Bank, immediately prior to the commencement of the option period taking into account, *inter alia*, market conditions and feedback from institutional investors, into an underwriting agreement for the subscription of the newly issued ordinary shares remaining unsubscribed following the Stock Exchange offering of the unexercised option rights, up to the maximum aggregate amount of Euro 2.5 billion (“**Maximum Undertaking**”).

At the date of this Report, the Bank, in agreement with the Joint Global Coordinators, has identified additional financial institutions to supplement the guarantee consortium. Specifically, Banco Santander S.A., Barclays Bank Ireland PLC, Société Générale and Stifel Europe Bank AG will act as Joint Bookrunners, having executed specific pre-underwriting agreements with the Company in line with the one which has been already signed by the Joint Global Coordinators.

Prior to the launch of the offering related to the Capital Increase, additional financial institutions - which will participate in the guarantee consortium of the Capital Increase - may be identified.

The Maximum Undertaking will be reduced by: (i) the amount of the value of the new shares that the BMPS’s shareholders (including the MEF, as defined below, for which please refer to Section 2.6 below) irrevocably undertake to subscribe prior to the execution of the underwriting agreement; (ii) the amount of the value of the new shares that any anchor investors may/will irrevocably undertake to subscribe any unsubscribed new shares following the auction on the Stock Exchange prior to the execution of the underwriting agreement, and (iii) the amount of the value of the newly issued shares that any third party investor will undertake to subscribe in the context of the underwriting agreement.

2.4 *Other forms of placement envisaged*

Being a share capital increase in option, the shares will be directly offered to the shareholders by the Bank and no other forms of placements are envisaged.

2.5 *Criteria to determine the issue price of the new shares and allocation ratio*

Without prejudice to Paragraph 2.3 above, the issue price of the new ordinary shares will be determined by the Board of Directors taking into account, *inter alia*, general market conditions and the stock performance as well as the financial and economic outlook of the Company and its development prospects and considering market practice for similar transactions.

The issue price will be determined close to the start of the period of the offer for subscription of the Capital Increase, applying, according to market practices for similar transactions, a discount on the *theoretical ex right price* (“**TERP**”) of ordinary shares, calculated according to current methodologies, based on the official Stock Exchange price of the trading day preceding the price-fixing date.

2.6 *Shareholders that expressed their willingness to subscribe newly issued shares as well as any unexercised option rights*



At the date of this Report, the Board of Directors of the Bank has acknowledged the willingness of the Ministero dell'Economia e delle Finanze (“MEF”), which holds a shareholding equal to 64.23% of the Bank’s share capital, to “support the capital initiatives that the Bank will undertake to strengthen capital within the framework of the Strategic Plan 2022-2026 (...), pro rata to its shareholding at market conditions and within the framework of the requirements that may be established by the supervisory and control Authorities”.

2.7 *Period envisaged to carry out the transaction*

For the reasons set out in this Report, where market conditions so allow and subject to obtaining the prescribed authorisations, at the date of this Report the Capital Increase is expected to be completed between the end of October 2022 and the beginning of November 2022.

2.8 *Dividend pay-out date of the newly issued shares*

The ordinary shares issued as a result of the Capital Increase will have regular dividend rights. The newly issued ordinary shares will grant the same rights attached to the outstanding ordinary shares of the Bank upon issuance.

3. **Capital, financial and diluting effects of the Capital Increase**

3.1 *Economic and capital effects of the Capital Increase*

The Capital Increase will cause an increase in the value of the net assets of the Company for a maximum overall countervalue of Euro 2.5 billion, from which the costs directly attributable to the transaction shall be deducted. The capital endowment will be addressed to the pursuit of the targets of the Industrial Plan.

The Industrial Plan, of which the Capital Increase is the main enabling factor, provides for - among other things - the following uses of the additional capital:

- approximately Euro 350 million in IT investments mainly concentrated in the first years of the Industrial Plan;
- approximately Euro 0.82 billion in extraordinary restructuring charges; and
- the simultaneous strengthening of the Bank’s regulatory ratios.

The Capital Increase - as the main prerequisite of the Industrial Plan - will enable initiatives to support the growth and the cost reduction that will result in higher profitability and internal capital generation.

As a result of these initiatives, the Industrial Plan provides:

- revenues growing from Euro 2,980 million in 2021 to Euro 3,100 million in 2024, as a result of the refocusing of the business, and net interest income improvement in a context of moderate upward trend of the interest rates and growth in Wealth Management activities;
- cost-income ratio of approx. 60% by 2024 from 71% in 2021, driven in particular by a significant reduction in personnel costs.

Specifically, the CET1 ratio fully loaded is expected to reach 14.2% in 2024 from 11% in the financial year 2021, while profit before tax is expected to reach Euro 705 million in 2024 from 263 million in 2021.

The Industrial Plan provides for dividend payments on net income 2025 and 2026 with a 30% pay-out ratio.

Further and more detailed information on the Industrial Plan can be found in the press release published by the Bank on 23 June 2022.



3.2 Dilutive effects of the Capital Increase

Being a share capital increase in option, there are no diluting effects on the stakes held by the Bank's shareholders who will decide to subscribe the newly issued shares based on their option rights.

Since the issue price of the new shares, the number of shares to be issued and the related option ratio have not yet been determined – they will be established only close to the date of execution of the Capital Increase – it is not possible, at present, to determine or formulate an estimate of the dilutive effect on the unit value of the shares for the shareholders who will not exercise their option rights, either fully or in part.

4. Amendments to the Bylaws and right of withdrawal

In connection with the above, please find below the current text of Article 6 of the By-Laws assuming the approval of the resolution proposals under item 1 and 2 on the agenda, together with the comparison column on the proposed amendments (the amendments are shown in bold).

Actual text of the By-Laws	Proposed amendments
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.	<i>(Unchanged from the text proposed under item 1) on the Extraordinary Shareholders' Meeting Agenda and assuming approval of the same).</i>
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.	<i>(Unchanged)</i>
Shares are registered and indivisible. Each share entitles the holder to a vote.	<i>(Unchanged)</i>
On 15 September 2022 the Extraordinary Shareholders' Meeting resolved: a) to approve the reverse split of the outstanding ordinary shares of Banca Monte dei Paschi di Siena S.p.A. at a ratio of 1 new ordinary share with regular dividend	<i>(Unchanged from the text proposed under item 2) on the Extraordinary Shareholders' Meeting Agenda and assuming approval of the same)</i>



<p>entitlement for every no. 100 existing ordinary shares;</p> <p>b) in order to optimize the numerical ratios of the aforementioned reverse share split, to grant to the Board of Directors the power to proceed with the cancellation of a maximum no. 87 ordinary shares of Banca Monte dei Paschi di Siena on the basis of the waiver of shares that will be expressed by one or more shareholders and/or an intermediary available to carry out a reconciliation of the transaction before the latter takes place, all without changing the amount of the share capital and, as a result, proceeding to modify the number of the shares indicated in Article 6, Paragraph 2 of the By-Laws. All of the above without prejudice to the fact that in any case, for the management of any possible residual portion of shares which may result from the reverse share split, a service for the treatment of any fractions of shares in relation to which it was not possible to execute the reverse share split, will be made available to shareholders, on the basis of the official market price and without fees or commissions;</p> <p>c) to grant the <i>pro-tempore</i> Chairperson of the Board of Directors and the <i>pro tempore</i> Chief Executive Officer, also acting severally, with the power to sub-delegate, within the limits of law:</p> <p>(i) the power to determine the date when the reverse share split is to take place, in line with the technical timing required and indicated by the competent subjects and, in any case, no later than the beginning of the offering period for subscription of</p>	
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<p>the capital increase resolved on the date hereof;</p> <p>(ii) the power to make the consequent By-Laws amendments and/or integrations upon execution of the reverse share split, adjusting the numerical values set out therein, with explicit early declaration of approval and ratification, as well as to file the updated text of the By-Laws with the Companies' Register;</p> <p>(iii) all the widest possible powers to do, in general, what is necessary, or even merely useful, to carry out, the resolutions passed today, as well as to comply with all the formalities required, so that all the resolutions adopted today obtain the approvals required by the competent authorities, with all the widest powers required for and appropriate, none excluded and with no exceptions, to the full execution of the passed resolutions, including the power to add in the resolutions and in compliance with their substance, all the amendments deemed necessary in order take into account the number of the newly issued shares following the share capital increase resolved on the date hereof or which could be possibly requested by the competent authorities when granting authorization and registration.</p>	
	<p>On 15 September 2022 the Extraordinary Shareholders' Meeting resolved to increase the share capital against payment up to an maximum overall amount of Euro 2,500,000,000.00 (two billion and five hundred million) to be completed within 12 November 2022, in divisible form, by issuing ordinary shares with regular dividend entitlement, to be offered to existing shareholders pursuant to article 2441 of the Italian Civil Code, provided that,</p>



	<p>if the capital increase is not entirely subscribed within 12 November 2022, the share capital shall be increased by an amount equal to the subscriptions made at such date. The Extraordinary Shareholders' Meeting also resolved to grant to the Board of Directors the widest powers to: (i) establish in compliance with the above terms the timing of the offer, proceeding to its filing with the Register of Companies; (ii) determine close to the start of the offer period relating to the capital increase the number of shares to be issued, the option ratio and the issue price taking into account, among other things, for the purpose of the determination of the issue price the general market conditions and the performance of the stock, as well as the financial and economic outlook of the Company and its development prospects and considering the market practice for similar transactions and without prejudice to the provisions of article 2346 paragraph 5 of the Civil Code. The issue price will be determined, close to the start of the period of the offer for subscription of the capital increase, applying, in accordance with market practice for similar transactions, a discount on the <i>Theoretical Ex Right Price</i> (so called Theoretical Ex Right Price "TERP") of the ordinary shares, calculated in accordance with current methodologies, on the basis of the official Stock Exchange price of the trading day preceding the price-fixing date; (iii) establish the final amount of the capital increase within the maximum limit herein resolved; (iv) determine any other element necessary for the above purposes.</p>
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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.

Please consider that following the execution of the Capital Increase the By-Laws will be amended in order to: (i) update the share capital of the Company and the number of the shares; and (ii) erase the description of the Extraordinary Shareholders' Meeting resolution indicated in Article 6, paragraph 5.

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.,



RESOLVES

1. *to increase the share capital against payment up to a maximum overall amount of Euro 2,500,000.000.00 (two billion five hundred million) to be completed within 12 November 2022, in divisible form, by issuing ordinary shares with regular dividend entitlement, to be offered to existing shareholders pursuant to article 2441 of the Italian Civil Code, provided that, if the capital increase is not entirely subscribed within 12 November 2022, the share capital shall be increased by an amount equal to the subscriptions made at such date;*
2. *to grant to the Board of Directors the widest powers to: (i) establish in compliance with the above terms the timing of the offer, proceeding to its filing with the Register of Companies; (ii) determine close to the start of the offer period relating to the capital increase the number of shares to be issued, the option ratio and the issue price taking into account, among other things, for the purpose of the determination of the issue price the general market conditions and the performance of the stock, as well as the financial and economic outlook of the Company and its development prospects and considering the market practice for similar transactions and without prejudice to the provisions of article 2346 paragraph 5 of the Civil Code. The issue price will be determined, close to the start of the period of the offer for subscription of the capital increase, applying, in accordance with market practice for similar transactions, a discount on the Theoretical Ex Right Price (so called Theoretical Ex Right Price "TERP") of the ordinary shares, calculated in accordance with current methodologies, on the basis of the official Stock Exchange price of the trading day preceding the price-fixing date; (iii) establish the final amount of the capital increase within the maximum limit herein resolved; (iv) determine any other element necessary for the above purposes;*
3. *to approve the consequent amendments to Article 6 of the By-Laws in the wording quoted below:*

"Article 6:

1. *Unchanged compared to the text proposed in item 1 on the Extraordinary Shareholders' Meeting Agenda.*
2. *Unchanged.*
3. *Unchanged.*
4. *Unchanged compared to the text proposed in item 2 on the Extraordinary Shareholders' Meeting Agenda and assuming approval of the same.*
5. *On 15 September 2022 the Extraordinary Shareholders' Meeting resolved to increase the share capital against payment up to an maximum overall amount of Euro 2,500,000,000.00 (two billion and five hundred million) to be completed within 12 November 2022, in divisible form, by issuing ordinary shares with regular dividend entitlement, to be offered to existing shareholders pursuant to article 2441 of the Italian Civil Code, provided that, if the capital increase is not entirely subscribed within 12 November 2022, the share capital shall be increased by an amount equal to the subscriptions made at such date.*

The Extraordinary Shareholders' Meeting also resolved to grant to the Board of Directors the widest powers to: (i) establish in compliance with the above terms the timing of the offer, proceeding to its filing with the Register of Companies; (ii) determine close to the start of the offer period relating to the capital increase the number of shares to be issued, the option ratio and the



issue price taking into account, among other things, for the purpose of the determination of the issue price the general market conditions and the performance of the stock, as well as the financial and economic outlook of the Company and its development prospects and considering the market practice for similar transactions and without prejudice to the provisions of article 2346 paragraph 5 of the Civil Code. The issue price will be determined, close to the start of the period of the offer for subscription of the capital increase, applying, in accordance with market practice for similar transactions, a discount on the Theoretical Ex Right Price (so called Theoretical Ex Right Price “TERP”) of the ordinary shares, calculated in accordance with current methodologies, on the basis of the official Stock Exchange price of the trading day preceding the price-fixing date; (iii) establish the final amount of the capital increase within the maximum limit herein resolved; (iv) determine any other element necessary for the above purposes.”

4. *to grant the pro-tempore Chairperson of the Board of Directors and the pro-tempore Chief Executive Officer, also acting severally, with the power to sub-delegate, within the limits of law, the widest possible powers to do all that is necessary or even merely useful to carry out, fully and in each single part, the resolutions passed, 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, as well as to comply with all the formalities required so that all the resolutions adopted today obtain all the approvals prescribed by law and do, in general, all that is necessary for the full execution of the resolutions, with all the widest powers required for and appropriate to that end, none excluded and with no exceptions, including the power to apply for the admission to listing of the shares to be issued as well as to proceed with the filing and publication of the statement required by art. 2444 of the Italian Civil Code, and the power to file, as and when required, with the Companies’ Register, pursuant to art. 2436 of the Italian Civil Code, the text of the By-Laws updated in the amount of the share capital and the number of shares.”*

Siena, 12 August 2022

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