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

ORDINARY SHAREHOLDERS' MEETING

20 April 2023 (single call)

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

ON POINT 3) OF THE AGENDA

OF THE ORDINARY SESSION

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 FOR APPROVAL OF THE 2023 INCENTIVE SYSTEM AND RELATED PAYMENT METHODS APPLIED TO MONTEPASCHI GROUP'S PERSONNEL BASED ON "PHANTOM SHARES" PURSUANT TO THE COMBINED PROVISIONS OF ARTICLES 114-*BIS* AND 125-*TER* OF THE CONSOLIDATED LAW ON FINANCE (TUF) AND ART. 84-*BIS* OF THE REGULATION ADOPTED WITH CONSOB RESOLUTION NO. 11971 OF 14 MAY 1999 ("ISSUERS' REGULATIONS"); RELATED AND ENSUING 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  
AMENDED**

Dear Shareholders,

You have been called to the Shareholders' Meeting to resolve upon the following topic put on the agenda under **point 3)**:

**“Proposal for approval of the 2023 Incentive System and related payment methods applied to Montepaschi Group's personnel based on “Phantom Shares”, pursuant to the combined provisions of articles 114-bis and 125-ter of the Consolidated Law on Finance (TUF) as well as art. 84-bis of the Regulation adopted with Consob resolution no. 11971 of 14 May 1999 (“Issuers’ Regulations”); related and ensuing resolutions.”**

**Foreword<sup>1</sup>**

In line with applicable supervisory regulations and guidelines on the matter and in compliance with the specific supervisory provisions on remuneration and incentive policies and practices issued by the Bank of Italy<sup>2</sup> (hereinafter the "**Supervisory Provisions**"), the Group's Remuneration Policies (hereinafter the "**2023 Remuneration Policies**") - as set forth in the "Report on the remuneration policy and on compensation paid" pursuant to Article 123-ter of Italian Legislative Decree no. 58 of 24 February 1998, as amended (hereinafter the "**Consolidated Law on Finance**" or "**TUF**") - submitted for the necessary and prior approval of the Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. (hereinafter, the "**Bank**" or "**BMPS**"), provide that a portion of any variable remuneration to be paid to the "Identified Staff" (i.e. those persons whose activities have an impact on the risk profile of the Bank or the Banking Group, hereinafter also referred to as "**PPR**" ["Personale Più Rilevante"] or "**Identified Staff**") be paid in financial instruments and - more specifically - shares or related instruments<sup>3</sup>.

The concept of variable remuneration, as defined by the Supervisory Provisions in force, includes:

- the amounts paid to the PPR as an incentive for the achievement of the 2023 Business Plan objectives set out in the **2023 Incentive System**. The 2023 Incentive System is a variable system for the Identified Staff and additional key resources, related to the 2023 objectives. This system represents a strategic lever for:
  - enhancing the value of human capital;

<sup>1</sup> The text of this Report takes into account the Definitions contained in the Information Document prepared pursuant to art. 84-bis of the Issuers' Regulations (as defined below).

<sup>2</sup> See Bank of Italy Circular no. 285 of 17 December 2013 as amended, Part One - Title IV - Chapter 2 - Section III.

<sup>3</sup> See 2023 Remuneration Report.



- guaranteeing sustainable development in the ESG (Environment, Social and Governance) area through the adoption of incentive parameters related to the achievement of the Group's strategic guidelines on environmental, social and governance issues;
  - ensuring alignment between management and the interests of the Shareholder and investors;
  - facilitating the achievement of the challenging objectives defined for 2023 by creating value and the prerequisites for the full execution of the 2022-2026 Business Plan.
- any amounts paid to the Identified Staff for early termination of employment or early termination of office (so-called severance)<sup>4</sup>.

### 2023 Incentive System

Given this requirement, it is necessary for the Bank to define the type of financial instruments and the relative amounts to be reserved for such possible future commitments through the drafting of a specific plan (hereinafter, the "**Plan**") to be submitted to the Shareholders' Meeting in accordance with the provisions of Article 114-*bis* of the Consolidated Law on Finance and Article 13 of the Articles of Association.

The proposal for the Plan covered by this Report was approved by the Bank's Board of Directors on 8 March 2023, with the favourable opinion of the Remuneration Committee, the Risk and Sustainability Committee and the Board of Statutory Auditors (the latter also pursuant to Article 2389 of the Italian Civil Code).

The Remuneration Policies of the Montepaschi Group outlined in the Remuneration Report (both as defined below) for the year 2023 and submitted for the necessary prior approval of the Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. (hereinafter "BMPS" or "Bank"), in application of the provisions of the applicable remuneration legislation (see below) - require for the "Identified Staff" of the Montepaschi Group (hereinafter also the "Group"), i.e. those persons whose activities have a significant impact on the Group's risk profile, the activation of the 2023 Incentive System (i.e. the "2023 Incentive System", as defined below).

It should be noted that the proposed Plan is based on the awarding of financial instruments in synthetic form (hereinafter "**Phantom Shares**"<sup>5</sup>), which will be converted into cash depending on the market value of the Bank's ordinary shares, in accordance with the deadlines set out in the specific agreements for the payment to the PPR of the percentage in financial instruments according to the 2023 Incentive System and any severance, and does not provide

<sup>4</sup> "Severance" shall mean the amount recognised in the context of agreements for early termination of employment (for the amount exceeding the cost of notice and excluding what is required by law) or early termination of the office and to be paid in part in the form of financial instruments pursuant to the Supervisory Provisions and the Remuneration Policies (including the consideration for any non-compete covenants, for the amount exceeding one year of fixed remuneration of the Beneficiary).

<sup>5</sup> It should be noted that, although the characteristics and operation remain unchanged, with a view to greater alignment with market practices, the name of the synthetic instrument was changed from "*Performance Shares*" (name used by the Bank in previous years) to "*Phantom Shares*".



for the use of the Bank's treasury shares, which, as disclosed in a press release of 5 October 2021, were entirely transferred in execution of the resolution passed by the Bank's Shareholders' Meeting of 18 May 2020. Furthermore, the afore-mentioned synthetic instruments are deemed appropriate to achieve the same objectives and comply with the principles laid down in the relevant regulations, including that of providing for the payment of variable remuneration aligned with the results and risks of the Bank and the Group to which it belongs, using instruments (as an alternative to treasury shares) having the same effect - in terms of loss absorption - as equivalent shares or investments in the share capital, also taking into account the cost and level of capital and liquidity required to carry out the activities undertaken, and being structured in such a way as to avoid the creation of incentives that conflict with the company's long-term interests.

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 disclosure that will be made available to the public, in accordance with article 84-*bis* of the Consob regulation adopted with resolution no. 11971 of 14 May 1999, as subsequently amended (hereinafter the "Issuers' Regulations"), along with this Explanatory report.

## 1. Beneficiaries of the Plan

The potential beneficiaries of the Plan for the awarding of the 2023 Incentive System are the Executive Directors and personnel included in the scope of the Group's PPR (identified annually by the relevant bodies on the basis of the criteria established by the regulations *pro tempore* in force).

To date (and subject to changes in the period of validity thereof), the afore-mentioned potential beneficiaries include, among others, the Chief Executive Officer and General Manager of the Bank, and the "Key Managers" of the Group identified, pursuant to the regulations in force<sup>6</sup>, in the Bank's Departments Managers and the other Managers of structures reporting directly to the Chief Executive Officer and the Board of Directors.

As previously mentioned, the Plan's disbursement scheme may also be applied to the Identified Staff with reference to compensation defined upon early termination of the employment and/or early termination of office, in line with the provisions on early termination regulated in the remuneration policy.

## 2 Reasons behind adoption of the Plan

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<sup>6</sup> These are individuals who perform management functions, have regular access to inside information and can make management decisions that can affect the Bank's development and future prospects.



The Plan aims to enable the Bank and its subsidiaries to comply with the provisions of the Supervisory Provisions where they require that the awarding of a 2023 Incentive System and any severance payments take place, in part<sup>7</sup>, by means of financial instruments (in this case Phantom Shares), to be converted at agreed maturities into a monetary amount correlated to the performance of the Bank's shares.

Therefore, the Plan specifically permits alignment with the provisions of the regulations on the awarding of a 2023 Incentive System and on the payment 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.

### **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, as part of the 2023 Remuneration Policies endorsed by the Shareholders' Meeting, the proposals with regard to:

- the Plan Regulations and any updates;
- awarding of Phantom 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 Chief Executive officer or other Director(s), with the support of the Chief Human Capital Officer Department, and/or confer specific powers to perform any activity related to the management of the Plan.

### **4. Methods for awarding Phantom Shares for the 2023 Incentive System**

The Plan entails, depending on the level of achievement of the objectives defined both at Bank and individual level and once the activation conditions are exceeded, the awarding of a bonus partly in the form of cash and partly in Phantom Shares, convertible into a cash equivalent correlated to the trend in the market value of the Bank's shares, to be paid to the beneficiary, according to the timing and procedures defined in the 2023 Remuneration Policies endorsed by the Shareholders' Meeting. In particular, any bonus accrued within the defined terms is attributed for at least 50% in Phantom Shares and, for a component between 50% and 70%, deferred for 4 or 5 years.

With reference to the criteria and conditions for the awarding of Phantom Shares, reference is made to the objectives and conditions described in the information document drawn up pursuant to art. 114-*bis* of the Consolidated Law on

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<sup>7</sup> See previous notes 2 and 3.



Finance and art. 84-*bis* of the Issuers' Regulations and the 2023 Remuneration Policies described in the 2023 Report on the remuneration policy and on compensation paid pursuant to art. 123-*ter* of the Consolidated Law on Finance.

In consideration of the overall framework of provisions applicable to the Bank, it should be noted that the total remuneration paid to the Bank's staff in each year of permanence in the "State aid" regime, including the fixed component and any variable remuneration percentages that may be paid, may not exceed 10 times the average (monetary) remuneration of the Bank's employees in 2022.

With reference to the Senior Managers and Key Functions holders, the variable remuneration percentage accrued (insofar as all the performance conditions have been met), but exceeding - also calculating the fixed component - the aforementioned limit, may be paid subject to the disposal of the equity investment of the Government in the Bank, without prejudice to further deferrals and/or retention periods envisaged on the basis of the scheme governed by the 2023 Remuneration Policies.

As set forth in the Supervisory Provisions and in the 2023 Remuneration Policies, the Bank and its subsidiaries also reserve the right to activate clawback mechanisms in the cases envisaged by the 2023 Remuneration Policies of *ex-post* correction suitable, 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 Phantom Shares may also be used for the payment of any severance.

## 5. Characteristics of the instruments provided

The Plan, as mentioned, provides only for the awarding of Phantom Shares convertible into a cash equivalent related to the market value of the Bank's shares paid to the beneficiary. No credit instruments will therefore be given.

In the 2023 Incentive System, the reference date for calculating the number of Phantom Shares to be awarded to the individual beneficiary - determined on the basis of the arithmetic average of the prices of the MPS share (ISIN: IT0005508921) recorded in the 30 days prior to the same date - will be that of the actual awarding of the bonus, i.e. the date of approval of the 2023 Financial Statements by the Board of Directors, as specified in the relevant individual communications. The benchmark price for the conversion into cash downstream of the *holding period*<sup>8</sup> is defined on the basis of the arithmetic average of the prices of the MPS share (ISIN: IT0005508921) recorded in the last 30 days of the *holding period*.

## 6. Funding

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<sup>8</sup> Holding Period of Financial Instruments.



It is not possible to indicate the exact amount of the expected cost of the 2023 Incentive System, as it will depend, *inter alia*, on the overall results achieved by the Group and the individual results achieved by the Beneficiaries included in the Identified Staff, to date no. 132. The actual amount will be disclosed in the section on remuneration paid in the Report on the remuneration policy and on compensation paid pursuant to art. 123-ter of the Consolidated Law on Finance (TUF), which will be submitted to the Shareholders' Meeting called to approve the 2023 Financial Statements.

## 7. Revision and amendments to the 2023 Incentive System

There are no specific procedures in place for the possible revision of the 2023 Incentive System other than those related to the functions performed 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 may affect the shares or the 2023 Incentive System), the Board of Directors shall make adjustments to the 2023 Incentive System, the Board of Directors shall make, independently and without further approval from the Bank's Shareholders' Meeting, any amendments and additions deemed necessary or appropriate to maintain the substantive and economic contents of the 2023 Incentive System unchanged to the extent permitted by the legislation and measures applicable from time to time.

## 8. Accounting and tax aspects

The accounting standards provide that the awarding of Phantom Shares related to the variable remuneration of the personnel will be accounted for on the income statement as follows:

- for the 2023 Incentive System as a cost depending on the services provided in the reference period (so-called *service condition*)
- for any severance as a cost at the time of early termination of the employment relationship or termination of office.

The cost is equal to the value of the payment at the time of the awarding, adjusted for the probabilistic elements related to the 2023 Incentive System (actuarial parameters, etc.). The cost of the variable remuneration in Phantom Shares must be spread over the entire vesting<sup>9</sup> period (it being understood that the payment of the deferred amounts remains in any case subject to the conditions set out, *inter alia*, in paragraph 4 above). The Phantom Shares will be subject to

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<sup>9</sup> Vesting period or the period within which all vesting conditions (service conditions or performance achievement conditions) specified in the relevant Phantom Share-based payment agreement must be fulfilled.



taxation and social security contributions in accordance with prevailing law in the Country of tax residence of each Beneficiary.

## 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 Italian Law no. 350 of 24 December 2003.

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Dear Shareholders, we invite you to approve this proposal under item 3) on the agenda and, therefore, to pass 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 approve the 2023 Incentive System and the related payment methods to the personnel of the Montepaschi Group based on Phantom Shares, in line with current legislation, in the terms and with the methods described above, as well as contained in the information document made available to Shareholders pursuant to art. 84-*bis* of the Issuers' Regulations; it being understood that the awarding of Phantom Shares in relation to severances will be carried out in accordance with the methods applied to the 2023 Incentive System;
2. to vest, the Board of Directors, Chairperson of the Board of Directors and the Chief Executive Officer, 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 the implementation thereof, and adopt any further measures that are 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 thereof (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, 21 March 2023

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