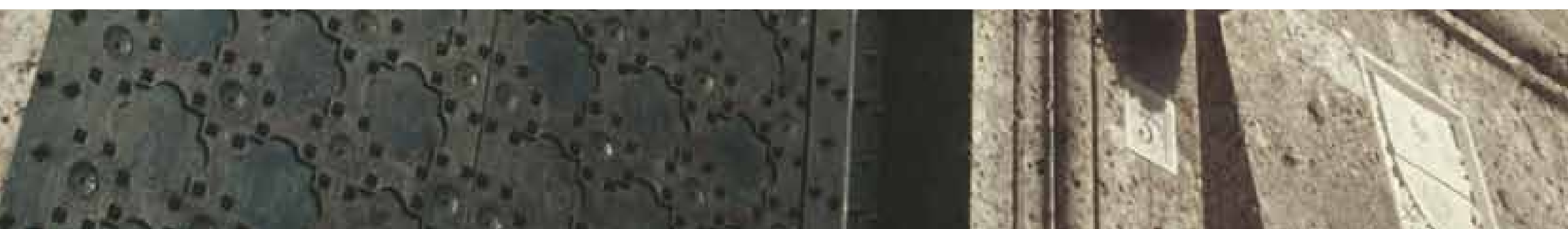
Siena, Rocca Salimbeni,
sede storica della Banca Monte dei Paschi di Siena

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2010



FINANCIAL STATEMENTES AS AT 31 DECEMBER 2010

Table of contents

Company Profile

Corporate Name	**MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A.** "Monte dei Paschi di Siena" Banking Group
Year of Incorporation	**1954** as Mediocredito Regionale della Toscana
Registered Office	**Florence** - Via Pancaldo, 4
General Manager's Office	**Florence** - Via Panciatichi, 48 Telephone +39 055-24981 - Fax +39 055-240826 Website www.mpscapitalservices.it
Global Markets Division	**Siena** - Viale G. Mazzini, 23 Telephone +39 0577-209111 - 53711 - Fax +39 0577-209100
Investment Banking Division	**Rome** - Via Piemonte, 127 Telephone +39 06-42048325 - Fax +39 06-42016914
Branch	**Rome** - Via Marco Minghetti, 30 Telephone +39 06-42006611 - Fax +39 06 42006680
Representative Offices	**Turin** - c/o Banca Monte dei Paschi di Siena - Via Mazzini, 14/16 Telephone +39 011-837445 - Fax +39 011-8812091
	Milan - Via Dante, 14 Telephone +39 02-8823321 - Fax +39 02-88233233
	Padua - c/o Banca Antonveneta - Piazzetta Turati, 17 Telephone +39 049-6991659 - Fax +39 049-6992195
	Mantova - c/o Banca Monte dei Paschi di Siena - North East Area Head Office Via Vittorio Emanuele II°, 30
	Bologna - Via Rizzoli, 18 Telephone +39 051-2960759 - Fax +39 051-2960284
	Siena - Viale G. Mazzini, 23 Telephone +39 0577-271928
	Perugia - c/o Banca Monte dei Paschi di Siena Largo Cacciatori delle Alpi, 1/3 Telephone +39 075-5727249 - Fax +39 075-5739863
	Ancona - c/o Banca Monte dei Paschi di Siena - Via 1° Maggio, 70/A Telephone +39 071-2905009 - Fax +39 055-240826
	Francavilla al Mare (CH) - c/o Banca Monte dei Paschi di Siena Via Nazionale Adriatica, 56/A Telephone +39 085-492161 - Fax +39 085-814025
	Naples - c/o Banca Monte dei Paschi di Siena Piazza Municipio - Ang. Via Medina - 1° Piano Telephone +39 081-7341052 - Fax +39 081-7341067
	Salerno - c/o Banca Monte dei Paschi di Siena - Corso Vittorio Emanuele, 115 Telephone +39 089-612545 - Fax +39 089-233431
	Bari - c/o Banca Monte dei Paschi di Siena - Piazza Aldo Moro, 21 Telephone +39 080-5226268 - Fax +39 080-5220077
	Catania - c/o Banca Monte dei Paschi di Siena - Via Umberto I°, 288 Telephone +39 095-7349121 - Fax +39 095-7349100

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairman	Aldighiero FINI
Vice-Chairman	Massimo ABBAGNALE
Vice-Chairman	Fabio CECCHERINI
Managing Director	Antonio MARINO
Director	Graziano BATTISTI
Director	Gabriele BENI
Director	Sirio BUSSOLOTTI
Director	Turiddo CAMPAINI
Director	Gianni CASTAGNINI
Director	Angelo MARTINELLI
Director	Pietro PAGLIUCA
Director	Francesco POGGI
Director	Riccardo RAPEZZI
Director	Pierandrea SEMERARO
Director	Girolamo STROZZI MAJORCA RENZI

BOARD OF AUDITORS

Chairman	Francesco BONELLI
Acting Auditor	Stefano BARTALINI
Acting Auditor	Paolo BIGLIAZZI
Substitute Auditor	Paolo BOCCI
Substitute Auditor	Alessia BASTIANI

MANAGEMENT

General Manager	Giorgio PERNICI
Substitute Assistant General Manager	Gabriele GORI
Assistant General Manager	Carmine MANCINI
Assistant General Manager	Federico VITTO

AUDITING COMPANY

RECONTA ERNST & YOUNG S.p.A.

Ratings

The following ratings have been assigned to the Bank by Moody's Investors Services Ltd.:

- LONG-TERM DEBT RATING: **A3**
- SHORT-TERM DEBT RATING: **P-2**
- FINANCIAL STRENGTH RATING: **D+**

In 2010, both long term and short term debt ratings were downgraded by one notch, respectively from A2 to the current A3 and from P-1 to P-2, whilst the financial strength rating remained the same. Moody's Outlook on all ratings is currently stable.
This revision is closely linked to the downgrade that involved the Parent Company Banca Monte dei Paschi di Siena.

Shareholding Structure

As of 31 December 2010, the Share Capital broke down as follows:

Shareholder	*Number of shares*	*Amount in Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	891,013,758	276,214,264.98	99.92%
I.N.A.I.L.	239,634	74,286.54	0.03%
Other shareholders	471,596	146,194.76	0.05%
Total	**891,724,988**	**276,434,746.28**	**100.00%**

REPORT ON OPERATIONS

Reference Context

Based on the most recent available data, 2010 saw GDP growth in all main areas of the world's economy: +2.9% in the US, +1.7% in the Euro area, +3.1% in Japan, 10.3% in China.
The early months of 2010 were characterised by the crisis in the Euro area, caused by the intensification in sovereign debt risk. During the year, two major three-year plans were approved in favour of certain Euro area countries: € 110 billion for Greece and € 85 billion for Ireland. Simultaneously, the European Financial Stability Facility (EFSF) was launched; it amounts to € 440 billion in addition to the ECB's plan to purchase government and private securities.
The sharp depreciation of the EUR in the first half of 2010 had a highly positive impact above all on German GDP dynamics, as evidenced by its record growth of the order of 3.6% in 2010.
During the year, the perception of deflationary risks emerged, mostly in the US, to such an extent in fact as to induce the Federal Reserve to launch a second, USD 600 billion quantitative easing plan ("QE2") in late 2010; the plan involves the purchase of US government bonds.
In 2010, the Federal Reserve continued to maintain the reference rate in the 0-0.25% range, also confirming that it is likely to remain at exceptionally low levels for an extended time interval. In parallel, the ECB also kept the reference rate unchanged at the historical minimum level of 1% throughout the year (see Figure 1). Moreover, most of the unconventional measures, implemented in 2009 and aimed mainly at the injection of liquidity into the system, were kept in place; among them are the ECB refinancing operations with unlimited amounts and at the reference rate.

On the currency front, 2010 was characterised by phases of sharp depreciation of the Euro, especially in the initial part of the year, matching the increased tensions relating to sovereign debt risk within the area. In late June 2010, the EUR/USD cross rate came close to the 1.18 threshold (see Fig. 2). The single currency then resumed its appreciation phase and reached the peak of about 1.4250 in early November. Subsequently, with the intensifying crisis in Ireland, the devaluation of the Euro relative to the US Dollar resumed, reaching about 1.30 in late November 2010.

Fig. 1 - ECB/FED INTEREST RATES

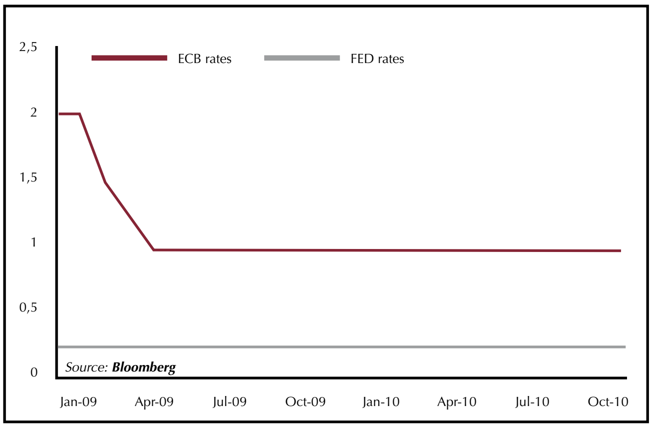


Fig. 2 - EURO/DOLLAR CROSS-RATE TREND

Rates on long-term government bonds, both in the US and the Eurozone, followed a bearish trend throughout 2010. The ten-year German bond reached its lowest level of the year, near 2.11%, during the summer; it then rose again to about 3% in December (see Fig. 3). The two-year German government rate, instead, remained below 1% for most of the year. The curve of the government rates in the Euro area exhibited a sharply steeper slope on the 2-10 year segment until May, when it reached the peak of 235 bp, whereupon it dropped to about 200 bp at year-end. Focus on the *soverign debt* risk in the Euro area engendered a trend of sharply widening spreads in so-called peripheral countries. In particular, the Italy-Germany differential on the ten-year government segment rose from about 90bp in early 2010 to about 185bp at the end of the year. In the United States, the slope on the 2-10 year segment reached its peak of 291 bp in February 2010, dropping to about 280 bp at year-end (see Fig. 4).

Fig. 3 - 10-YEAR GOVERNMENT BOND RATES

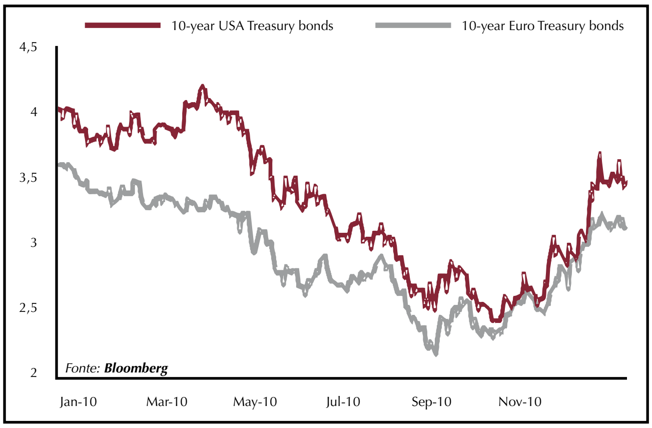
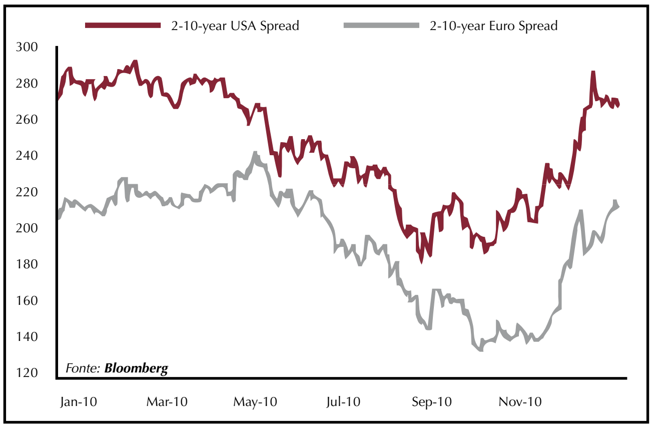


Fig. 4 - 10 YEAR SPREAD (BP)



In 2010, trends in the emerging and developed areas were divergent. In major industrialised countries, the recession continued to make its effects felt at the national budget level, as a consequence of the measures implemented to support the economy and the financial system. On the other hand, public accounts were better positioned in emerging countries, thanks also to a higher and more widespread GDP growth rate. This movement was mostly led by those countries, e.g. Brazil, that were able to benefit from the rising trend in the prices of commodities, and in particular of agricultural commodities. In 2010, the Embi+spread index changed from about 270 bp at the start of the year to about 250 bp at the end of December 2010.

With regard to commodities, the performance measured with the S&P GSCI Excess Return index (see Fig. 5) grew by about 9% in 2010. The best segments were precious stones and agricultural commodities, both up by +34%. Industrial metals rose less sharply (+17%). Lastly, the rise in energy commodities was very modest (+2%).

With reference to the stock markets, 2010 ended with a 13% rise – in local currency terms – of the S&P500 index, versus +8% for the Stoxx600 index. The Nikkei225 exhibited the opposite trend, ending down by 3%. Emerging country stock markets also grew, +16.3% in terms of the MSCI index.

With regard to volatility on stock market indices, a peak was recorded in the second half of 2010 both in the Euro area and in the United States during the most acute time of the crisis in the Euro area. Subsequently, volatility exhibited a decreasing trend until the end of the year (see Fig.6).

Fig. 5 - S&P GSCI EXCESS RETURN INDEX

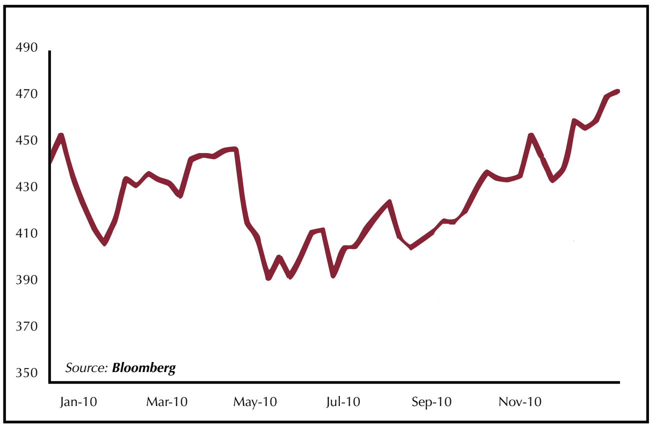
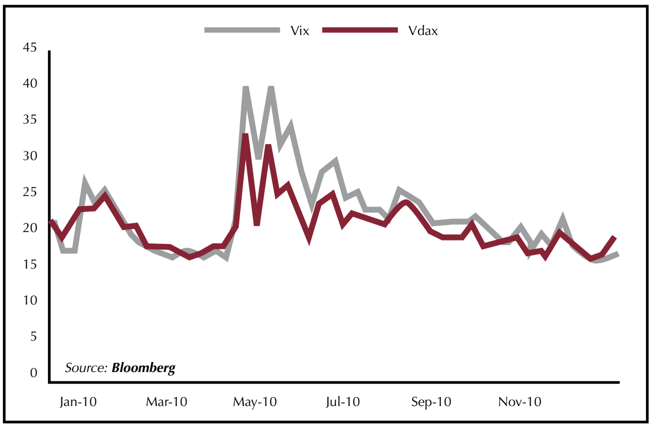


Fig. 6 - VIX VS. VDAX



Significant Aspects of Operations

Even in the presence of a highly challenging and complex economic environment, in 2010 the Bank (hereafter also MPSCS) continued to strengthen its role and "strategic mission" within the Montepaschi Group, with the aim of increasingly becoming the reference operator for the specialist market with respect to the financial needs of companies in the Large/Mid Corporate segment.

In terms of commercial policy, the Bank operated according to the following guidelines:
- further enhancement of the specialist competencies of the network;
- even more specific operational and commercial actions aimed at specific customer targets, in total synergy with the Parent Company;
- expansion of the offer of consultancy products with high specialised content, characterised by sizeable returns with reduced capital absorption;
- utmost focus on safeguarding credit quality.

In relation to the first and second point, the Bank strengthened its business structures, by inserting professionals with specific know-how, in total support of area managers, with the dual objective of winning and/or consolidating specific customer sectors.

With regard to new product offerings, high priority was assigned to the goal of "creating" and distributing products that completely fulfil the demands expressed by customers.

Lastly, with respect to credit quality, the operational focus was expressed in terms of:
- sharpest focus in the analysis of credit line applications with respect to the quality of the applying customers;
- intensifying the monitoring of position "recoveries", with particular reference to those that, also by effect of the persistent recessionary environment, exhibited new difficulties in meeting the obligations assumed in the past.

Based on the indications provided by the Business Plan for the reference period 2008-2011, MPSCS operated, in 2010, with an organisational model comprising three Product Divisions, two Commercial Divisions and two Operating Divisions.

The "*Business Units*" (hereafter BU) on which the pursuit and operational monitoring of the Business Plan is articulated are:

"Ordinary Finance" BU
"Corporate Finance" BU
"Global Markets" BU
"Investment Banking" BU

In terms of commercial flows, the **"Ordinary Finance"** BU recorded a far higher number of stipulations than forecast (+84.3%). This is a concrete demonstration of the enduring will to continue to support Italian enterprises in the execution and selection of new investments, even in a year like 2010, marred by persisting critical economic and financial issues. The flows of loans reached far higher amounts than the forecast targets (+68.2%).

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2010*	*Budget as at 31/12/2010*	*Percent deviation*
Stipulated transactions	1,382.5	750.0	84.3%
Issued loans	1,261.7	750.0	68.2%

In the segment of Low Interest Financing, in 2010 the Bank was strongly engaged in the preliminary assessment and management of operations activity in which it operates, as an "authorised person", with the Ministry for Economic Development, the Ministry of Education, University and Scientific Research, Cassa Depositi e Prestiti S.p.A. (issues of loans 488 post reform, loans and final reports 488 ante reform, FIT and FAR operations, etc.). Particularly relevant were the results obtained by participation in tenders for the management of national and regional public funds, such as:

– Tender by the Tuscany Region for fund Management 2011-2016 (with funds managed by Fidi Toscana until 31 December 2010);
– MiUR (Ministry of Education University and Research) for fund Management 2011-2016 (MPSCS, together with four other licensee banks, managed Ministry of Research funds until 31 December 2010);
– Tender for the management of the Guarantee Fund for SMEs as per Law no. 662/199 (operations linked to an agreement expired 31 December 2010).

With respect to the various low interest instruments, in 2010 MPSCS concluded:

– 37 final report in the segment "Law 488/92 pre and post reform", also continuing disbursements for the progress statuses of the loans connected with the reformed operations (bank portion and CdP portion);

– 137 final reports mainly in the "Research", "Territorial Pacts" and "Agricultural Pacts" segments.

The activity of the "**Corporate Finance**" BU was influenced, as in 2009, by the persistence of the specific difficulties met by the reference products - *Project Financing*, *Acquisition*, *Object Finance*, etc. on the domestic markets. Whilst the general context shows tentative signs of improvement, it is still characterised by law propensity for risk, with the consequent cancellation or otherwise dilation over time both of company growth plans and of the start-up of new economic initiatives.

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2010*	*Budget as at 31/12/2010*	*Percent deviation*
Stipulated transactions	599.3	1,150.0	-47.9%
Issued loans	805.8	1,150.0	-29.9%

In particular, during the year the Project Financing sector experienced a slow, but constant recovery of its activities, with a moderate rise in the number of transactions stipulated, also thanks to the need for many operators in the photovoltaic industry to complete ongoing work by the end of the year to obtain the feed-in tariffs provided until 31 December 2010.

With regard to the Acquisition Financing Office, the activity was mainly directed at assessing and structuring acquisition

transactions characterised by a marked industrial value in selected sectors that were not significantly affected by the recent economic and financial recession.
All the above caused the growth of the activity carried out by the Loan Agency Office, the organisational unit dedicated to managing and monitoring advanced structured finance transactions, which followed a growing number of project, real estate, shipping and acquisition financing transactions (about 180 positions for a total commitment of € 3 billion).
The activity of the Principal Investments sector (specifically, Advisory M&A) was characterised by the continuous management of existing mandates, relating to transactions connected both to private and public persons, as well as for extraordinary enterprise finance initiatives with the acquisition of two new mandates (acquired in the first and in the third quarter).
The Private Equity sector carried out its activity to support the development of small and medium enterprises with strong growth potential mainly through MPS Venture SGR (an MPSCS subsidiary). The company manages six closed-end mutual funds reserved for professional investors, for a total subscribed amount of € 360 million.
Lastly, with regard to the Securitisation and Principal Finance activity, 3 important securitisations were completed in 2010, i.e.:
- Siena Mortgages 10-7 (Parent Company's home mortgage loans amounting to € 3.2 billion);
- Casaforte (for a value of about € 1.7 billion, connected to a wider operation to value the property assets of the BMPS Group);
- securitisation Consum.it (performing loans amounting to about € 3 billion).

In 2010, the business activities carried out by the **"Global Markets"** achieved results that widely exceeded the assigned budget, even in an extremely volatile environment, with rarefied commercial opportunities. The year was characterised by rather convulsive market dynamics, with extremely broad oscillations in the main financial variables (credit spreads and volatility). Risk management was based on a high rate of portfolio rotation, modulating the level of absorption of the delegations according to the unfolding scenarios.
Commercial activity concentrated on flow products, in accordance with market dynamics and, with reference to coverage, there was an attractive level of growth in the commodity sector, although the level of penetration with potential customer is still low.
It should be pointed out that "project" activity was focused on optimising capital requirements with actions aimed at containing the requirement for market risk mainly of a methodological nature) and for counterparty risk, starting the process of adhering to major clearing houses. Lastly, the reorganisation of the execution on third parties' behalf and electronic channels was started; in terms of new products, this activity exhibited the potential existing on the Certificates market. These are investment instruments that allow to offer new, attractive risk/return solutions for MPSCS direct and/or indirect customer, for a highly management of different risk variables. In this regard, the document-based formalities, among them the filing with Consob, have already been started.

In 2010, the **"Investment Banking"** BU carried out its activities through its Debt Capital Market, Equity Capital Market and Corporate Advisory & Origination offices, joined, at the start of the year, by the Syndication Desk (which previously reported to the Global Markets Division).
During the year, the Syndication Desk, in addition to handling the execution of the deals originated by the Capital Markets and Equity Capital Markets office, also managed the syndication of 16 transactions. Foremost among these, in terms of amount, were the two inaugural issues of CCTEU by the Republic of Italy (the first one at 5 years for € 5 billion and the second one at 7 years for € 5.1 billion), for which the Bank served as joint-lead manager & book runner. MPSCS also served as arranger in the home mortgages originated by the Group and called Siena Mortgages

2010. The RMBS transaction, amounting to € 3.5 billion, involved the Bank for the joint-lead manager & book runner role in the placement of the A1 class for € 595 million and of the A2 class for € 400 million. The transaction appears to be particularly relevant because it reopens the European securitisation market after it froze in 2007, as a result of the subprime loan crisis.

With regard to the Debt Capital Market Office, in 2010 it operated as joint-lead manager and joint-bookrunner in the 10-year corporate senior Acea S.p.A. issue, for a total issued amount of € 500 million, and in the corporate dual senior tranche issue, at 5-year fixed rate and at 3-year floating rate, of Impregilo International Infrastructures N.V., guaranteed by Impregilo S.p.A., for a total issued amount of € 300 million. Also significant was the participation in the Management Group in the Public Subscription Office for an Enel S.p.A. senior corporate bond with 6-year maturity, for a total issued amount of € 3 billion in two tranches, one with fixed rate and one with floating rate. Among the other completed transactions, of note is the participation as joint-lead arranger in the senior secured dual bond, fixed rate tranche with 8-year maturity, issued by Wind Acquisition Finance S.A., both in the Euro denominated tranche, with an issued amount of € 1.75 billion, and in the USD-denominated one, with an issued amount of USD 1.3 billion.

In 2010, the Equity Capital Market Office mainly handled MPSCS participation in guarantee consortia serving capital increases of primary Italian and foreign companies and institutions. In particular, MPSCS participated in the syndicate of banks guaranteeing the € 500 million capital increase of Unipol Gruppo Finanziario S.p.A., aimed at the strengthening the capital of the insurance group. MPSCS also participated, as joint-bookrunner, in the guarantee consortium constituted for the capital increase of Stefanel S.p.A. within the company's turn-around plan. During the second half, it participated as co-lead manager in the guarantee consortium serving the capital increase of about € 10 billion promoted by Deutsche Bank AG, to strengthen the capital of the German bank and to fund the take-over bid of Deutsche Postbank AG. There were also various participations, as sub-underwriter, in guarantee consortia serving capital increases to strengthen the capital of major foreign financial institutions. Within the IPO of Enel Green Power S.p.A., it was appointed as co-lead manager of the institutional offers and Member of the IPO Management Group. The Equity Capital Market Office is also responsible for the nominated adviser activity on behalf of TBS Group S.p.A., listed on AIM Italia, an unregulated market of Borsa Italiana.

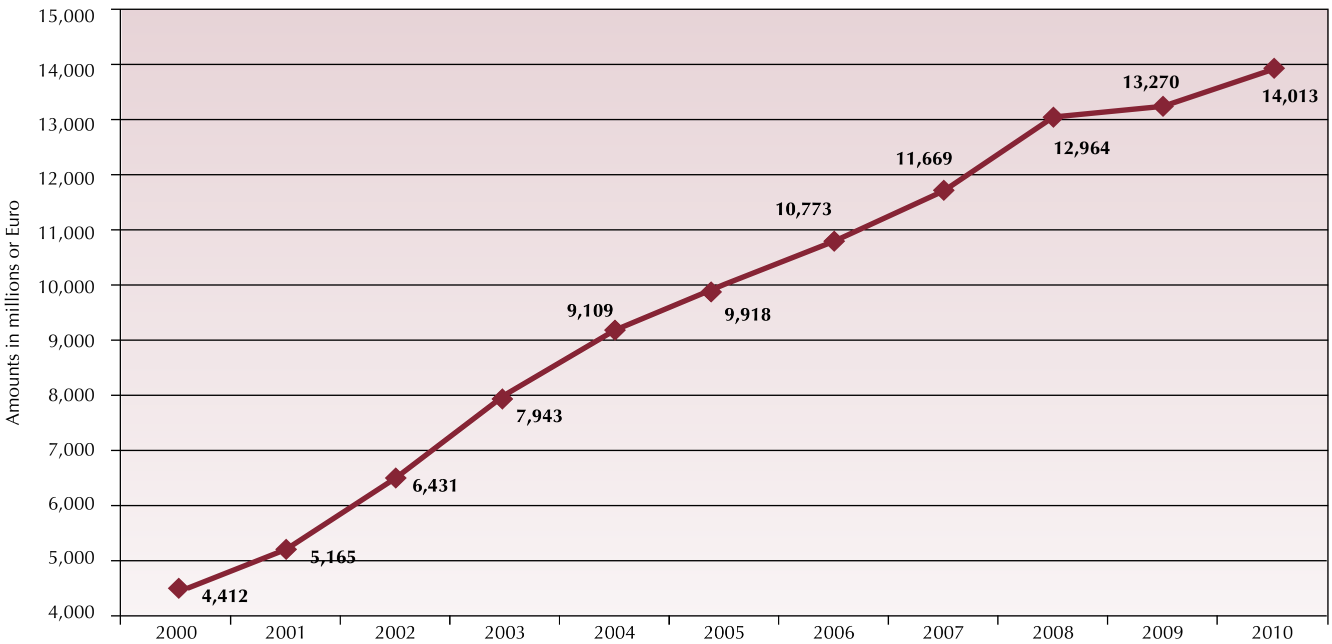
Last, but not least, the Corporate Advisory & Origination Office which continued its activity as financial advisor, acquiring new mandates with the goal of accompanying companies in the implementation of the strategic plan and in the process of approaching the capital market. Additionally, mandates were obtained for the activation of corporate reorganisation plans. Moreover, the office assisted the Debt Capital Market Office in the aforementioned Acea S.p.A. corporate senior issue and the Equity Capital Market Office in the IPO of Enel Green Power S.p.A..

Credits aggregates

LOANS TO CUSTOMERS

Loans to customers, calculated according to management logic, as at 31 December 2010 amounted to € 14,013 million, versus € 13,270 million of the previous year (+5.60% on an annual basis).

LOANS TO CUSTOMERS
("Management" view))



Below is the reconciliation of the management data as at 31 December 2010 for consistency with the balance of the asset entry 70 "Loans to customers". The reconciliation amounts derive from a different classification of the financial statement data with respect to the management disclosure:

(amounts in millions of Euro)

Management amount	14,013
Due from banks	(15)
Operating receivables	265
Past due differentials	(5)
Prepaid expenses and accrued income	38
Collateral credits	2,839
Valuation reserve on receivables	(907)
Financial statement amount	**16,228**

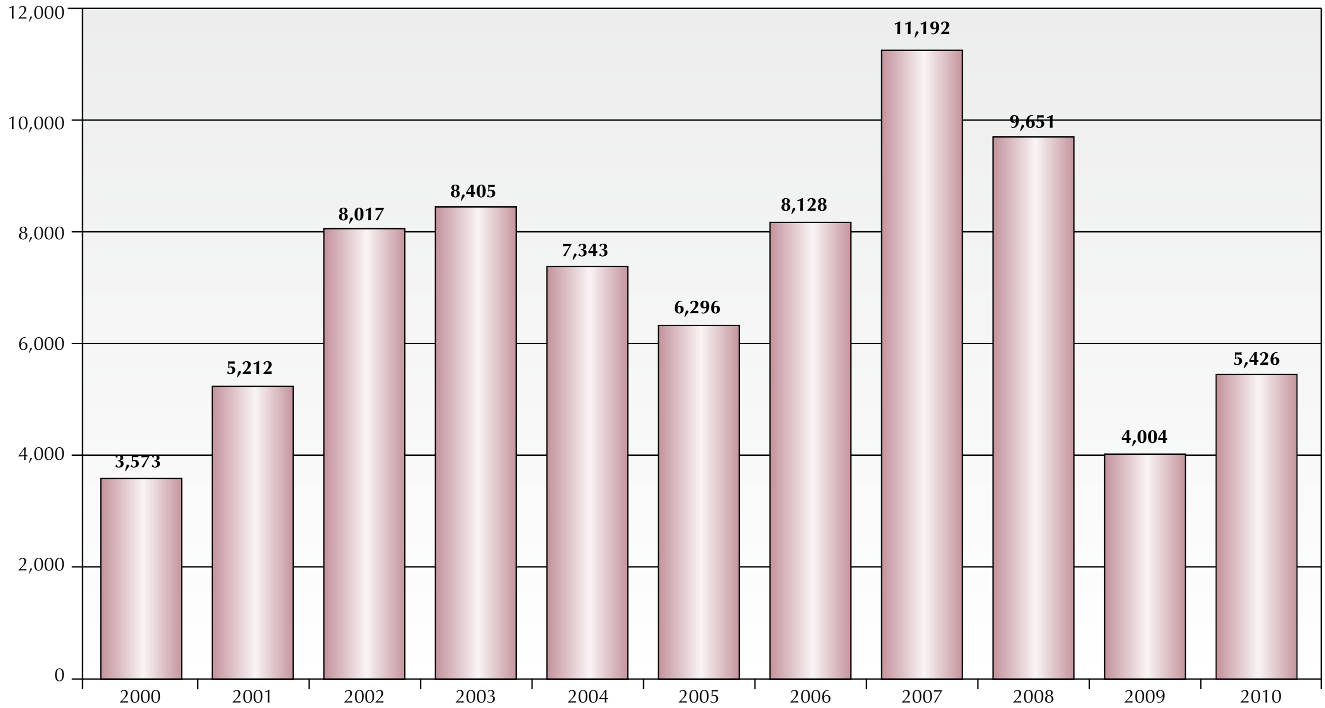
The table below analyses commercial flows for 2010.

APPLICATIONS FOR FINANCING SUBMITTED

(amounts in millions of Euro)

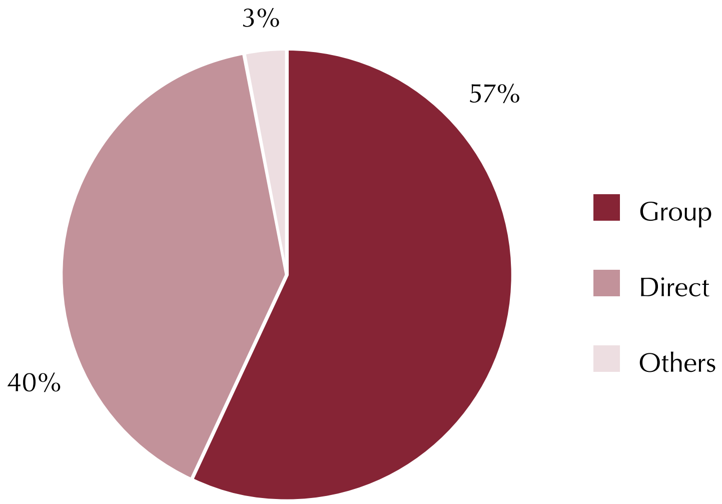
	2010	*2009*	*Changes*	
			absolute	*%*
Number	585	564	21	3,7
Amount	5.426	4.004	1.422	35,5

VOLUMES OF APPLICATIONS SUBMITTED



After the sharp contraction in 2009, due to a large extent to the severe economic downturn, in 2010 there was an initial recovery in terms of credit flows. This phenomenon is not only visible in terms of "requested credit" (+ € 1.4 million with respect to the financing applications of the previous year), but it is also evident in "substance" in all other credit processing "phases". There were increases in the amount "authorised" (+ € 1.46 billion, i.e. over 65% more than in 2009), in the amount "stipulated" (+ € 472 million, i.e. +31% over the previous year) and in the amount "disbursed" (+ € 184 million, i.e. 9.8% more than in 2009).

APPLICATIONS SUBMITTED IN 2010
Breakdown by Channel

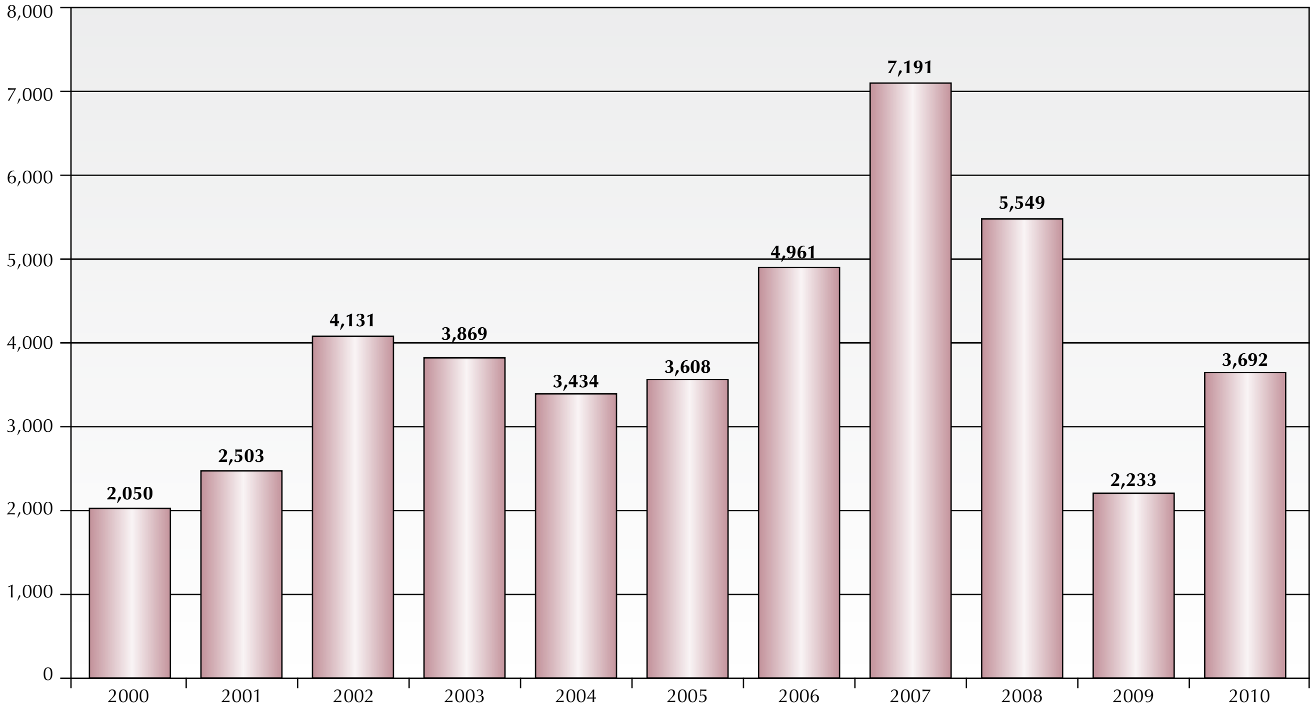


LOANS GRANTED

(amounts in millions of Euro)

	2010	*2009*	*Changes absolute*	*Changes %*
Number	404	359	45	12.5
Amount	3,692	2,233	1,459	65.3

AUTHORISED TRANSACTIONS



RATIO OF LOANG GRANTED TO APPLICATIONS FILED

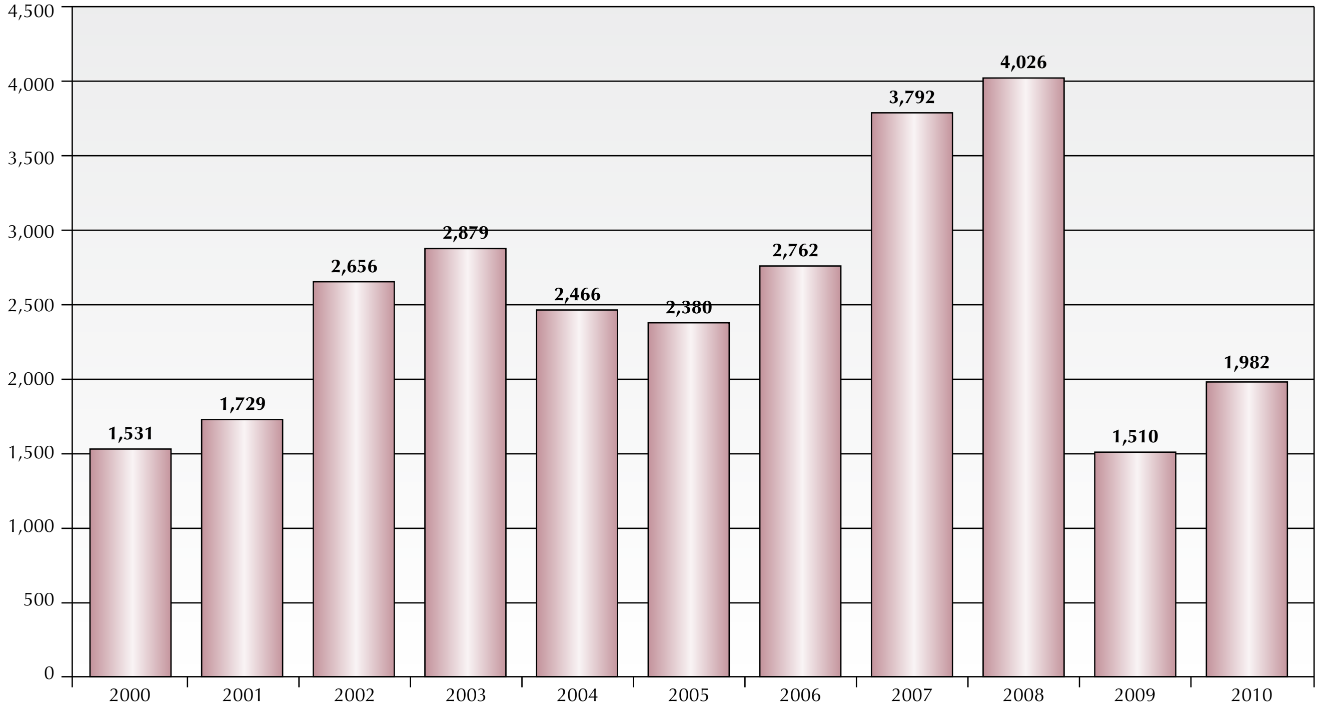
	2010	*2009*	*2008*	*2007*
Numero	69.1%	63.7%	66.2%	65.5%
Importo	68.0%	55.8%	57.5%	64.3%

AGREEMENTS ENTERED INTO

(amounts in millions of Euro)

	2010	*2009*	*Changes absolute*	*Changes %*
Number	349	364	-15	-4.1
Amount	1,982	1,510	472	31.3

OPERATIONS CARRIED OUT



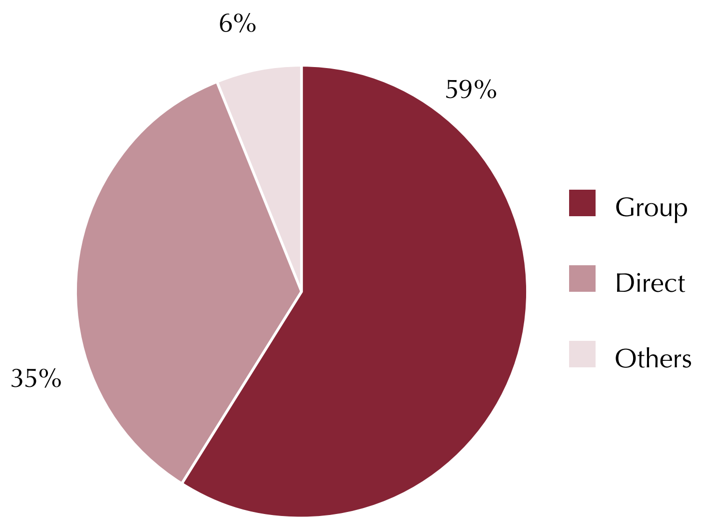
FINANCING DISBURSED

(amounts in millions of Euro)

	2010	*2009*	*Changes absolute*	*Changes %*
Number	1,364	1,795	-431	-24.0
Amount	2,068	1,884	184	9.8

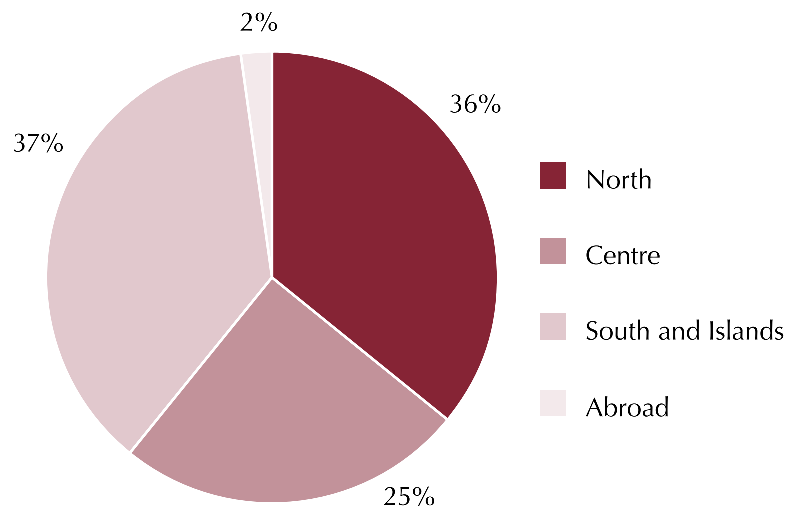
During the year, the Bank disbursed a total of about € 2 billion. Although it decreased in terms of quantity, the number of "disbursements carried out" still remained high, as a result of the company decision, which has been consolidated over the years, to favour financing linked to future investments, in compliance with precise production development plans. Therefore, financing is disbursed in several tranches, according to the state of progress of the works.

DISBURSED TRANSACTIONS 2010



With regard to the geographic distribution of the commercial flows, the policy of fully diversifying the portfolio continued; 25% was disbursed in Central Italy, whereas 36% was disbursed in the North and 37% in the South. Lastly, 2% pertains to operations with non-resident parties.

GEOGRAPHICAL BREAKDOWN OF DISBURSEMENTS IN 2010



IMPAIRED ASSETS

The tables below show the distribution of impaired assets as at 31 December 2010 by portfolio (amounts in thousands of Euro):

Cash exposure	*Gross exposure*	*Specific adjustments*	*Portfolio adjustments*	*Net exposure*
Financial assets held for trading (*)	3,088		-	3,088
Due from banks (**)	6,000	(6,000)	-	0
Loans to customers	3,206,627	(814,677)	(40,500)	2,351,450
Total	**3,215,715**	**(820,677)**	**(40,500)**	**2,354,538**

(*) Bonds issued by the Lehman Group written down in 2008.
(*) Bonds issued by Banca Popolare di Garanzia SCPA, written down in 2009.

Off-balance sheet exposure	*Gross exposure*	*Specific adjustments*	*Portfolio adjustments*	*Net exposure*
Financial assets held for trading (*)	6,999	(3,934)		3,065
Guarantees given (*)	25,937	(6,142)	(833)	18,962
Commitments to disburse funds and other commitments	22,894	-	-	22,894
Total	**55,830**	**(10,076)**	**(833)**	**44,921**

(*) Resulting from derivatives positions towards customers
(**) Performing exposures are subject to collective adjustments for a total of € 2,967 thousand.

Impaired assets are broken down by type below (amounts in thousands of Euro):

Type of impaired assets	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Collective adjustments*	*Net exposure*
Non-performing	2,103,602	(532,813)	(169,327)	-	1,401,462
Watch-list	797,337	(91,773)	(10,727)	(28,150)	666,687
Restructured exposures	219,750	(15,667)	-	(7,600)	196,483
Exposures past due by over 180 days	95,026	(370)	-	(4,750)	89,906
Total (*)	**3,215,715**	**(640,623)**	**(180,054)**	**(40,500)**	**2,354,538**

(*) Performing loans are subject to analytical adjustments for default interest of € 532 thousand and collective adjustment for € 73,710 thousand. Analytical write-downs amounted to € 820,912 thousand, while collective write-downs totalled € 114,210 thousand.

The balance of impaired assets, net of value adjustments and discounting, stands at € 2,355 million; the change compared to the amount as of 31 December 2009 (€ 1,904 million) is € 451 million (+23.69%). Non-performing exposures deriving from loans to customers and financial assets held for trading increased from € 1,130 million as of 31 December 2009 to € 1,401 million as of 31 December 2010 (+23.98%). Watch-list loans increased from € 591 million as of 31 December 2009 to € 667 million as of 31 December 2010 (+12.86%).

The critical issues that concerned almost all economic sectors, generating a growing tension in the financial management of companies, which often find it difficult to meet bank loan due dates, naturally influenced the above figures. The functions in charge continue in any case to follow and closely monitor the positions, strengthening, insofar as it is possible, all initiatives aimed at containing anomalous risk: among them, a significant role continues to be played by the rescheduling activity, for the positions deemed worthy both from the viewpoint of the financial economic re-balancing and of the acquired guarantees. The operating instrument, well adapted to the characteristics of our past-due portfolio, was found particularly appropriate to promote the return to the performing status of the past due positions that have suitable characteristics. The revision of the original contractual conditions, when the requirements deriving from reference regulations were fulfilled, also entailed the reclassification of the positions among the restructured receivables, which consequently increased relative to the previous financial statements. In view of these activities, worthy of note is the containment of the so-called "past due 180" (loans past due for over 180 days) which dropped from € 146 million as at 31 December 2009 to € 90 million as at 31 December 2010 (-38.36%).

The initiative (which complements the normal recovery activity, also carried out through external authorised companies and professionals and the contact centre), has now been ongoing for about two years and it aims, with respect to the most significant due dates and those characterised by previous late payment episodes, to facilitate the payment and management of any modest delays.

During the year, analytical value adjustments were recorded for € 111.4 million; write-backs due to valuation amounted to € 15.4 million, while those due to collection totalled € 1.0 million. Discounting resulted in adjustments of € 72.1 million, while the related write-backs and the interest totalled € 60.8 million. Total collective write-downs increased by a total of € 4.2 million (net of € 1.3 million of utilisations) and reached € 115.0 million (of which: € 28.2 million to cover watch-list loans without doubtful outcome; € 4.7 million for exposures past due by over 180 days, € 7.6 million in relation to restructured receivables; € 73.7 million to cover performing loans to customers and € 0.8 million to cover performing loans to banks).

In percentage terms, flat-rate write-downs cover 0.70% of loans to customers (0.71% as of 31 December 2009). Ascertained losses impacting the Income Statement were € 3.5 million.

For guarantees issued and commitments, a write-down of € 9.9 million (€ 6.1 million of analytical adjustments and € 3.8 million of portfolio adjustments) was recorded under "other liabilities", including € 7.5 million recognised during the current year.

Deposits

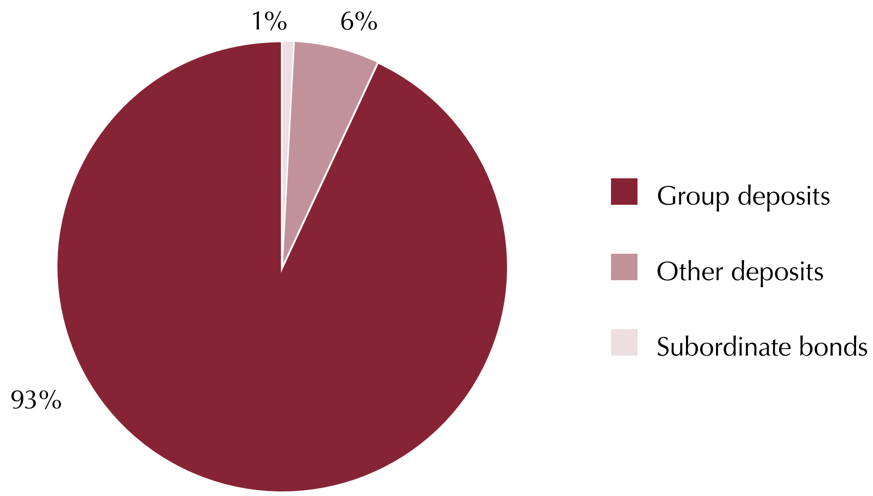
The coverage of financial requirements for ordinary credit activities, per the previous chapter, was assured by the normal incoming flows generated by loan repayments and by new long and short term deposits.
In 2010, four medium and long term loans were stipulated with MPS Ireland for a total amount of € 1,350 million, whilst the Parent Company's short-term deposits increased by € 1,327 million. Two funding sources was also activated on EIB funds for € 33 million.
At the end of the year, total amounts due to the Parent Company and its non-banking foreign subsidiary, MPS Ireland, totalled € 16,528 million (€ 15,675 million at 31 December 2009), broken down as follows: 209 on demand (531 at 31 December 2009), € 4,913 short (€ 3,264 at 31 December 2009) and € 11,406 medium – long term (€ 11,880 at 31 December 2009).
The table below shows the breakdown of deposits by type as of 31 December 2010, compared with the situation at the end of the previous year:

(amounts in millions of Euro)

	31/12/2010	*31/12/2009*
Loans of the Parent Company and its subsidiaries:		
- on demand and short term	5,122	3,795
- medium and long term	11,406	11,880
Bonds:		
- non-subordinate	-	-
- subordinate	279	304
Other payables to Banks and Customers	996	978
TOTAL	**17,803**	**16,957**

The table conventionally includes (for accurate matching with balance sheet items) also short-term deposits for € 4,905 million (€ 4,016 million as at 31 December 2009), as supplementary deposits in addition to the typical assets of the global markets (see following paragraph "The finance aggregates").

BREAKDOWN FO DEPOSITS AS OF 31/12/2010



Main Financial Aggregates

With regard to the activity of the Global Markets Division, the main dynamics that characterised the commercial volumes of 2010 are analysed in detail below, with the volumes summarised in the table that follows:

- the volumes deriving from hedging of the rate risk with Corporate customers (Customer Desks) were about € 3.4 billion versus € 4.1 billion in 2009, down 18%. The reduction in the volumes is mainly due to the contraction in medium and long term disbursements structured with hedging derivative;
- the performance of institutional rate hedges, -23% from the previous year, is mostly due to the return to the market of the foreign competitors who had reduced their presence in 2009 because of the crisis in the financial industry after Lehman's default;
- the volumes deriving from rate hedges with Corporate customers amounted to about € 2 billion, up 24% over 2009. The growth is mainly linked to the high volatility in the foreign exchange market during the year;
- the volumes from commodity hedging with Corporate customers amounted to about € 365 million, up 21% relative to 2009. The growth is linked to the development activity, which allowed to increase the number of customers using this financial instrument. However, the business lines is still considered to be in its start-up phase;
- the performance of equity hedging, -76% relative to the previous year, is also linked to market dynamics, which have led to a reduced demand for hedging on this market;
- the volumes traded on the secondary market of Bank, Corporate, Emerging, Supranational and ABS (Secondary Credit) securities, decreased by 20% from 2009, because of the narrowing in the spreads relative to government bonds;
- "secondary government" performance, +63% over 2009 volumes, is the direct consequence of the greater appeal, in terms of return, offered by government securities during the year;
- volumes deriving from placement with institutional investors and corporate customers of primary market securities amounted to about € 9.5 billion, up 380% relative to 2009. The excellent performance is mainly to the Treasury issue placements, which polarised investors' attention.

Product	*2010 Volumes*	*2009 Volumes*	*Percent change*
Customer desk rate hedging	3,420	4,153	-18%
Institutional rate hedging	2,410	3,125	-23%
Exchange rate hedging	2,057	1,655	24%
Commodity hedging	365	302	21%
Equity hedging	36	151	-76%
Secondary credit	4,949	6,171	-20%
Secondary government	9,037	5,541	63%
Primary	9,546	1,989	380%
Credit hedging	20	10	100%
Ad hoc investments	124	40	210%
TOTAL	**31,964**	**23,137**	**38%**

Note:
These are commercial volumes determined according to management criteria aimed at representing the trend of the masses moved during the year.

With regard to balance sheet aggregates, relative to 2009, the amounts in securities held for trading in 2010 increased considerably, by nearly € 1,807 million (+75.11%) in the "government securities" asset class, and by about € 833 million (+42.91%) in the "bank issuers' bonds" asset class. These increases were mainly refinanced by repurchase agreements which, in view of the advantageous conditions of both (face rate of the security versus financing rate) and the sizable amounts assumed during the year (see 30 June 2010), promoted the formation of attractive intermediation margins. Investments in stocks and UCITS units remained substantially low relative to the entire trading portfolio (3.75%).trading (3,75%).

Trading portfolio Sub-items - securities	*31/12/2010*	*30/06/2010*	*31/12/2009*	*Changes from 12/2009*	
				Absolute	*%*
Government and public agency securities	4,239,985	7,284,292	2,421,485	1,818,500	75.10
Bonds and other debt securities	3,457,031	3,473,072	2,459,348	997,683	40.57
Equity securities - stocks	216,919	175,668	169,299	47,620	28.13
Equity securities – UCITS	82,515	72,995	72,255	10,260	14.20
total securities	**7,996,450**	**11,006,027**	**5,122,387**	**2,874,063**	**56.11**

Trading portfolio Sub-items - loans	*31/12/2010*	*30/06/2010*	*31/12/2009*	*Changes from 12/2009*	
				Absolute	*%*
Repurchase agreements	8,896,057	7,658,767	3,358,518	5,537,539	164.88
Securities loan	3,306,479	3,008,796	2,300,798	1,005,681	43.71
Total loans	**12,202,536**	**10,667,563**	**5,659,316**	**6,543,220**	**115.62**

Trading portfolio Sub-items - borrowings	*31/12/2010*	*30/06/2010*	*31/12/2009*	*Changes from 12/2009*	
				Absolute	*%*
Repurchase agreements	(15,185,335)	(16,184,666)	(6,378,426)	(8,806,909)	138.07
Securities loan	(3,550,305)	(3,742,002)	(2,554,152)	(996,153)	39.00
Total borrowings	**(18,735,640)**	**(19,926,668)**	**(8,932,578)**	**(9,803,062)**	**109.75**
Net loans (borrowings)	**(6,533,104)**	**(9,259,105)**	**(3,273,262)**	**(3,259,842)**	**99.59**

Overall, the management of deposits and loans addressed the intermediation in money market instruments and debt securities, as well as in deposits to the Parent Company (for the sake of complete disclosure, see also the previous paragraph, "Deposits"). In the last two months of 2010, the operating module of the "triparty repo" started, initially to the EIB counterparty.

Longer-term investments made are classified among the receivables (as unlisted bonds for a total value of about € 39 million) and among financial assets available for sale (such as: i) unlisted debt securities for a value of about € 49 million and ii) stocks and UCITS units for a total amount of about € 23 million). These portfolios were mainly affected by the closure of some ABS positions (for additional details, please see Section C of Part E of the explanatory notes) and by the investment in "industrial" bonds. To protect part of the assets recorded among the financial assets available for sale against interest rate fluctuations, the Bank designated a hedging interest rate swap agreement, according to the hedge accounting rules defined by IAS 39.

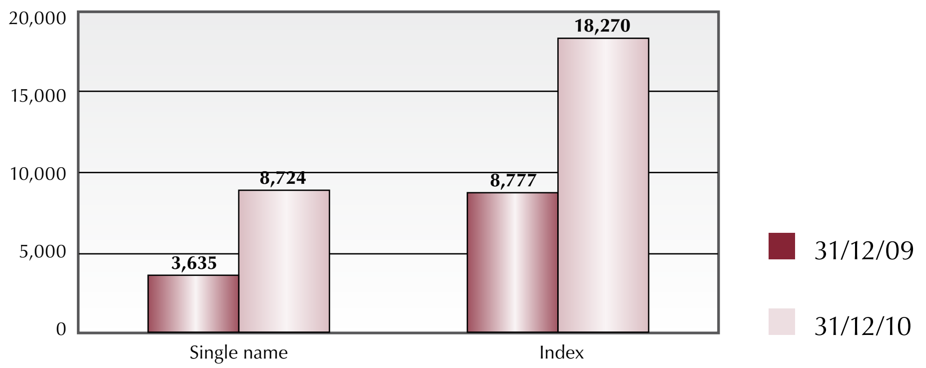
Examining the transactions with derivative instruments, opposite dynamics are noted in the brokered stocks with respect to those recorded at year-end.

Specifically, for the credit derivatives asset class – the nominal values are compared below – both purchases and sales increased considerably, in the presence of a limited risk profile. This increase was concentrated in instruments with underlying credit indexes and with bank counterparties.

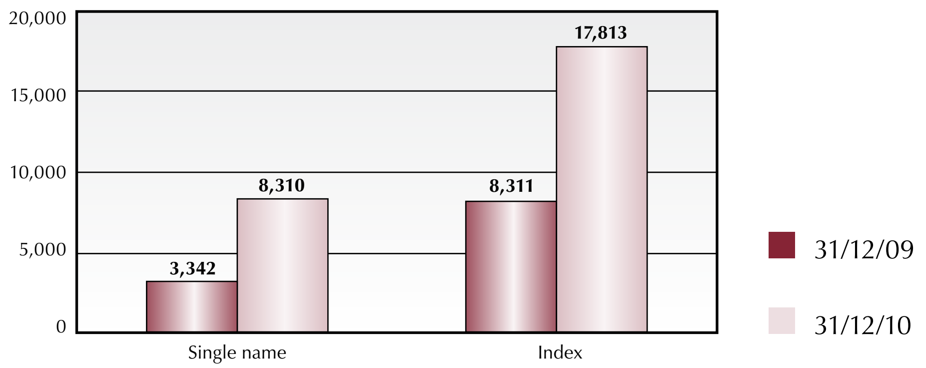
(nominal amounts in € thousands)

Credit derivatives	*31/12/2010*	*30/06/2010*	*31/12/2009*	*Changes from 12/2009*	
				Absolute	*%*
Protection purchases	26,994,086	20,786,083	12,412,127	14,581,959	117.48
Protection sales	26,122,830	20,296,725	11,653,172	14,469,658	124.17

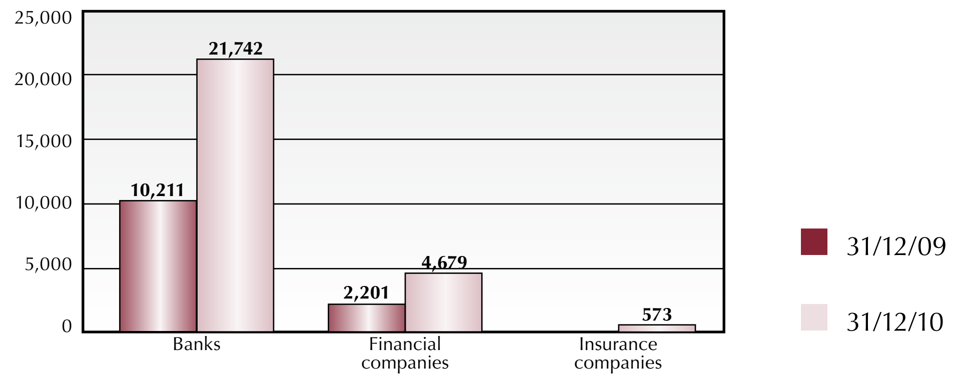
PROTECTION PURCHASES – BREAKDOWN BY UNDERLYING ASSET (€/MILLIONS)



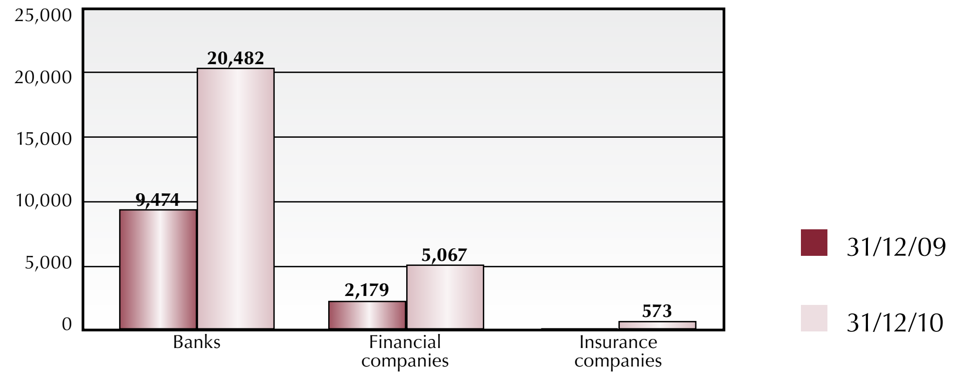
PROTECTION SALES – BREAKDOWN BY UNDERLYING ASSET(€/MILLIONS)



PROTECTION PURCHASES – BREAKDOWN BY COUNTERPARTY (€/MILLIONS)



PROTECTION SALES – BREAKDOWN BY COUNTERPARTY (€/MILLIONS)



For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

On the other hand, for the financial derivatives asset class, there was an overall contraction of 8.40% in nominal terms with respect to the previous year. In 2010, several otc (plain vanilla) agreements were transferred from the "original" counterparties to the "Swapclear" clearing service, to mitigate the credit risks inherent in these instruments thanks to the marginalisation of all transferred positions. On the listed derivatives side, the positions were reduced by € 102,966 million, in particular because of the closing/opening of optional purchase and sale strategies.

(nominal amounts in € thousands)

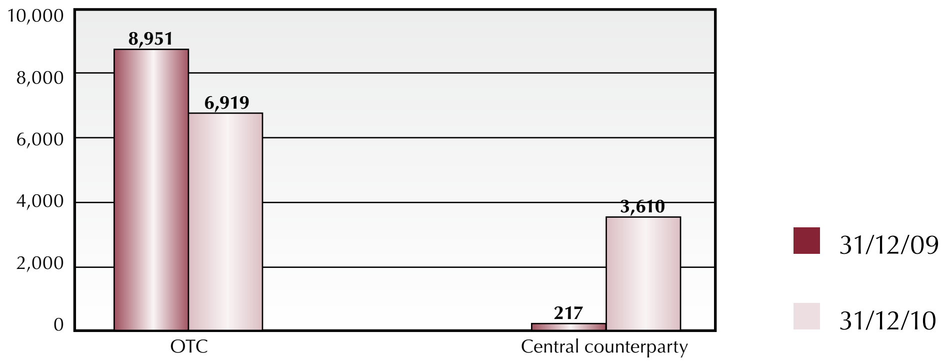
Financial derivatives	*31/12/2010*	*31/12/2009*	*Changes from 12/2009*	
			Absolute	*%*
Over the counter	302,057,484	389,929,738	(87,872,254)	(22.54)
Central counterparties	197,217,140	155,116,236	42,100,904	27.14
Total	**499,274,624**	**545,045,974**	**(45,771,350)**	**(8.40)**

The overall evaluations as at 31 December 2010, compared with the values of the previous year, are shown below. Naturally, future style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

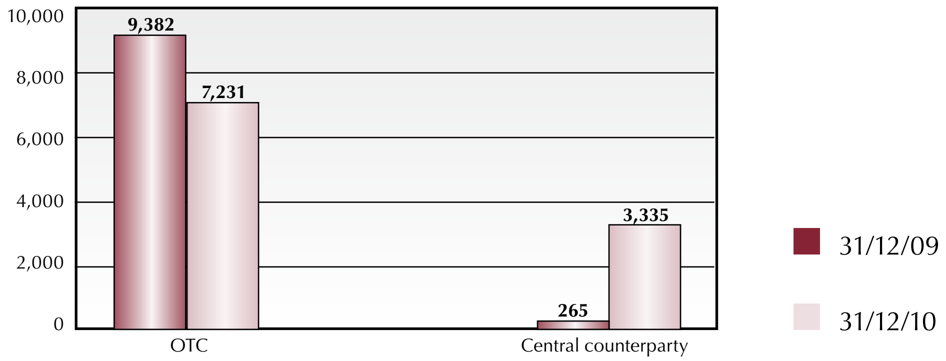
(amounts in thousands of euros)

Financial derivatives Valuation (fair value)	*31/12/2010*	*31/12/2009*	*Changes from 12/2009*	
			Absolute	*%*
Positive (of which Assets item 20	10,528,995	9,167,795	1,361,200	14.85
Negative (of which Liabilities item 40)	(10,566,005)	(9,646,522)	(919,483)	9.53

POSITIVE FAIR VALUE – BREAKDOWN BY TYPE OF DERIVATIVES (€/MILLION)

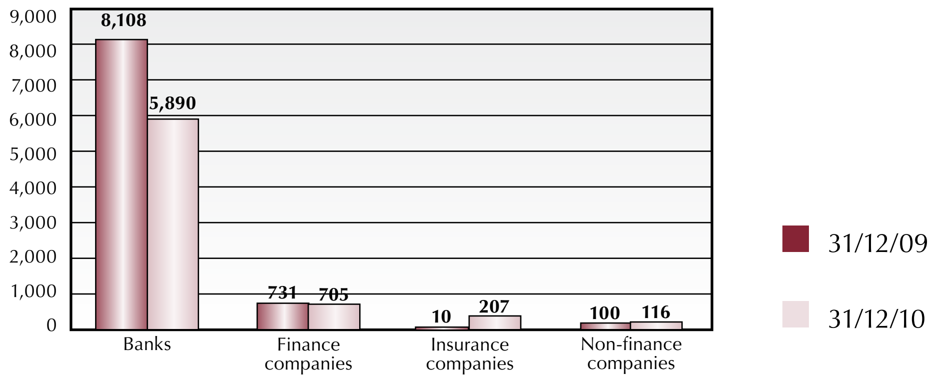


NEGATIVE FAIR VALUE – BREAKDOWN BY TYPE OF DERIVATIVES (€/MILLION)



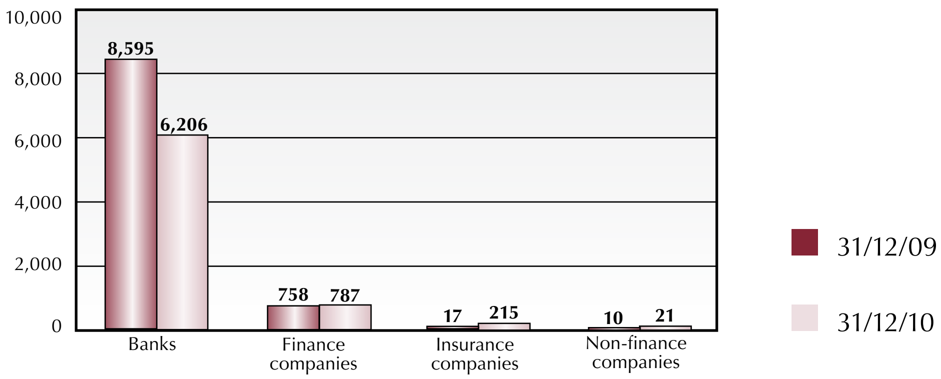
With respect to the "Central Counterparty" item, exposures in fair value terms to Swapclear as at 31 December amount to € 3,472 million as positive fair value and € 3,195 million as negative fair value.

OTC POSITIVE FAIR VALUE – BREAKDOWN BY COUNTERPARTY (€/MILLION)



Excluding transactions for securities to be received and delivered (regular way)

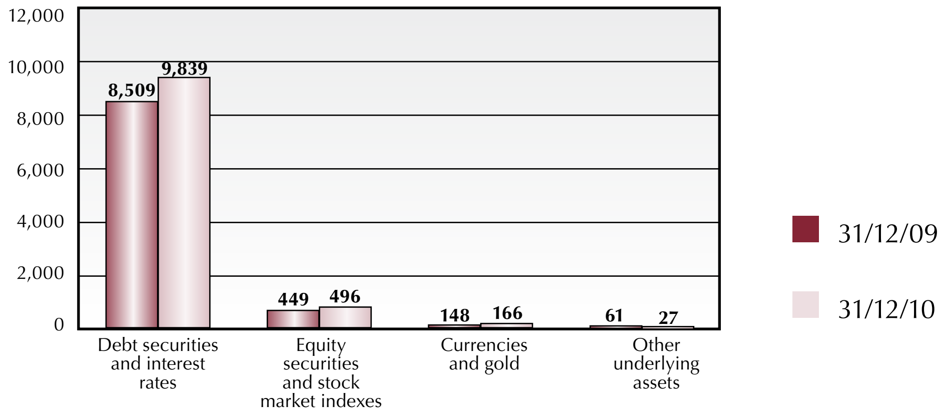
NEGATIVE FAIR VALUE – BREAKDOWN BY COUNTERPARTY (€/MILLION)



Excluding transactions for securities to be received and delivered (regular way)

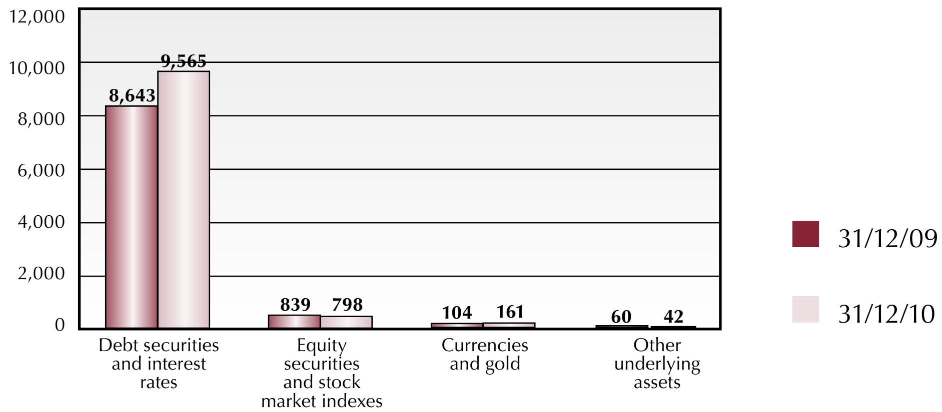
The breakdown by "underlying" type of asset exposures (as positive fair value) and of liability exposures (as negative fair value) reported in the balance sheet is provided below.

POSITIVE FAIR VALUE – BREAKDOWN BY UNDERLYING ASSETS (€/MILLION)



Excluding transactions for securities to be received and delivered (regular way)

NEGATIVE FAIR VALUE – BREAKDOWN BY UNDERLYING ASSETS (€/MILLION)



Excluding transactions for securities to be received and delivered (regular way)

For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

Main Economic Aggregates and Management Indicators

Economic Aggregates

MPSCS closed its financial statements as of 31 December 2010 with a net profit of € 82.42 million, recognised according to the International Financial Reporting Accounting Standards (IAS-IFRS).

The reclassifications below were prepared based on the "management" criteria for the reclassification of the accounting entries, in line with those adopted by the Parent Bank. These criteria, used during year also for the purposes of representing deviations from budget targets, do not determine substantial differences in the intermediate margins from the accounting aggregates per these Financial Statements.

(values in € millions))

IAS Income Statement	*Cons. at 31/12/2010*	*Cons. at 31/12/2009*	*% Change 2010-2009*
Interest Margin	**263.97**	**230.08**	**14.7%**
Total fees from customers	**35.74**	**17.02**	**110.0%**
Other revenues from Financial Management	**29.67**	**57.37**	**-48.3%**
Margin from Financial & Ins. MGMT	**329.38**	**304.47**	**8.2%**
Net value adjustments for impairment	-122.92	-136.47	-9.9%
Income from Financial & Ins. MGMT	**206.46**	**168.00**	**22.9%**
Operating Costs	**-77.80**	**-81.17**	**-4.2%**
Net Operating Profit	**128.66**	**86.83**	**48.2%**
Net provinsions for risks and charges	-9.21	-2.29	301.5%
Other operating income/charges	10.64	0.64	1572.2%
Profit (loss) before taxes	**130.09**	**85.17**	**52.7%**
Income taxes on current operations	-47.67	-35.36	34.8%
Tax Rate	36.7%	41.5%	-11.6%
Profit (loss) for the period	**82.42**	**49.81**	**65.5%**

Briefly, the "**Interest Margin**" and the "**Total Fees from Customers**" were higher, respectively by 14.7% and 110.0%, than the values of the same period of the previous year, whereas "**Other Revenues from Financial Management**" were 48.3% below the 2009 results.

The increase in "Interest Margin" is partly due to the fact that higher amounts were kept in bonds, mainly short-term government bonds, whose coupon rates at this time are far higher than the average financing level, determining, all other conditions being equal, a correlated decrease in the income from trading activities. The latter is also affected by the different market strategies pursued by the Bank, as illustrated in the previous paragraph "Significant Aspects of Operations".

With regard to the commission item, the excellent performance is a consequence of the increase of fees on loans, mostly due to the activity of the Corporate Finance Division which last year had been particularly affected by the crisis. In addition, there was the result achieved by the Global Market Division and by the Investment Banking Division, better than expected as a result of the growth in commission income deriving from the "third party paper" placement activity and of the proceeds generated by advisory, debt origination and capital increase operations.

Consequently, the "**Margin from Financial and Insurance Management**", at € 329.38 million, is 8.2%, or about € 25 million, higher than the 2009 result. Overall, the results achieved are mainly due to the operations carried out by Global Markets Division, thanks to the increased operations in the government bond class, in activity on the primary and in the volumes of exchange rate hedges, which offset the contraction in the volumes of the rate and equity hedges on behalf of corporate customers.

"**Net value adjustments for Impairment**" decreased significantly to € 122.92 million, versus the consolidated amount of € 136.47 million in 2009. This amount reflects the level of maximum attention pursued by the Bank for financial 2010 to control credit risk, also in consideration of the persistence of a macroeconomic scenario that is complex and rich in uncertainties.

With regard to "**Operating Costs**", there was a 4.2% contraction relative to 2009, due mainly to the reduction in the "incentive system" portion, per Group directive.

"**Profit before Taxes**" amounted to € 130.09 million, versus € 85.17 million in 2009, with a positive difference of about € 44.92 million (+52.74%).

"**Income taxes**" for the period, both current and deferred, amounted to € 47.67 million with an effective tax rate of 36.65%. The recalculated tax rate before extraordinary items, such as the outflow of the excess taxes relating to the previous year (about € 3 million) and the recording of the tax credit for the sale of UCITS units (about € 1.4 million), would be 40.03%.

"**Profit for the Period**", net of taxes, was € 82.42 million, versus € 49.81 million the previous year.

MANAGEMENT INDICATORS

	31/12/2010	*31/12/2009 historical data*	*Changes in % terms*
Credit quality indices (%)			
Net non performing loans / Loans to customers	8.62	8.59	0.28
Net watch-list loans / Loans to customers	4.11	4.51	(8.83)
Profitability indices (%)			
R.O.E. on shareholders' equity *	7.33	4.86	51.02
R.O.E. on capital balance **	7.71	5.21	48.01
Interest margin / Operating revenues ***	127.86	136.90	(6.61)
Net fees/ Operating revenues ***	17.31	10.12	71.07
Operating costs / Operating revenues ***	37.68	48.21	(21.84)
Net adjustments on on-time receivables / loans	0.09	1.03	(91.03)
Capital ratios (%)			
Tier 1 capital ratio ****	6.85	6.20	10.65
Total capital ratio ****	7.91	7.58	4.49

(1) *R.O.E on shareholders' equity:* *The ratio between the net profit for the period and the average of shareholders' equity (including profit) at the previous year's end and for the reference year.*

(2) *R.O.E on capital balance:* *The ratio between the net profit for the period and the shareholders' equity at the previous year's end minus the profit allocated to shareholders.*

(3) *Operating revenues:* *They are the "result of Financial and Insurance Management*

(4) *Capital ratios:* *Calculated before the 25% reduction prescribed for banks belonging to banking groups (for more details, see Section 2 – Part E of the Explanatory Notes)*

Equity Investments

The total amount is € 41.1 million, versus € 43.1 million as at 31 December 2009. Equity investments are classified in the following balance sheet items: "Financial assets available for sale – item 40" and "Equity investments – Item 100". The main equity investments for each category are as follows:

(amounts in thousands of euros)

Company	*% Stake*	*Carrying amount*
Marina di Stabia S.p.A.	16.32%	6,606
Moncada Solar Equipment S.r.l.	21.67%	5,214
S.T.B. Società delle Terme e del Benessere S.p.A.	13.82%	5,029
Ital TBS Telematic & Biomedical Services S.p.A.	1.98%	1,441
Classica S.p.A.	9.68%	1,175
Società Infrastrutture Toscane S.p.A.	4.80%	720
ABS Technology S.p.A.	10.00%	500
Newco S.p.A.	3.61%	300
Arcea Lazio S.p.A.	5.00%	210
Other		285
Equity investments classified among "Financial assets available for sale" Item 40		**21,479**
MPS Venture S.G.R. S.p.A. (*)	48.00%	972
Interporto Toscano Amerigo Vespucci S.p.A.	36.30%	8,370
Agricola Merse S.r.l.	20.00%	5,004
RE.GE.IM. S.p.A.	40.00%	3,680
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	29.00%	1,507
Immobiliare Centro Milano S.p.A.	33.33%	40
Equity investments classified under item 100 "Equity investments"		**19,573**
TOTAL EQUITY INVESTMENTS		**41,052**

(*) The stock representing 22% of MPS Venture SGR S.p.A. was reclassified among "non-current assets held for sale" (IFRS 5), whose sale is at an advanced negotiation stage. Additionally, in June 2010 MPS Venture reduced share capital by € 5,475 thousand, because of the excess quantity of share capital relative to the company's needs.

The table that follows summarises 2010 investments, mainly represented by the investment in the new associate RE.GE. IM. S.p.A.:

(amounts in thousands of euros)

Name/Headquarters	*Investment Amount*
S.T.B. Società delle Terme e del Benessere S.p.A.	411
Other	2
Financial assets available for sale	**413**
RE.GE.IM. S.p.A.	3,680
Equity investments	**3,680**
TOTAL	**4,093**

The table that follows shows the disposals carried out in 2010:

(amounts in thousands of euros)

Name/Headquarters	*Sale price*
Kerself S.p.A.	1,472
Financial assets available for sale	**1,472**
MPS Venture SGR S.p.A.	3,833
Equity investments	**3,833**
TOTAL	**5,305**

With respect to disposals, the following notes apply:

- Kerself S.p.A.. In the first quarter of 2010, the sale of the equity investment on the market was completed; it had been started in May 2009. In 2010, the transaction generated a capital gain of € 1,141 thousand.
- MPS Venture SGR S.p.A.. This is the reimbursement as a result of a voluntary reduction in share capital, for which please refer to the comments in the descriptive notes below.

Lastly, below are several short notes regarding the main investee companies, starting with those classified under “Financial assets available for sale”, indicating any changes during the year.

Marina di Stabia S.p.A. – Castellammare di Stabia (NA). This company holds a concession, granted in 2001, for the construction and management of a tourist marina in Castellammare di Stabia, deriving from the conversion of an inactive industrial complex. In 2010, the initial 50-year concession was extended by a further 30 years, to 31 December

2080. The Bank's equity investment represents 16.3% of the share capital. The majority of the company's capital is held by a group of entrepreneurs and professionals from Castellammare di Stabia.

Moncada Solar Equipment S.r.l. – Aragona (AG). This company was incorporated in 2008 and its purpose is to build a plant, in the province of Agrigento, for the production of thin film silicon photovoltaic panels, with an estimated generating capacity of 40 MW/year. The plant was inaugurated in December 2009. The Bank is participating in the initiative as a financial partner, with a share representing about 21.7% of the share capital.

S.T.B. Società delle Terme e del Benessere S.p.A. – Prato. This company manages three spa resorts: "Grotta Giusti" - Monsummano Terme (PT), "Fonteverde" - San Casciano dei Bagni (SI) and "Bagni di Pisa" - San Giuliano Terme (PI). The majority shareholder is Investex S.p.A. The Bank also owns 30 shares of the closed-end real estate Fund Cosimo I, managed by Castello SGR S.p.A., instituted by real estate spin-off by S.T.B. itself, recorded among financial assets available for sale, at the total value of € 1,673 thousand, determined on the basis of the most recent available NAV. In the first half of 2010, the company resolved a share capital increase which the bank subscribed in option for € 411 thousand. As a result of the subscription, the percentage share grew marginally to 13.82% (versus 13.7%) because the share capital increase was not subscribed by some minority shareholders.

Ital TBS Telematic and Biomedical Services S.p.A. – Trieste. This company works with medical and hospital structures, for the supply and maintenance of biomedical equipment, as well as integrated IT services. Since 23 December 2009, the company's shares are traded on AIM Italia. The Bank holds an interest representing 1.985% of the share capital.

Classica S.p.A. – Padua. This is a financial company which mainly offers consulting services on financial structuring to companies located for the most part in the "Triveneto" area. The company also controls a SIM, with its registered office in Milan, and it also holds some non-strategic equity investments with respect to control of the SIM which, in 2011, will be split in favour of the Classica Partecipazioni Newco, to comply with the capital parameters in relation to the control exercised over the SIM.
In the first half of 2010, the percent share held by the Bank in the company was reduced marginally (from 10% to 9.68%) as a result of the exercise of the conversion option by the holders of a convertible bond.

Società Infrastrutture Toscane S.p.A. - Florence. This is a special purpose vehicle, pursuant to Article 37 *quinquies* of Law 109/94, for the "Bretella Autostradale Lastra Signa – Prato" motorway project, incorporated in June 2006. The Bank holds 4.8% of the share capital, which is subscribed for € 30 million, and paid up for 50% of the par value. The other main shareholders are Autostrade per l'Italia with 46%, the Florence Chamber of Commerce (C.C.I.A.A.) with 31%, and Baldassini Tognozzi Pontello with 5%.

ABS Technology S.p.A. - Florence. This company, incorporated in December 2007, originated from the partnership between Amtec S.p.A. (Finmeccanica Group) and Bassilichi S.p.A., and operates in the production, sale and management of technological plants and systems and the supply of IT and electronic services dedicated to the security sector. The bank acquired, during incorporation, a 10% stake. Control of the company is held by Amtec (60%), while Bassilichi holds 30% of the capital.

Newco S.p.A. - Naples. This is a special purpose vehicle, incorporated in 2004, for the purpose of enhancing the touristic redevelopment of areas adjacent to the tourist harbour of Castellammare di Stabia, and of holding equity investments. Newco S.p.A. holds a share representing about 15.56% of the company Marina di Stabia S.p.A.. The Bank holds an equity interest of 3.61%.

Arcea Lazio S.p.A. – Rome. A company responsible for the design, construction and maintenance of the regional motorway network, established pursuant to Lazio Regional Law no. 37 of 28 October 2002. The Bank holds 5% of the share capital. The Lazio Regional Authorities are the majority public shareholder, with 51%. The other shareholders are Autostrade per l'Italia S.p.A., with 34%, and Consorzio 2050, with the remaining 10%.

MPS Venture S.G.R. S.p.A. – Florence. An asset management company 70%-owned by the Bank and 30%-owned by Intermonte SIM S.p.A. Currently, preliminary agreements are being defined for the sale, by our Bank, of stock representing about 22% of the capital to a third party. The sale, subordinated among other matters to Bank of Italy authorisation, is expected in early 2011. The equity investment to be sold was therefore reclassified among "non-current assets held for sale" (IFRS 5).
The company manages and promotes six closed-end real estate investment funds reserved for institutional investors (MPS Venture 1, MPS Venture 2, MPS Venture Sud, MPS Venture Sud 2, Siena Venture and Emilia Venture). The company recently promoted the launch of a new fund (MPS Venture 3) whose authorisation procedure is ongoing. Lastly, in February 2010, the Company resolved the voluntary reduction of the share capital from € 7,500,000 to € 2,025,000, returning € 5,475,000 to shareholders. The transaction was completed by reducing the unit par value of the shares, in June 2010. € 3,832,500 were returned to our Bank. The transaction did not cause any change in the percent interest held in the Company.

Interporto Toscano Amerigo Vespucci S.p.A. – Livorno. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plains, in the municipality of Collesalvetti (Livorno). The majority of share capital is held by public entities and administrations (Tuscany Regional Authorities, Provincial Authorities and local municipalities, local Chambers of Commerce (CCIAA)). Bank is the relative majority shareholder with 36.3%.

Agricola Merse S.r.l. – Milan. This company owns the luxury tourist resort "Tenuta di Bagnaia", located in the province of Siena. The Company is promoting, involving financial and non-financial investors, an investment initiative involving supplementing the promotion of real estate to be build on several lots in the resort, and the enhancement of several existing structures (a five-star hotel, a Conference Centre, a four-star hotel and a wellness centre) destined for offering accommodation and hotel services. The Bank is participating in the initiative as a financial partner. The equity investment, representing 20% of the share capital, was acquired from the majority shareholder "INFI – INDUSTRIALE E FINANZIARIA S.p.A." in June 2008, for an investment of € 5 million, in relation to a maximum commitment of € 10 million.

RE.GE.IM. Realizzazioni e Gestioni Immobili di Qualità S.p.A. – Rome. The purpose of the company, incorporated in October 2010, is to promote, coordinate and manage operations and investments in the real estate industry that specifically pertain to home construction, commercial construction and tourist and hotel construction. The controlling shareholder, with 60%, is Impreme S.p.A., a company of the Pietro Mezzaroma & Figli Group. The Bank's equity investment (40%) was acquired upon incorporation. Simultaneously, the shareholders executed and investment agreement that provides for a commitment to capitalise the Company to a total of € 41 million (our share, € 16.4 million).

Sviluppo Imprese Centro Italia S.G.R. S.p.A. – Florence. The company manages three closed-end mutual funds, Fondo Centroinvest, Fondo Toscana Venture and Fondo Toscana Innovazione. In addition to the Bank, which holds 29%, the shareholders are Fidi Toscana (31%), Cassa di Risparmio di Firenze S.p.A. (15%), Cassa di Risparmio di San Miniato S.p.A. (10%); Cassa di Risparmio di Prato S.p.A. (10%) and Banca Popolare dell'Etruria e del Lazio S.c.r.l. (5%).

Immobiliare Centro Milano S.p.A. – Milan. The company, incorporated in November 2009, manages residential and commercial real estate through two wholly owned special purpose vehicles. The Bank's equity investment (33.33%) was acquired upon incorporation. The other shareholders are Sansedoni S.p.A. (33.33%) and Banca Italease S.p.A. (33.33%).

Integrated Management of Risk and Capital[1]

Consistent with the historical strategy implemented and in line with the mission assigned to the Bank, MPSCS attributes a crucial role to risk management and identifies it as a critical factor for success. The measurement and management monitoring of the risks assumed, which therefore play a central role within the value-creation process at the Group level, are centralised, as a result of this assumption, with the Parent Company's Risk Management Area.
Due to the operations carried out, as better illustrated below, the Bank comes up against various types of risk, which may be broken down into the following: credit risk, market risk relating to the trading portfolio, interest rate and price risks of the banking book (Asset & Liability Management), liquidity risk, equity investment portfolio risk, counterparty and issuer risk, operational risks, business risk (meaning the risk of loss deriving from the volatility of the cost and revenue structure).
As a result of the implementation of the Group's policy, which took place through the Board of Directors' resolution of 18 December 2008, MPSCS has adopted the Risk Management and reporting system used by the MPS Group to measure and monitor financial risks, based on a complex architecture that is structured in various systems and applications. This system aims at providing the Top Management of MPSCS and the competent control bodies with information supporting company decisions, details of the risk profiles of the trading portfolio and of the management economic results achieved.

THE RISK MANAGEMENT PROCESS

The MPS Group pays close attention to the process for identifying, monitoring, measuring and controlling risks. The risk management process within the Group was further strengthened in recent years, mainly because of the progressive extension of the advanced models for management and notification purposes to the various entities in the Group. The underlying principles that characterise this process in the MPS Group are based on a clear, precise distinction of the roles and responsibilities between the first, second and third level control functions.
The Board of Directors of the Parent Company BMPS is responsible for defining the strategies and risk management policies at least on a yearly basis, and for expressing the Group's overall risk appetite, also quantitatively in terms of Economic Capital. The Board of Statutory Auditors and the Internal Control Committee are responsible for assessing the level of efficiency and adequacy of the Internal Control System, specifically regarding control of risks.
The General Management is in charge of ensuring compliance with the risk policies and procedures. The Risks Committee draws up the risk management policies and verifies overall compliance with the limits assigned to the various levels of operations. The Parent Company's Risk Committee is assigned the responsibility for proposing the allocation of capital to be submitted to the approval of the Board of Directors and for assessing - overall and for the individual companies (including MPSCS) – the risk profile reached, and thus, the consumption of capital, both regulatory and economic capital, as well as the risk-return performance indicators. The Parent Company Finance Committee is attrib-

1 For further information on Risk Management models and methodologies, see Explanatory Notes, Part E "Information on risks and related hedging policies"

uted duties regarding the formulation of principles and strategic guidelines with respect to Proprietary Finance. It also authorises and makes proposals with regard to the exposure to rate risk and liquidity risk of the Bank Portfolio and the definition of Capital Management actions.

Internal Control is tasked with operating through an independent and objective assurance and advisory activity aimed on one hand to check, also with on site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation.

The Parent Company's Risk Management Department:

- defines integrated analysis methods for measuring overall risks, in order to guarantee accurate measurement and constant monitoring of risks;
- It quantifies economic capital, meaning the minimum amount of capital required to cover all risks effectively assumed.

The Department produces control reporting and verifies compliance with the operational limits established by the Board of Directors on the basis of the models developed internally. The Risk Management Department is also responsible for measuring, monitoring and controlling the risk and performance of the investment products/services offered to customers, or held by them.

The peripheral Business Control Units, located at the controlled banks or the main *business* areas of the Parent Company, instead implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System.

From the viewpoint of organisation and overall governance of Group risks, it should be stressed that since the first half of 2009, the Risk Management Department was placed directly under the General Manager, also maintaining a functional link with the Board of Directors and the CFO. This set-up, in line with regulatory prescriptions and international best practices, aims to assure that the risk management action is more incisive and autonomous and that the entire risk control and management process is effective. As a consequence of this organisational configuration, additional new risk information flows were also devised towards the top leadership of the Group (Chairman of the Board of Directors, General Manager and Internal Control Committee) and the Board of Directors, in addition to the normal reporting flows.

In its normal operations on the markets, the MPS Group is subject to various types of risk, which are also typical of MPSCS and which may be broken down into the following:

- Credit risk
- Counterparty risk
- Issuer risk
- Concentration risk
- Market risk (price, interest rate and exchange rate) pertaining to the trading book
- Exchange rate risk of the banking book (Asset & Liability Management - ALM)
- Liquidity risk
- Equity investment portfolio risk
- UCITS risk (alternative funds)
- Operational risk
- business risk
- Property risk
- Reputational risk

ACTIVITIES CONNECTED TO BASEL 2

In line with the principles of the New Capital Adequacy Agreement ("Basel 2"), as regards Pillar I risks, the MPS Group (including MPSCS) had already concluded its work on internal models for credit and operational risks during the first half of 2008. Pursuant to Bank of Italy Circular 263/2006, on 12 June 2008 the Group was formally authorised to use the advanced models for measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA – Advanced Measurement Approach) from the first consolidated report for 30 June 2008.
In 2010, work continued for the completion and extension of the aforementioned models for entities not included in the initial scope of validation; the activities aimed at the improvement of the internal models on market and counterparty risks also continued. Moreover, activities continued for Second Pillar compliance and for optimising the processes pertaining to the internal assessment of the Group's capital adequacy, within the ICAAP (Internal Capital Adequacy Assessment Process).
With reference to the Third Pillar, the Market Disclosure is an extremely effective summary document, which provides the market with information regarding activities carried out, capital adequacy, exposure to risks and the general characteristics of the systems used to identify, measure and manage said risks. The Parent Company BMPS, as a Class 1 bank, in accordance with the Oversight classification, has complied with the obligation for quarterly publication (on the MPS Group's website www.mps.it/Investor+Relations) of the consolidated information according to the provisions of the supervisory regulations.

ECONOMIC CAPITAL ANALYSIS

The Total Economic Capital (or Total Absorbed Internal Capital) is the minimum amount of capital required to cover economic losses due to unexpected events generated by simultaneous exposure to various types of risk.
The Economic Capital is quantified based on all types of risks mentioned above, with the exception of the liquidity risk and of the reputational risk, which instead are mitigated through policies and organisational processes.
The Risk Management Department of the Parent Company BMPS periodically determines the Economic Capital for each type of risk, mainly on the basis of internal measurement models for the individual risk factors. These methods are mainly based on a *Value-at-Risk* (VaR) approach, and hence aimed at determining the maximum loss the Group may incur, given a time interval during which the positions are held (holding period) and a pre-set probability level (confidence interval).
The process described above also extends to the MPSCS Top Management, to which the cognisant function notifies both the VaR and the Economic Capital absorbed as of the various agreed reference dates (monthly and intra-monthly).
For some risk factors and on certain portfolio categories, said models received the formal validation of the Supervisory Authority for regulatory purposes (specifically credit risk and operational risk). The outputs deriving from the use of models developed internally in view of the different risk factors, both "validated" ones (e.g. AIRB and AMA) and managerial ones (e.g., VAR model for market risks) are the main instrument for daily control and monitoring of the risk exposures generated in these segments, as well as for controlling the operating limits and delegations according to the lines prescribed and approved by the Parent Company and by the individual subsidiaries (including MPSCS).
Regarding the credit risk, most of the inputs of the Credit Portfolio Model, whose method is also constantly evolving, finds its source in the internal models used for indication purposes, with the addition of further information and refinements, aimed at representing risk measures from a typically managerial point of view. In terms of operational risk, the output of the model, obtained at Group level and used for management purposes, is reallocated on the basis: i) of historical loss criteria, ii) of top management estimates and iii) of gross income information. Moreover, an integral part

of the Total Economic Capital is made up of the results, in terms of sensitivity shift of the economic value, which come from the internal Asset & Liability Management model, that in the last period underwent numerous, significant refinements as a result of a better representation and measurement of posted entries, of behavioural aspects (prepayment risk) and of implicit options. The business risk is measured as risk factor referred to the rigidity of the cost structure relative to changes on the business structures induced both by external market components and by internal strategic decisions. The equity investment portfolio risk is the risk deriving from the volatility of the market valuations referred to the equity investments held in the portfolio. Property risk is defined as the risk to incur potential losses deriving from unexpected changes in the property portfolio.

As stated above, the liquidity risk, which has undergone significant developments due to the provision of appropriate monitoring procedures, is not measured in the quantification of the Economic Capital. In any case, the MPS Group has adopted operating limits and a formal liquidity risk management policy, both in normal situations and in market stress situations. In particular, on the basis of predefined tolerance thresholds, specific contingency planning procedures were defined and formalised, to be activated in case of need. For the other risks that cannot be measured with quantitative approaches (e.g. reputational risk), specific mitigation policies have been defined.

The Economic Capital on individual risk factors therefore descends from the corresponding risk quantification management parameters. The VaR measurements on individual risk factors preserve their “individual” significance, according to the provisions of both current laws in force and international best practice and they are determined with holding periods and confidence intervals that are generally differentiated.

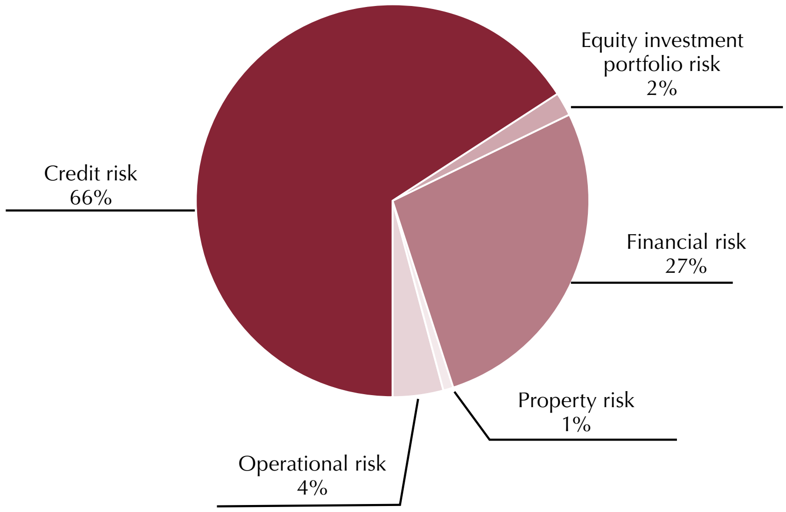
Hence, Total Economic Capital derives from the joint measurement of the listed individual risk factors: these measurements are standardized over both the chosen time frame (holding period of one year) and confidence interval, in line with the rating assigned to the MPS Group by the official ratings agencies, and are subject to “intra-risk” and “inter-risk” diversification. The final output provides the Total Economic Capital or Total Internal Capital at the Group level, broken down by the different types of risks, with the indication of the incidence of “inter–risk” diversification with respect to the building block approach that, instead, does not provide for its quantification.

All of these macro risk factors, which, in particular, have a direct impact on the equity of the MPS Group, are regularly measured by the Parent Company Risk Management Department, which draws up the periodic documentation for the Parent Company’s Risk Committee and for its own Board of Directors.

Lastly, the Parent Company’s Operational Planning and Management Control Department is responsible for representing risk-adjusted performance and for determining specific value creation from a risk-adjusted viewpoint, using consistent measurement parameters between the income component and the absorbed economic capital component, breaking down the risk measurements provided by the Risk Management Department by individual legal entities and Business Units. The allocation of capital, in actual, budgetary and periodic monitoring terms, is also determined by the aforementioned Planning Department, together with the governing bodies of the individual legal entities, among them also MPSCS, through the preparation of appropriate reports adapted to the specific business lines of the banks included in the scope of consolidation and submitted to the Parent Company’s Risk Committee for approval.

As of 31 December 2010, the Total Diversified Economic Capital of MPSCS (excluding intra-group operations) was 66% attributable to credit risk (including counterparty and issuer risk), 2% attributable to equity investment portfolio risk and 4% to operational risk. Risk management capital covering financial risks (comprising the typical risks of the trading portfolio and the *ALM*-Banking Book) amounted to approximately 27% of the Total Economic Capital, whilst capital covering property risks is about 1%.

DIVERSIFIED ECONOMIC CAPITAL
MPS CAPITAL SERVICES – 31 DECEMBER 2010



For additional information on the nature, on the safeguard and monitoring of the individual types of risk, please see Part E of the Explanatory Notes.

Human Resources

STAFF TREND

The bank workforce as of 31 December 2010 was as follows:

	(a) MPSCS employees	*(b) MPSCS employees at Group companies or subsidiaries*	*(c) Group company employees at MPSCS*	*Workforce (a-b+c)*
Executives	31	6	9	**34**
Managers	295	98	42	**239**
Professionals	231	94	17	**154**
Total	**557**	**198**	**68**	**427**

Actual employees	*31/12/2010*	*31/12/2009*	*Changes from 12/2009*	
			Absolute	*%*
Executives	34	33	1	3.03
Managers	239	214	25	11.68
Professionals	154	172	(18)	(10.47)
Total	**427**	**419**	**8**	**1.91**

The size of the perimeter underwent the following changes during the year:

- Inflows (total of 31):

24	of which 23 ordinary hirings and 1 mandatory hiring
7	secondments received

- Outflows (total of 23):

12	Personnel seconded to the Parent Company BMPS and MPS Leasing & Factoring
5	termination of secondments received
3	terminations/deaths
3	adhesion to the Solidarity Fund

DISTRIBUTION BY AGE GROUP AND AVERAGE AGE

The following information pertain to the "workforce" situation as at 31 December 2010:

	Age group in years					*Average age*
	Up to 30	*30-40*	*41-50*	*over 50*	*Total*	
Women	6	69	50	37	162	42.05
Men	12	90	117	46	265	42.82
Total 2010	**18**	**159**	**167**	**83**	**427**	**42.53**
Incidence	4.22%	37.24%	39.11%	19.44%	100.00%	
Total 2009	**23**	**191**	**126**	**79**	**419**	**42.03**
Incidence	5.49%	45.59%	30.07%	18.85%	100.00%	

HIRING

In 2010, the Bank hired 24 personnel holding high professional qualifications, to strengthen its business units. The Sales Division was strengthened consistently with a new service model aimed at the rapid development of the "first line" of support to the "operators" of the Group's Network Banks. Equally strategic was considered the ability to carry out, in peripheral branches, the origination and structuring activities and the completion of structured finance specialist transactions. Personnel recruitment also involved the Global Market Division, both to put together the Financial Controls Staff and to strengthen some operating desk such as the Forex Equity & Commodity Derivatives Office and the Corporate Customer Desk Office, and the Investment Banking Division and the Finance Corporate Division.

SECONDMENTS

During the year, 7 resources were seconded from the Parent Company to the Bank, strengthening business support structures, such as the Credit Management and Credit Quality Office, the Human Resources Office and the Administration and Budget Office; in parallel, 5 secondments ceased and at the same time 12 direct employees of the Bank were seconded to the Group's companies.

VOLUNTARY ADHESION TO THE "SOLIDARITY FUND FOR THE SUPPORT OF INCOME, EMPLOYMENT AND PROFESSIONAL RETRAINING AND CAREER CHANGE FOR BANKING PERSONNEL"

In March 2010, 3 employees who adhered to the Solidarity Fund terminated their employment voluntarily.

TERMINATION OF THE EMPLOYMENT RELATIONSHIP

During the year in question, 2 employees terminated their employment with the Bank by resigning, and one employee died prematurely.

TRAINING OF PERSONNEL

In 2010, there were many training initiatives. They were mainly oriented towards technical and regulatory topics and aimed at the development of resources' potential, and they took place both through traditional classroom sessions and remote training on e-learning platform.
Classroom training for Executives and Office Heads, pertaining to the processes for managing Bank resources, amounted to 750 hours, whilst the technical-professional training for all Bank personnel comprised 2,489 hours, for a total of 3,239 hours. The main issues examined pertain to "Basel 3", "Money laundering prevention", "Covered Bonds", "Modelling OTC Derivatives", "IAS Changes", "Alternative energies: natural gas – photovoltaic", "Debt restructuring and distressed company turn-around", "Transparent conditions and customer protection in bank agreements", as well as qualified collective evening English language courses directed to different proficiency levels.
Additionally, through the Group's training format, 242 on-line training hours were delivered on issues pertaining to auditing, juridical-legal topics, and human resources in terms of managerial capability development.

EMPLOYMENT AND TRADE UNION RELATIONS

An ongoing dialogue was maintained with the company's Union Organisations, to assure a smooth management of employment relations and a good "corporate climate" level, consolidated in recent years.

Organisational and Technological Dynamics

The organisational development activities that distinguished the 2010 financial year were mostly focused on the following projects/objectives, some of which will be completed in 2011:

- review of the organisation of the Group Property Finance. In May 2010, the Parent Company issued a specific directive on the new organisational structure for the governance and management of the Property Finance of the BMPS Group. The pursued objectives allow to define consistent internal operating processes for the Parent Company and the other Companies of the Group, including MPSCS, as well as to unambiguously identify responsibilities during the various phases of the process. In this context, MPSCS further strengthened the internal control system of the Global Market Division by creating a dedicated Business Control Unit (BCU), as well as by optimising some operating and cross-division processes of the Bank itself.
- Completion of migration to the SIU. Evaluation activities continued for the gradual acquisition of credit-related IT procedures of the Unified Information System (SIU) of the Montepaschi Group, to assure greater process homogeneity and a more effective integration with the other enterprises of the Group and with the Network.
- Updates to the processes for compliance with regulatory and supervisory provisions. Specifically, internal regulations pertaining to transparency, prevention of money laundering, usury, payments system were updated (the payments system internal regulations were changed as a result of the new provisions introduced for PSD regulations) and related party transactions (ref. Consob Resolution 17221 of 12 March 2010 and amended with Resolution 17389 of 23 June 2010). With reference to the obligations introduced by the MiFID Directive, access was activated to the new EuroTLX market (Multilateral Trading Facility), which provides an additional trading place supporting the “best execution” engine operated by MPSCS for the entire Banking group.
- Unification of the various Bank sites, throughout Florence, in the single headquarters on via Pancaldo. Within the scope of the project called “Exploiting and rationalising the operating property assets of the BMPS Group”, centralisation of the Bank’s branches in Florence was completed.
- New Group accounting system, “CO.MET.A.”. The Bank actively participate in the Group project, coordinated by the Parent Company BMPS, aimed at boosting the efficiency of the current accounting process, at introducing dedicated organisations overseeing processes and diagnostics, and - through new technological supports – at assuring the quality of the data in the various accounting and reporting steps, from input to output. The shift will take place in various steps: the first one will involve the management of the liabilities cycle, expected for the second quarter of 2011.
- New managerial/accounting reconciliation application. The project initially kicked off by MPSCS in 2009 and subsequently adopted by the Parent Company, has the goal of releasing an application for the verification and reconciliation of the managerial and accounting figures in the finance/treasury department. The feeding and checking activities pertaining to the derivatives area are being refined, whilst the securities module is still being developed. The third and final project step, still entirely to be planned, will involve the reconciliation of the MPSCS treasury/funding.

The enhancement of the Bank’s commercial structure continue with the addition of highly specialised personnel to support the MPSCS business organisations and the MPS Group network. More limited in scope, instead, were the interventions on staff structures, confirmed in their overall set-up but strengthened in certain areas, in particular control and supervision.
The evolution of the organisational model is constantly supported by a related upgrade of the risk assessment systems. In this regard, the following are reported:

- performance of the Risk Assessment activity for operational risks and for relevant risks pursuant to law 262/2005;
- a new remodulation of regulations disciplining Market, Issuer and Country Risk, consequent to the change in the

VAR limits approved by the Parent Company's Risk Committee;
- constant focus on monitoring capital absorption, with the bank's participation in Credit Risk Mitigation workshops instituted in the Parent Company.

With regards to Business Continuity Management, with the start of the second three–year management plan (2010 – 2012), the complete mapping of the Bank's activities was revised together with the Parent Company's competent office, in order to update the perimeter of critical processes (according to the definitions and requirements prescribed by the Supervisory Body) and to improve service continuity targets in the presence of crisis situations due to natural calamities or other disastrous events.

Internal Audit

The Bank's Internal Control System is monitored, as is well known, by the Internal Audit Office, which reports directly to the Bank's Governing and Supervisory Bodies, and in close collaboration with the Parent Company's control function.

The Bank internal control system is constantly subjected to revision and implementation, also as a result of the ongoing evolution of the industry laws and of the provisions of the Supervisory Bodies. This activity is also carried out with the goal of making the Control System adhere to the development of the company and the articulation of the organisational structure. Credit, market and operational risks are carefully monitored and controlled through the assignment of specific operating and controlling responsibilities of the company organisations and operating limits defined by the Board of Directors and the Top Management, in line with the instructions on each issue set down by the Parent Company.

Although the credit process was revised, there were no significant changes in the procedures and instruments adopted for credit risk control. In the second half, the competent company Functions monitored credit, in particular anomalous credit, monitoring the evolution of the risks inherent in the Bank's credit portfolios using the analyses prepared within the Bank and the measurements and evidence made available by the Parent Company's Risk Management Department (which carries out second level specialist checks on behalf of the Bank). In this context, particular attention is paid to credit risk control for positions with credit lines granted also by other Group Companies.

Finance and Investment Banking risk control was improved by optimising the regulatory setup and fully implementing the organisations appointed to carry out operating and controlling activities. Control methodologies were defined and revised in view of determined types of anomalies, also as a result of the activity carried out jointly with the Internal Controls Department for the application of the Group Directive on Proprietary Finance. In particular, the specific controls assigned to the "Financial Controls Staff" function were outlined; this controlling organisational unit is a staff function reporting to the Global Markets Division Head. The organisation has control responsibilities in the process of determination of the rules concerning the pricing of financial instruments, in the verification of market parameters and prices with respect to the financial instrument present in the portfolios, as well as for monitoring and controlling market, credit/counterparty and liquidity risks. The organisation operates in close collaboration with the Parent Company's Risk Management Department and with the Bank's other internal control Functions. The specific activities of the "Financial Controls Staff" will be disciplined by specific regulations currently being prepared.

As regards operational risk, the Bank uses an integrated management system developed on the basis of a governance model managed by the Parent Company, aimed at the adoption of the advanced approach into regulations (A.M.A.), which, using shared procedures and the information provided by MPSCS, determines capital absorption.

On the subject of Prevention of Money-laundering, during the year a specific project was launched for the massive revaluation of customers in order to assure compliance with Bank of Italy provisions on the obligations of "control / adequate verification" of previously acquired customers. For this purpose, an inter-functional working group was appointed, and it started to operate since November 2010.

Compliance

2010 was partly characterised by the continuation of some activities started in 2009 and partly by the incorporation of the main legislative changes into the Company's regulations (e.g. with regard to Form 231, Privacy, Prevention of Money Laundering, Related Parties and Usury Prevention).

With regard to the compliance of investment services, activity continued on the preparation of the new contractual set for transactions involving OTC derivatives; the collaboration of an appointed outside law office led to the preparation of some draft confirmations necessary for the transactions, which started to circulate in November. Moreover, on 13 December 2010 the new MiFID application for OTC derivatives was released; it contemplates the automated processing of the generic cards and of the specific cards to be issued to customers. Moreover, work continued on the preparation of the agency agreement necessary to discipline MPSCS operations with respect to the customers of the Network Banks in the performance of investment services.

To ensure the compliance of the DDT systematic internaliser's activity with group policies and to implement the contents of "level 3" provisions on illiquid financial products, contained in Consob Bulletin no. 9019104 of 2 March 2009 and in the related ABI Inter-association Guidelines of 4 June 2009, the new DDT Regulations were approved.

The "Trade Execution" agreement is still undergoing completion at the Parent Company.

With regard to personal transactions as per Article 18 of the Joint Regulations, the Bank implemented the "Group Directive on personal transactions in the performance of investment services" which specifically regulates the procedures for measuring and monitoring such transactions.

The Office provided technical/functional support to the Parent Company BMPS with regard to related party transactions regulated by Consob Resolution 17221 (as subsequently amended) to implement the delegation of authority contained in Article 2391 bis of the Italian Civil Code. This activity led to the promulgation of the related Group Directive that will be implemented by MPSCS in 2011 together with the promulgation of a company operating document aimed at regulating processes in the presence of such transactions.

With regard to the compliance of banking services, of note first of all are the money laundering prevention activities carried out to optimise AUI records – as required by the most recent regulatory changes on this matter – and the development of an activity focused on the retrieval and archiving of the documentation for the purposes of revaluating pre-existing customers (in particular the acquisition of the Declaration per Article 21 and of the KYC Questionnaire). Additionally, regulations on "Reporting suspicious transactions and contrasting international terrorism", incorporating the latest legislative changes on the matter.

With respect to usury prevention too, the internal regulations were aligned with external ones.

In terms of Transparency, based on Legislative Decree 141 promulgated on 13 August 2010 – "Implementation of Directive 2008/48/EC on consumer credit agreements, as amendments to Title VI of the Consolidated Banking Law (Legislative Decree 385/1993) regulating persons operating in the financial industry, agents in financial activities and credit mediators" – the changes on *jus variandi* were specifically incorporated (Articles 117 and 118 of the Consolidated Banking Law), while both the contractual drafts used and the information documents to be issued to customers were updated (mainly, the information sheets on the banking services offered by the Bank).

As to Form 231, on 27 July 2010, the Parent Company issued the new version of the Group Directive on this matter – implemented by the MPSCS Board of Directors on 17 September 2010 – which introduced, among other matters, specific measures against the risk of perpetration of certain prerequisite offenses, introduced by the latest regulatory changes (Law 94 of 15 July 2009, Law 99 of 23 July 2009, and Law 116 of 3 August 2009). As a result of the updates to the Directive, the MPSCS Organisational Law per Legislative Decree 231/2001 was revised to assure that it continues to fulfil the effectiveness and functionality requirements pursuant to Article 6, Paragraph 1, Letter a) of the same Decree. The new Model was approved by the Board of Directors of the Bank on 22 October 2010.

Environmental Issues

There are two types of impacts of our activities on the environment: direct and indirect. Direct impacts are linked to operations (consumption of paper, water and energy, production of waste and greenhouse gases), while indirect impacts are attributable to activities of suppliers and customers (in relation to the environmental risk of activities financed, the improvement in ecological efficiency incentivised through customised financing and for polluting activities of suppliers or the products purchased).

Maintenance of the management system continued during the year. More specifically, periodic monitoring was carried out on the management procedures, as well as specific activities for increasing the awareness of personnel regarding the correct management of environmental impacts of the Bank, with particular focus on waste management.

In June 2010, the RINA certification Agency carried out its usual annual visit to confirm the ISO 14001 certification. The scope of enforcement of the Management System, unchanged from the previous year, comprises: credit disbursement; Corporate Finance services; advice and services to the Public Administration for the granting of public subsidies. These activities were carried out during the first eight months of the year in the buildings in Florence, Via Pancaldo 4, Via dei Della Robbia 41, Viale Gramsci 32 and Piazza D'Azeglio 26. Since September 2010, all said activities have been centralised in the spaces located in Via Pancaldo 4, as a result of the move of all organisations to this location.
The Management System is not applied to activities connected with investment services that are typical of the Global Markets Division and of the Investment Banking Division; its enforcement is planned for June 2011, simultaneously with the obtainment of the OHSAS 18001 certification on workplace health and safety.

Personal Data Protection

In compliance with the regulations on personal data protection and, specifically, Legislative Decree no. 196 of 30 June 2003 (Personal Data Protection Code), as amended, the Bank fulfilled the required obligations; in particular, the version of the Security Planning Document referring to 31 December 2010 was drawn up pursuant to Article 34, subsection 1g) of the aforementioned Code and the Technical Regulations (Attachment B of Legislative Decree no. 196 of 30 June 2003).

Based on the analysis of risks, the distribution of duties and responsibilities relating to “data processing” attributed to the Bank’s structures, the following are defined:
- the technical and organisational criteria for the protection of the premises and rooms covered by the security measures, as well as the procedures for controlling access of authorised personnel to said rooms;
- the criteria and procedures to ensure data integrity;
- the criteria and procedures for data transmission security, including those for electronically restricting access;
- the training plan, for the purpose of informing the data processors of the risks identified and the methods for preventing damages.

During the annual update, all areas of risk and countermeasures adopted were re-examined on the basis of regulatory changes and the technical development of the sector, as well as in light of day-to-day experience.

Relations with Group companies

Transactions carried out with the Parent Company Banca Monte dei Paschi di Siena and with the other MPS Group Companies were numerous and significant during the entire year 2010. Refer to Part H "Transactions with Related Parties" - in the Explanatory Notes – for a breakdown of the existing relations with Group companies as of 31 December 2010. The main important aspects are commented below.

Given that the guidance, control and support provided by the Parent Company over MPSCS' operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constructive cooperation, with the Parent Company issuing specific guidelines (instructions) which were fully brought to the attention of the MPSCS Board of Directors.

The outsourcing of activities to other MPS Group organisations and companies has enabled MPSCS to maximise synergies and economies, obtaining better technical services than those which could be obtained from third parties.

Both outsourced services and the financial transactions carried out with counterparties of the MPS Group, summarised below, are regulated (unless otherwise indicated) by agreements that provide for the application of normal market conditions.

As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the market carried out as part of the strategic *mission* of MPSCS;
- the agreement executed at the time by the split-off MPS Finance Banca Mobiliare S.p.A. (January 2003) governing the relations with Group companies and regarding the methods for the Bank to reacquire the innovative financial products, created by the Bank and placed by the Group's commercial networks;
- the granting of temporary loans and medium/long-term loans by Banca MPS and its subsidiary MPS Ireland, for the purpose of funding the Bank's normal operations; all the above was carried out in accordance with the indications of the Parent Company's ALM Business Unit, as a result of the centralised management of the process pertaining to medium/long term interest rate and liquidity risks by the Parent Company;
- debt collection for problem loans carried out by MPS Paschi Gestione Crediti (a specialist bank of the Group), and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to MPSCS;
- the presence of employees of MPSCS seconded to the Parent Bank and some of its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- control of Risk Management centralised within the Parent Company BMPS;
- technological supervision, maintenance and development of the IT system assigned to the Consorzio Operativo Gruppo MPS, with which a specific SLA has been defined;
- the purchases of goods and services in amount exceeding the specific thresholds by Parent Company structures, in the function of Centralised Group Purchasing;
- the lease of premises owned by the Group.

In line with the Bank's mission within the MPS Group, in February 2010 all transactions in OTC derivatives concluded by Biverbanca S.p.A. directly with its own customers were "mirrored" to MPSCS at market values measured on 12 February 2010.

On 20 November 2009, the Shareholders' Meeting resolved the purchase of shares of the Parent Company, up to a maximum of 827,000, for the purpose of stock grants to employees of the Bank (stock granting referred to 2008), in line with the provisions of the supplementary employment agreement. The grants were completed in January 2010 for a total number of 507,483 shares.

Significant Events Subsequent to the End of the Year and Outlook on Operations

The Bank's operations in 2010, from the balance sheet date and the date of approval of these financial statements, substantially developed in continuity with the past, and according to the guidelines of the Parent Company BMPS.

The Parent Company's Board of Directors approved the Group's 2011 budget, among whose qualitative and process objectives referable also to MPSCS, the following can be highlighted:

- utmost focus on the stability of both supervisory and management capital, to maintain the current capitalisation levels at least stable;
- containment of the interest rate risk and of the liquidity risk;
- compliance with the constraints deriving from the subscription of the "Tremonti Bonds", which require making sizeable resources available to small and medium enterprises during the three-year period.

From the organisational viewpoint, it should be pointed out that, starting from 1 January 2011, the activity related to the "Securitisation and Principal Finance" sector, reporting to the Corporate Finance Division, was hierarchically placed under the Investment Banking Division.
During 2011, the Bank will also complement use of specialised services outsourced from the BMPS Group Operational Consortium with respect to back-office finance and liabilities cycle activities, partially started at the end of the previous year. Moreover, hoping for a further recovery of the real estate industry, there is still the goal of completing the sale of the non functional properties owned by the Bank (the activity had already started in 2010 with the sale of the properties in Viale Giuseppe Mazzini no. 46 and in Via dei Della Robbia no. 41, both in Florence).
Lastly, negotiations continue for the sale of the 22% equity share in MPS Venture SGR S.p.A..

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2010 Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Explanatory Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to allocate the profit for 2010 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2010

- to ordinary reserves (1/20)	**Euro**	**4,121,008.25**
- to reserves required by the Articles of Association pursuant to Article 26 (1/20)	**Euro**	**4,121,008.25**
- to extraordinary reserves	**Euro**	**44,095,928.13**
- payables to shareholders (as dividend to be distributed)	**Euro**	**30,082,220.33**
PROFIT FOR 2010	**Euro**	**82,420,164.96**

FINANCIAL STATEMENTS

Balance Sheet

(amounts in euros)

Assets		*31/12/2010*	*31/12/2009*	*Changes*	
				Absolute	*%*
10.	Cash and cash equivalents	2,180	1,254	926	73.84%
20.	Financial assets held for trading	31,757,235,816	20,316,488,299	11,440,747,517	56.31%
40.	Financial assets available for sale	72,237,570	43,354,758	28,882,812	66.62%
60.	Due from banks	1,696,934,944	2,364,314,058	(667,379,114)	(28.23%)
70.	Loans to customers	16,227,650,887	15,432,135,925	795,514,962	5.15%
80.	Hedging derivatives	329,880	-	329,880	-
100.	Equity investments	19,572,713	20,170,713	(598,000)	(2.96%)
110.	Property, plant and equipment	15,837,545	40,272,615	(24,435,070)	(60.67%)
120.	Intangible assets	-	2,520	(2,520)	(100.00%)
	of which goodwill	-	-	-	-
130.	Tax assets	86,682,746	74,745,046	11,937,700	15.97%
	a) current	*9,116,251*	*5,267,862*	*3,848,389*	*73.05%*
	b) prepaid	*77,566,495*	*69,477,184*	*8,089,311*	*11.64%*
140.	Non-current assets held for sale and discontinued operations	445,500	-	445,500	-
150.	Other assets	32,852,244	30,815,083	2,037,161	6.61%
	Total Assets	**49,909,782,025**	**38,322,300,271**	**11,587,481,754**	**30.24%**

Balance Sheet

(amounts in euros)

Liabilities and Shareholders' Equity	31/12/2010	31/12/2009	Changes	
			Absolute	%
10. Due to banks	6,490,888,045	5,520,763,186	970,124,859	17.57%
20. Due to customers	11,032,538,188	11,131,579,852	(99,041,664)	(0.89%)
30. Outstanding securities	279,154,333	304,439,706	(25,285,373)	(8.31%)
40. Financial liabilities held for trading	30,805,643,153	20,133,149,896	10,672,493,257	53.01%
80. Tax liabilities	17,410,010	15,529,731	1,880,279	12.11%
a) current	*13,752,211*	*12,252,211*	*1,500,000*	*12.24%*
b) deferred	*3,657,799*	*3,277,520*	*380,279*	*11.60%*
100. Other liabilities	108,130,822	105,711,087	2,419,735	2.29%
110. Employee severance indemnities	2,277,341	2,541,000	(263,659)	(10.38%)
120. Provisions for risks and charges:	21,551,383	13,048,469	8,502,914	65.16%
a) pensions and similar obligations	*6,157,977*	*6,708,918*	*(550,941)*	*(8.21%)*
b) other provisions	*15,393,406*	*6,339,551*	*9,053,855*	*142.82%*
130. Valuation reserves	(2,680,335)	(3,590,672)	910,337	(25.35%)
160. Reserves	567,924,943	544,789,805	23,135,138	4.25%
170. Share premium reserve	228,089,231	228,089,231	-	-
180. Share capital	276,434,746	276,434,746	-	-
200. Profit for the period	82,420,165	49,814,234	32,605,931	65.46%
Total Liabilities and Shareholders' Equity	**49,909,782,025**	**38,322,300,271**	**11,587,481,754**	**30.24%**

Income Statement

(amounts in euros)

Items	31/12/2010	31/12/2009	Changes	
			Absolute	%
10. Interest income and similar income	547,604,015	652,294,589	(104,690,574)	(16.05%)
20. Interest expense and similar charges	(283,872,400)	(423,109,763)	139,237,363	(32.91%)
30. Interest margin	**263,731,615**	**229,184,826**	**34,546,789**	**15.07%**
40. Fee income	168,874,814	71,748,090	97,126,724	135.37%
50. Fee expense	(132,605,382)	(54,210,300)	(78,395,082)	144.61%
60. Net fees	**36,269,432**	**17,537,790**	**18,731,642**	**106.81%**
70. Dividends and similar income	179,514,865	198,695,219	(19,180,354)	(9.65%)
80. Net income from trading activities	(149,763,477)	(95,868,148)	(53,895,329)	56.22%
90. Net income from hedging activities	8,913	(318,130)	327,043	(102.80%)
100. Profit (loss) from sale or repurchase of:	(128,461)	(45,157,745)	45,029,284	(99.72%)
a) loans	-	-	-	-
b) financial assets available for sale	*(128,461)*	*(45,157,745)*	*45,029,284*	*(99.72%)*
c) financial assets held to maturity	-	-	-	-
d) financial liabilities	-	-	-	-
120. Operating income	**329,632,887**	**304,073,812**	**25,559,075**	**8.41%**
130. Net value adjustments/write-backs due to impairment of:	(122,917,263)	(136,461,732)	13,544,469	(9.93%)
a) loans	*(115,375,263)*	*(126,093,266)*	*10,718,003*	*(8.50%)*
b) financial assets available for sale		*(244,000)*	*244,000*	*(100.00%)*
c) financial assets held to maturity	-	-	-	-
d) other financial transactions	*(7,542,000)*	*(10,124,466)*	*2,582,466*	*(25.51%)*
140. Net income from financial management	**206,715,624**	**167,612,080**	**39,103,544**	**23.33%**
150. Administrative expenses	(78,091,678)	(83,212,413)	5,120,735	(6.15%)
a) personnel expenses	*(41,428,969)*	*(48,442,707)*	*7,013,738*	*(14.48%)*
b) other administrative expenses	*(36,662,709)*	*(34,769,706)*	*(1,893,003)*	*5.44%*
160. Net provisions for risks and charges	(9,209,184)	(2,293,596)	(6,915,588)	301.52%
170. Net value adjustments/write-backs on property, plant and equipment	(881,751)	(1,135,471)	253,720	(22.34%)
180. Net value adjustments/write-backs on intangible assets	(2,520)	(72,766)	70,246	(96.54%)
190. Other operating income/charges	4,992,402	4,275,108	717,294	16.78%
200. Operating costs	**(83,192,731)**	**(82,439,138)**	**(753,593)**	**0.91%**
240. Gains (losses) on disposal of investments	6,570,063	-	6,570,063	-
250. Profit (loss) from current operations before taxes	**130,092,956**	**85,172,942**	**44,920,014**	**52.74%**
260. Income taxes for the year from current operations	(47,672,791)	(35,358,708)	(12,314,083)	34.83%
290. Profit (loss) for the period	**82,420,165**	**49,814,234**	**32,605,931**	**65.46%**

Basic and Diluted Earnings per Share

	31/12/2010	*31/12/2009*
Basic earnings per share		
- from current operations	0.09243	0.05701
- on discontinued operations		-
Diluted earnings per share		
- from current operations	0.09243	0.05701
- on discontinued operations		-

Statement of Comprehensive Income

(amounts in euros)

Items	*31/12/2010*	*31/12/2009*
10. Profit (loss) for the period	**82,420,165**	**49,814,234**
Other revenue components net of taxes		
20. Financial assets available for sale	910,337	39,706,107
30. Property, plant and equipment		
40. Intangible assets		
50. Foreign investment hedging		
60. Cash flow hedging		
70. Exchange differences		
80. Non-current assets held for sale		
90. Actuarial income (losses) on definite benefit plans		
100. Portion of revaluation reserves of equity investments booked to shareholders' equity		
110. Total other revenue components net of taxes	**910,337**	**39,706,107**
120. Comprehensive income (Item 10+110)	**83,330,502**	**89,520,341**

Statement of Changes in Consolidated Equity 31/12/2009 - 31/12/2010

(amounts in euros)

				Allocation of previous year's results		Changes during the period								
							Shareholders' Equity transactions							
	Balances as at 31/12/2009	*Changes in initial balances*	*Balances as at 01/01/2010*	*Reserves*	*Dividends and other allocations*	*Changes in reserves*	*Issue of new shares*	*Purchase of treasury shares*	*Extraordinary dividend distribution*	*Change in equity instruments*	*Derivatives on treasury shares*	*Stock options*	*Comprehensive income 2010*	*Shareholders' equity as at 31/12/2010*
Capital:	**276,434,746**		**276,434,746**											**276,434,746**
a) ordinary shares	***276,434,746***		***276,434,746***											276,434,746
b) other shares														
Share premium reserve	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**544,789,805**		**544,789,805**	23,062,484		72,654								**567,924,943**
a) profit	*298,459,561*		*298,459,561*	*23,062,484*		*72,654*								*321,594,699*
b) other	*246,330,244*		*246,330,244*											*246,330,244*
Valuation reserves	**(3,590,672)**		**(3,590,672)**										910,337	**(2,680,335)**
Equity instruments														
Treasury shares														
Profit (loss) for the year	**49,814,234**		**49,814,234**	(23,062,484)	(26,751,750)								82,420,165	**82,420,165**
Shareholders' equity	**1,095,537,344**		**1,095,537,344**	**0**	**(26,751,750)**	**72,654**							**83,330,502**	**1,152,188,750**

Note:
The positive change of €72,654 in profit reserves derives from the allocation to reserve of the payable to shareholders related to dividends resolved by the Shareholders' Meeting of 17 December 2003 (extraordinary distribution of part of the reserves) not collected and now forfeited.

Statement of Changes in Consolidated Equity 31/12/2009 - 31/12/2010

(amounts in euros)

	Balances as at 31/12/2009	Changes in initial balances	Balances as at 01/01/2010	Allocation of previous year's results		Changes during the period								Shareholders' equity as at 31/12/2010
							Shareholders' Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2010	
Capital:	**231,135,117**		**231,135,117**			34,242,239	11,057,390							**276,434,746**
a) ordinary shares	***231,135,117***		***231,135,117***			*34,242,239*	*11,057,390*							276,434,746
b) other shares														
Share premium reserve	**189,210,022**		**189,210,022**				**38,879,209**							**228,089,231**
Reserves:	**509,218,576**		**509,218,576**	38,086,269		(2,515,040)								**544,789,805**
a) profit	*262,888,332*		*262,888,332*	*38,086,269*		*(2,515,040)*								*298,459,561*
b) other	*246,330,244*		*246,330,244*											*246,330,244*
Valuation reserves	**(11,569,580)**		**(11,569,580)**			(31,727,199)							39,706,107	**(3,590,672)**
Equity instruments														
Treasury shares														
Profit (loss) for the year	**38,086,269**		**38,086,269**	(38,086,269)									49,814,234	**49,814,234**
Shareholders' equity	**956,080,404**		**956,080,404**	**0**		**0**	**49,936,599**						**89,520,341**	**1,095,537,344**

Note:
On 26 June 2009, the Shareholders' Meeting resolved a bonus share capital increase and an increase against payment.w

Statement of Cash Flows (indirect method)

(amounts in euros)

A. OPERATING ACTIVITIES	31/12/2010	31/12/2009
1. Management	**(198,345,478)**	**279,124,816**
- profit (loss) for the period	82,420,165	49,814,234
- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(396,998,251)	105,815,731
- net value adjustments/write-backs due to impairment	119,385,263	134,804,732
- net value adjustments/write-backs to property, plant and equipment and intangible assets	884,271	1,208,237
- net provisions to risks and charges and other costs/revenues	9,209,184	2,293,596
- taxes not paid	49,084,757	31,996,708
- other adjustments	(62,330,867)	(46,808,422)
2. Cash flows generated/absorbed by financial activities:	**(11,678,050,812)**	**(2,267,840,673)**
- Financial assets held for trading	(10,958,626,828)	(3,069,232,692)
- Financial assets available for sale	(28,602,774)	271,993,490
- Due from banks: other receivables	(3,060,437,339)	107,431,302
- Loans to customers	2,347,034,509	379,277,298
- Other assets	22,581,620	42,689,929
3. Cash flows generated/absorbed by financial liabilities:	**9,942,819,795**	**2,722,418,119**
- Due to banks: other amounts payable	(334,835,057)	2,875,847
- Due to customers	(128,556,239)	308,812,513
- Outstanding securities	(26,439,526)	122,817,214
- Financial liabilities held for trading	10,627,798,507	2,475,149,080
- Other liabilities	(195,147,890)	(187,236,535)
Net cash flows absorbed/generated by operating activities	**(1,933,576,495)**	**733,702,262**
B. INVESTING ACTIVITIES		
1. Cash flows generated by:	**29,282,000**	**5,478,000**
- sale of equity investments	3,833,000	1,960,000
- dividends from equity investments	1,793,000	3,518,000
- sale of property, plant and equipment	23,656,000	
- sale of intangible assets		
2. Cash flows absorbed by:	**(3,782,681)**	**(15,344)**
- purchase of equity investments	(3,680,000)	
- purchase of property, plant and equipment	(102,681)	(15,344)
- purchase of intangible assets		
Net cash flows generated/absorbed by investing activities	**25,499,319**	**5,462,656**
FUNDING ACTIVITIES		
issue/purchase of treasury shares		49,936,599
issue/purchase of equity instruments	-	-
distribution of dividends and other purposes	(26,751,750)	-
Net cash flows generated/absorbed by funding activities	**(26,751,750)**	**49,936,599**
NET CASH FLOWS ABSORBED/GENERATED DURING THE PERIOD	**(1,934,828,926)**	**789,101,517**

The statement of cash flows was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified of effects due to operations of a non-monetary nature.

Reconciliation

(amounts in euros)

Items	*31/12/2010*	*31/12/2009*
Cash and cash equivalents at the beginning of the period	(1,967,077,253)	(2,756,178,770)
Total net cash flows absorbed/generated during the period	(1,934,828,926)	789,101,517
Cash and cash equivalents: effect of changes in exchange rates		-
Cash and cash equivalents at the end of the period	(3,901,906,179)	(1,967,077,253)

Note:
Cash and cash equivalents include on demand payables and receivables and deposits with banks, posted under asset item 60 “Due from banks”.

EXPLANATORY NOTES

Part A
Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 – Statement of compliance with the International Accounting Standards

These Financial Statements, in application of Legislative Decree no. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, and in force at the time the Financial Statements were approved.
The International Accounting Standards were also applied with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework").
In the absence of an accounting standard or interpretation specifically applicable to a transaction, other event or circumstance, the Company Management used its own judgement in developing and applying an accounting standard, in order to provide disclosure that is:
- significant for the purposes of financial decisions made by users of the financial statements;
- reliable, so that the financial statements:
  - provide a true representation of the equity-financial position, income statement and cash flows of the entity;
  - reflect the economic substance of the transactions, other events and circumstances, and not merely their legal form;
  - are neutral, i.e. unbiased;
  - are prudent;
  - are complete, with reference to all significant aspects.

In exercising said judgement, the Company Management referred to and considered the applicability of the following sources, in decreasing order of importance:
- the provisions and application guidelines contained in the Accounting Standards and Interpretations dealing with similar or related cases;
- the definitions, recording criteria, and measurement concepts for the recognition of assets, liabilities, revenues and costs contained in the Framework.

In expressing judgements, the Company Managements may also consider:
- the provisions most recently issued by other entities responsible for ratifying accounting standards, which use a conceptually similar framework in developing the accounting standards;
- other accounting literature;
- generally accepted practices in the sector.

In compliance with Article 5 of Legislative Decree no. 38 of 28 February 2005, whenever, in exceptional cases, the application of a provision of the International Accounting Standards was incompatible with the true and accurate representation of the equity, financial and income situation, such provision was not applied. The Explanatory Notes provide explanations for these derogations and their influence on the representation of the equity, financial and income position.
In the financial statements, any profits deriving from such derogation are recorded in a reserve which may be distributed only to the extent of the actual amount recovered.

Section 2 – General principles for the preparation of the financial statements

The Financial Statements have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and subject to mandatory enforcement in 2010. Additionally, the provisions of Bank of Italy Circular no. 262, governing the format and rules for the preparation of bank financial statements, amended by the first revision on 18 November 2009 (hereafter, the "revised 262 Circular").
The financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the explanatory notes, and are supplemented by the Directors' Report on Operations.
As permitted by IAS 27 "Consolidated and Separate Financial Statements", the Bank, as the parent company of other companies in turn controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements (cf. IAS 27, par. 8-10). In light of the above, the investments in subsidiaries, associated companies and jointly controlled entities are accounted for at cost (IAS 27, par. 37); for details on equity investments, please see Part B of the Explanatory Notes, Section 6 of the Balance Sheet - Assets.
The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. – with registered office in Piazza Salimbeni no. 3 – Siena, enrolled in the Banking Register and the Banking Groups Register with no. 5274 - and are made available to the public at said registered office.
The financial statements have been prepared with clarity, and provide a true and accurate representation of the equity, financial and income situation for the year.
If the disclosure required by the International Accounting Standards and the provisions contained in the "revised 262 Circular" is not sufficient to provide a true, accurate, meaningful, reliable, comparable and understandable representation, then supplementary information required for this purpose is provided in the Explanatory Notes .
The balance sheet, income statement and statement of comprehensive income consist of numbered items, sub-items (identified by letters), and by additional details (the "of which" of the items and sub-items). The items, sub-items and related details constitute the financial statement accounts.
The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income. If the account balances are not comparable, the prior-year balances are adjusted. The lack of comparability and the restatement or the impossibility of restatement are noted and discussed in the Explanatory Notes.
The offsetting of assets and liabilities and of costs and revenues is not permitted, except where allowed or required by the International Accounting Standards of the provisions of the "revised 262 Circular".
Balance sheet, income statement and statement of comprehensive income items with a zero balance for the year and for the prior year are not presented. If an asset or liability can be booked to more than one balance sheet item, the explanatory notes provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary for the purpose of understanding of the financial statements.
Revenues are reported in the income statement and the related section of the explanatory notes without a +/- sign, while costs are indicated in parentheses. In the statement of comprehensive income, negative amounts are indicated in parentheses.
In compliance with Article 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in units

of Euro, whilst the explanatory notes are in thousands of Euro. Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. Tables that do not contain any values are omitted in the explanatory notes.
The financial statements have been drawn up with the view of the company as a going concern, in accordance with the matching principle, the principle of the importance and significance of information, and the principle of the prevalence of substance over form, as well as in order to favour consistency with future presentations.
With regard in particular to the view of the company as a going concern, we point out that, in compliance with the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, Consob and Isvap, pertaining to "Information to provide in financial reports on asset impairment tests, on the contractual clauses of financial payables, on debt restructurings and on the "fair value hierarchy", which refers to the corresponding Document no.2, also issued jointly by the three Authorities on 6 February 2009, the Bank has the reasonable expectation of continuing with its operating existence in a foreseeable future and, therefore, it has prepared its Financial Statements in view of its continuation as a growing concern.
IAS 10, "Events after the Reporting Period" expressly governs the treatment to be applied to favourable or unfavourable events occurring between the balance sheet date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to Financial Statement data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important.

Section 3 – Events after the reporting period

In accordance to IAS 10 "Events after the Reporting Period", and with regard to the chapter in the Report on Operation entitled "Significant Events Subsequent to the End of the Year and Outlook on Operations", no adjustments had to be made to reflects events occurred between the financial statements' reference date and the date of authorisation for publication due to circumstances existing prior to the financial statements' reference date. For the events occurred in the same period, which are indicative of circumstances emerged after the financial statements' reference date, disclosure is provided in Section 3 below, when such events are significant and hence able to influence users' business decisions.

Section 4 – Other Information
List of IAS/IFRS international accounting standards and SIC/IFRIC interpretations whose application is mandatory in the 2010 financial statements

The following is the list of the IAS/IFRS international accounting standards and of the related SIC/IFRIC interpretations whose application to the 2010 financial statements is mandatory. The international accounting standards and their interpretations endorsed before the month of October 2008 were consolidated by the European Commission in a single text represented by Commission Regulation 1126/2008.
The list also shows the changes whose mandatory application starts in 2010. The column "Improvements to International Accounting Standards", in particular, shows the main changes introduced by the IASB within the scope of the project by the same name, aimed at producing improvements in the various standards through changes that in any case have no impact on the overall framework of the standards.

List of IAS/IFRS Principles Whose Application to the 2010 Financial Statements is mandatory

Accounting Standards		Changes whose mandatory application starts in 2010	
		Improvements to International Accounting Standards (R.C. 243/10)	Other changes
IAS 1	Presentation of Financial Statements	S	
IAS 2	Inventories		
IAS 7	Cash-flow statements	S	
IAS 8	Accounting policies, changes in accounting estimates and errors		
IAS 10	Events after the reporting period		R.C. 1142/09
IAS 11	Construction contracts		
IAS 12	Income taxes		
IAS 16	Property, plant and equipment		
IAS 17	Leases	S	
IAS 18	Revenue		
IAS 19	Employee benefits		
IAS 20	Accounting for government grants and disclosure of government assistance		
IAS 21	The effects of changes in foreign exchange rates		
IAS 23	Borrowing costs		
IAS 24	Related party disclosures		
IAS 26	Accounting and reporting by retirement benefit plans		
IAS 27	Consolidated and separate financial statements		Revision R.C. 494/09

(List of IAS/IFRS Principles Whose Application to the 2010 Financial Statements is mandatory – continued)

IAS 28	Investments in associates		
IAS 29	Financial reporting in hyperinflationary economies		
IAS 31	Interests in joint ventures		
IAS 32	Financial instruments: presentation		
IAS 33	Earnings per share		
IAS 34	Interim financial reporting		
IAS 36	Impairment of assets	S	
IAS 37	Provisions, contingent liabilities and contingent assets		
IAS 38	Intangible assets	S	
IAS 39	Financial instruments: recognition and measurement	S	Amendments R.C. 839/09
IAS 40	Investment property		
IAS 41	Agriculture		
IFRS 1	First-time adoption of International Financial Reporting Standards		Revision R.C. 1136/09 Amendments R.C. 550/10, R.C.1164/09
IFRS 2	Share-based payments	S	Amendment R.C. 244/10
IFRS 3	Business combinations		Revision R.C. 495/09
IFRS 4	Insurance contracts		
IFRS 5	Non-current assets held for sale and discontinued operations	S	Improvements to International Accounting Standards R.C. 70/09; R.C. 1142/09
IFRS 6	Exploration for and evaluation of mineral resources		
IFRS 7	Financial instruments: disclosures		
IFRS 8	Operating segments	S	

Interpretations Whose Application to the 2010 Financial Statements is mandatory

Accounting Standardsi		Changes whose mandatory application starts in 2010	
		Improvements to International Accounting Standards (R.C. 243/10)	Other changes
SIC 7	Introduction of the Euro		
SIC 10	Government assistance – no specific relation to operating activities		
SIC 12	Consolidation – special purpose entities		
SIC 13	Jointly controlled entities – non-monetary contributions by venturers		
SIC 15	Operating leases – incentives		
SIC 21	Income taxes – recovery of revalued non-depreciable assets		
SIC 25	Income taxes – changes in the tax status of an entity or its shareholders		
SIC 27	Evaluating the substance of transactions involving the legal form of a lease		
SIC 29	Disclosure — service concession arrangements		
SIC 31	Revenue – barter transactions involving advertising services		
SIC 32	Intangible assets – website costs		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds		
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment		
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies		
IFRIC 8	Scope of IFRS 2		
IFRIC 9	Reassessment of Embedded Derivatives	S	
IFRIC 10	Interim Financial Reporting and Impairment		
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions		
IFRIC 13	Customer Loyalty Programmes		

IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction		
IFRIC 15	Agreements for the construction of real estate		
IFRIC 16	Hedges of a net investment in a foreign operation	S	
IFRIC 17	Distributions of non-cash assets to owners		R.C. 1142/09
IFRIC 18	Transfers of assets from customers.		R.C. 1164/09

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2010, the following are noted in particular.

IAS 39 – "Financial instruments: recognition and measurement". On 31 July 2008, the IASB issued an amendment to IAS 39 called "Instruments which may be designated as hedging instruments", which clarifies that the inflation risk may be hedged only under certain conditions and that an acquired option may not be designated in full (intrinsic value and time value) to hedge a one-sided risk of a forecast transaction, because only designating the intrinsic value of the option as a hedging instrument is effective coverage provided. The amendment was endorsed by the European Commission with Regulation 839/2009.

IFRS 1 – First-time adoption of International Financial Reporting Standards On 24 November 2008, the IASB issued a new version of IFRS 1 – First time adoption of International Financial Reporting Standards. The new version of the standard represents a reorganisation of the previous standard, which had been the subject of numerous changes over time. The European Commission completed the endorsement process by issuing Regulation 1136/2009.

IFRS 1 – Additional Exemptions for First-time Adopters. On 24 June 2010, Regulation 550/2010 was issued, amending Regulation 1126/2008 that adopts certain standards in accordance with Regulation 1606/2002 applying international accounting standards. The amendment addresses particular situations in which the retroactive application of the IFRS, for new adopters, entails excessive costs or hardships in the transition process. The amendment introduces two exemptions: i) exempts the entity from using the full cost method for the retroactive application of the IFRS, in accordance with IFRS 6, "Exploration for and evaluation of mineral resources", in the case of oil and gas assets; ii) exempts the entity with existing lease agreements from revising the classification of these agreements on a different date, in accordance with IFRIC 4 "Determining whether an arrangement contains a lease", when applying the national accounting standard produces the same result.

IFRS 2 – "Share-based payments". On 18 June 2009, the IASB published some amendments to IFRS 2 "Share-based payments". These amendments to IFRS 2 provide clarifications on accounting for transactions with share-based payments in which the provider of the goods or services is paid in cash and the obligation is taken on by another entity in the group (transactions with payment based on shares paid in cash within a group). The amendment was endorsed by the European Commission with Regulation 244/2010.

IFRS 3 "Business combinations" and IAS 27 "Consolidated and separate financial statements". On 10 January 2008, the IASB issued an updated version of IFRS 3 – Business combinations, and it amended IAS 27 – Consolidated and separate financial statements. The main changes made to IFRS 3 involve the elimination of the obligation to measure the subsidiary company's individual assets and liabilities at fair value in each subsequent acquisition, in the case of phased acquisitions of subsidiaries. Moreover, if the company does not acquire 100% of the stake, minority

shareholders' equity may be assessed either at fair value (full goodwill) or using the method currently prescribed by IFRS 3. The revised version of the standard also prescribes to record in the income statement all costs connected with the business combination and to measure on the date of acquisition the liabilities for payment subject to condition.
In the amendment to IAS 27, instead, the IASB established that changes to the share that do not constitute a loss of control shall be treated as equity transactions and hence shall have an offsetting entry in the shareholders' equity. It is also established that when a parent company relinquishes control over an associated company but nonetheless continues to hold an interest in the company, it shall measure the retained interest in the balance sheet at fair value and allocate any profits or losses deriving from the loss of control in the income statement. Lastly, the amendment to IAS 27 requires all losses attributed to minority shareholders to be allocated to the minority shareholders' equity, even when they exceed their share of the capital of the associated company. These new rules apply to business combinations prospectively (for IFRS 3) and retroactively (for IAS 27) through European Commission Regulations 494/2009 and 495/2009.

"Improvements to International Accounting Standards" Project. On 22 May 2008, the IASB issued a set of changes to the IFRS ("Improvements"), endorsed with Regulation 70/2009. Below is mentioned the sole amendment whose mandatory application did not come into force previously.

- **IFRS 5 - Non-current assets held for sale and discontinued operations.** The amendment, which the entity shall apply in financial years after 30 June 2009, states that if a company is engaged in a sale plan that entails loss of control on an associated company, all of the subsidiary's assets and liabilities shall be reclassified among assets held for sale, even if, after the sale, the company will still hold a minority interest in the subsidiary.

On 27 November 2008, the IFRIC issued the interpretation **IFRIC 17**, **"Distributions of Non-cash Assets to Owners"** which regulates the issue of the distributions of dividends as non-cash assets (e.g. real estate, companies, equity investment, etc.). In particular, the interpretation states that in these cases the assets distributed as dividends shall be assessed at fair value at the time of the distribution and any difference between fair value and the carrying amount shall be recorded in the income statement. The interpretation does not apply to distributions of assets that a) pertain to entities under common control, b) do not treat shareholders of the same class equally or c) pertain to the share in a subsidiary whose control is not relinquished. If applicable, the distribution could be preceded by the classification to IFRS 5; in this case, the rules of IFRS 5 are applied until the dividend is paid. The interpretation was endorsed by the European Commission with Regulation 1142/2009.
On 29 January 2009, the IFRIC issued the interpretation **IFRIC 18, "Transfers of Assets from Customers"**, which regulates the accounting treatment of the property, plant and equipment received from customers and used to connect the customers to a network and/or to supply goods and services. In the assumption that the entity receives an asset that can be defined as such (i.e. the entity has control of the activity), the entity records the asset received at fair value (IAS 16); for this asset, the entity records a revenue correlated to the duration of the services supplied to the customer. If no term is set for the performance of the services, the period for recording the revenues may not exceed the working life of the transferred asset. If the service is limited to the simple connection to a network, the revenue is recorded at the time of the connection. The interpretation was endorsed by the European Commission with Regulation 1164/2009.

"Improvements to International Accounting Standards" Project. On 16 April 2009, the IASB issued a set of changes to the IFRS within the scope of this project. Below are mentioned those indicated by the IASB as amendments that will entail a change in the presentation, recognition and assessment of the financial statement entries, ignoring instead those that will only determine terminology changes or editorial changes with minimal effects in accounting terms. The amendments were endorsed by the European Commission with Regulation 243/2010.

- **IFRS 2 – "Share-based payments".** The scope of the principle does not include share-based payments deriving from business combinations, from combinations between entities subject to common control and from joint ventures.
- **IFRS 5 - Non-current assets held for sale and discontinued operations.** A clarification was introduced on mandatory disclosures.
- **IFRS 8 "Operating segments".** It was clarified that the income or losses, the assets and liabilities referable to each segment shall be indicated only if these amounts are periodically provided to the highest operational decision-making level.
- **IAS 1 – Presentation of financial statements.** The current liability characteristics within the Balance Sheet were clarified.
- **IAS 7 "Statement of cash flows"**. It was clarified that only the expenses that are recorded as assets in the balance sheet may be classified as cash flows deriving from investment activities.
- **IAS 17 "Leases".** It amends the rule prescribing that the lease of a plot of land always be classified as an operating lease, when the agreement does not provide for the ownership title to be transferred at the end of the agreement. As a result of the amendment, when the lease agreement pertains both to land and buildings, an entity must verify the classification as operating or financial lease separately for the two elements, taking into account that an important factor is that land normally has an indefinite economic life.
- **IAS 36 "Impairment of assets".** It was clarified, in the definition of "cash-generating unit" (CGU), that each CGU to which goodwill is allocated, for the purposes of the impairment test, i) may not be any greater than an operating segment, as defined in Paragraph 5 of IFRS 8, before the combination, and ii) represent the minimum level within the entity whose goodwill is managerially monitored.
- **IAS 38 "Intangible assets".** Some clarifications were provided on the measurement of intangible assets in business combinations, consistently with the changes made to IFRS 3 with the revision made in 2008.
- **IAS 39 "Financial instruments: recognition and measurement".** Changes were made pertaining to forward agreements deriving from business combinations, to early repayment options and to the hedging of financial flows. With regard to forward agreements deriving from business combinations, paragraph 2 lett. g) of IAS 39 stated that agreements stipulated between a buyer and a seller in a business combination, to acquire or sell an acquired asset, were outside the scope of IAS 39. The amendment clarified that this exemption is limited to forward agreements for the purchase or sale of an acquired company that will give rise to a business combination at a future acquisition date while awaiting the necessary authorisations and completion of the judicial processes. Regarding early reimbursement options, it was established that an option whose exercise price does not reimburse an amount equal to the current value of the interest rate spread lost by the lender for the period corresponding to the residual life of the agreement shall be separated from the hosting agreement. For hedges of cash flows, changes were made to the wording used to illustrate the criteria whereby the profits and losses and on the hedging instruments are to be reclassified in the income statement.
- **IFRIC 9 "Reassessment of Embedded Derivatives".** As a result of the revision of IFRS 3, it was necessary to state that the purpose of the interpretation remains the same, but the amendment clarifies that it does not apply to the embedded derivatives of the contracts acquired with a business combination, with a combination of entities under common control, with a joint venture. The scope of this interpretation does not include the acquisition of associated companies. If the entity opts for the early application of the revised IFRS 3, then this interpretation also follows the same path, providing appropriate disclosure thereof.

- **IFRIC 16 - Hedges of a net Investment in a foreign operation.** In the hedge of a net investment in a foreign operation, the hedge instrument may be owned by one or more companies within a group, provided that the requirements of IAS 39 are met.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2010.

Pursuant to IAS 8 "Accounting policies, changes in accounting estimates and errors", paragraphs 30 and 31, we point out that as of 31 January 2011 the European Commission had endorsed certain standards and interpretations issued by the IASB, whose mandatory application is effective after 31 December 2010; in these cases, the Bank did not exercise its right of early application in any cases which may have occurred. Said standards and interpretations are indicated below.

IAS 24 - Related party disclosures. On 20 July 2010, the European Commission with Regulation 632/2010 endorsed the revision of the standard, issued by the IASB in November 2009. The main changes of the new standard, which replaces the current one, are summarised below:

- it introduces the symmetric application principles in the financial statements of the related parties;
- the position of natural persons is equated to that of companies, for the purposes of the relationship; the inclusion of the commitments among the balances with related parties is required;
- it was clarified that the subsidiaries of an associated company and the subsidiaries of a joint venture are related parties;
- the scope of the Parent Company's related parties includes the subsidiaries of the investors exercising significant influence on it;
- public entities are exempted from providing certain information.

To assure consistency among international accounting standards, adoption of the revised IAS 24 entails consequent amendments to **IFRS 8 "Operating Segments"**. The new standard is applicable from the financial statements of years starting on or after 1 January 2011.

IAS 32 – Financial instruments: presentation. In October 2009, the IASB issued an amendment that states that, if rights issues are pro rata to all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment, endorsed by the European Commission with Regulation 1293/2009 of 23 December 2009, is applicable starting from the financial statements for the years starting on or after 1 February 2010.

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. On 28 January 2010 the IASB published an amendment to IFRS 1, "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters". Companies adopting IFRSs for the first time would be obligated to report the comparative disclosure according to **IFRS 7 "Financial instruments: disclosures"** with regard to the measurements of fair value and liquidity risk for the comparative periods ending 31 December 2009. The amendment to IFRS 1 tries to avoid the potential use of elements known subsequently and to assure that first time adopters are not disadvantaged with respect to existing preparers of IFRS-compliant financial statements, enabling them to adopt the same transitory provisions introduced in March 2009 by IFRS 7 "Improving Disclosures about Financial Instruments". Adoption of the amendment to IFRS 1 entails consequent amendments to **IFRS 7 "Financial instruments: disclosures**" to assure consistency. Regulation 574/2010 of 30 June 2010 obligates the entity to apply this change starting from the financial statements of the years starting on or after 1 July 2010.

On 15 November 2009, the IFRIC published amendments to **IFRIC 14 "Prepayments of a Minimum Funding Requirement".** The amendments were meant to eliminate an undesired consequences of IFRIC 14 when an entity subject to a minimum funding requirements makes a prepayment of contributions so that under certain circumstances the entity that makes that prepayment would have to record an expense in its accounts. If a defined benefit plan is subject to a minimum funding requirement, the amendment to IFRIC 14 imposes to treat this prepayment as an asset, like any other prepayment. The interpretation, endorsed by the European Commission with Regulation 633/2010 of 19 July 2010, shall be applied to the financial statements starting on or after 1 January 2011.

On 26 November 2009, the IFRIC published **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**. The IASB clarified the procedures for recognising in the debtor's financial statements the transactions through which a debtor renegotiates his debt, totally or partially extinguishing the financial liability by issuing equity instruments underwritten by the creditor (such transactions are often known as "debt for equity swaps"). The interpretation does not apply to transactions in which the creditor is a direct or indirect shareholder of the debtor, in which the creditor and the debtor are controlled by the same person before and after the transaction or in which the transaction was envisaged in the original contractual clauses. The interpretation clarifies that equity instruments issued must be recognised at fair value and that they represent the consideration paid for the extinction of the liability; the difference between the fair value of the equity instruments issued and the carrying amount of the extinguished liability shall be accounted for in the income statement. Adoption of IFRIC 19 entails consequent amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards** to assure consistency. The interpretation, endorsed by the European Commission with Regulation 662/2010 of 23 July 2010, shall be applied to the financial statements starting on or after 1 July 2010.

Accounting standards, amendments and interpretations issued by the IASB and still awaiting European Commission endorsement.

For these principles and interpretations, the initial date of enforcement of the mandatory application, which in any case is after 31 December 2010, is not indicated, because it shall be set definitively, for companies residing in European Union countries, by the endorsement regulations.

"Improvements to International Accounting Standards" Project. On 6 May 2010, the IASB issued a set of changes to the IFRS within the scope of this project. Below are mentioned those indicated by the IASB as amendments that will entail a change in the presentation, recognition and assessment of the financial statement entries, ignoring instead those that will only determine terminology changes or editorial changes with minimal effects in accounting terms.

- **IFRS 1 – Change in accounting policies simultaneous with the first-time of adoption of IFRS.** If accounting policies are changed upon first-time adoption or an exemption is used after publishing an interim report (according to IAS 34 "Intermediate Financial Reporting"), but before issuing the first financial statements in accordance with the IFRS, it is necessary to explain the change and to update the reconciliations between the standards used previously and IFRS. The requirements prescribed by IAS 8 "Accounting policies, changes in accounting estimates and errors" with respect to changes in accounting policies are not applicable to the first IFRS financial statements of the entity.
- **IFRS 1 – First-time adoption of IFRS: revalued cost as deemed cost**. IFRS 1 prescribes that an entity may use as deemed cost the fair value deriving from an event, e.g. an IPO, which for the purposes of local standards may be used for reporting purposes. This event must occur by the date of transition to IFRS. The amendment allows to use for these purposes an event that takes place after the date of transition to IFRS, but during the period covered by

the first IFRS financial statements of the entity. The consequent adjustment of the carrying value must be allocated to shareholders' equity.

- **IFRS 1 – First-time adoption of IFRS: deemed cost for elements used in rate-regulated businesses**. It is specified that a new adopter may use for individual elements of property, plant and machinery and of intangible assets, used in rate-regulated businesses, the carrying value determined under the previous accounting standards as surrogate cost. The carrying value must be subjected to impairment pursuant to IAS 36 "Impairment of assets". In this case, the entity must provide disclosure about the use of this option in the financial statements.
- **IFRS 3 "Business combinations". Measurement of minority shares**. IFRS 3 prescribes that non controlling interests may be measured both at fair value and according to the proportional share of the identifiable net assets acquired. The amendment modifies the standard, limiting the options only to the cases in which non controlling interests represent "present ownership instruments" which entitle to a proportional share of the net assets of the entity in case of liquidation.
- **IFRS 3 "Business combinations". Share-based payments not replaced or replaced voluntarily**. It clarifies that i) the provisions for the measurement of the purchaser's incentives, given as replacements to those of the acquired company, apply also to the share-based payments of the acquired company that are not replaced; ii) when the incentives are replaced, the provisions for the allocations of the market valuations of the incentive, between the price paid for the acquisition and the remuneration component, apply to all replacement incentives, regardless of whether the purchaser is obligated to the replacement or not.
- **IFRS 3 "Business combinations". Contingent consideration**. It clarifies that IAS 32 "Financial instruments: presentation", IAS 39 "Financial instruments: recognition and measurement" and IRFS 7 "Financial instruments: disclosures" do not apply to contingent liabilities generated by business combinations whose acquisition date precedes the application of IFRS 3 (2008).
- **IFRS 7 "Financial instruments: disclosure". Clarification with regard to disclosure.** Emphasis was placed on the interaction between qualitative and quantitative disclosure to enable adopters to build an overall picture of the risks generated by the financial instruments. Moreover, the obligation to report the amount that expresses the greatest credit risk exposure of the financial instruments was eliminated for those instruments whose carrying value already best represents the maximum exposure to credit risk. Lastly, the amendment eliminated the obligation to report the carrying value of the financial assets whose contractual terms were renegotiated and that, without such renegotiation, would have been subject to impairment.
- **IAS 1 – "Presentation of financial statements". Statement of changes in equity**. It specifies that an entity may present the reconciliation between initial and final balances of each of the "other comprehensive income" items both in the statement of changes in equity and in the notes to the financial statements.
- **IAS 27 "Consolidated and separate financial statements". Transitory measures consequent to the changes made to IAS 27 (2008).** It clarifies that the amendments to IAS 21 "The effects of changes in foreign exchange rates", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures" consequent to IAS 27 (2008) shall be applied prospectively with the exception of paragraph 35 of IAS 28 and of paragraph 46 of IAS 31 that shall be applied retrospectively.
- **IAS 34 "Interim financial reporting". Significant events and transactions**. It emphasises the principle, in IAS 34, whereby disclosure on significant events and on transactions that took place in interim periods should contain an update on the relevant information presented in the most recent annual financial statements. It clarifies how to apply this principle in relation to financial instruments and to their fair value.
- **IFRIC 13 "Customer Loyalty Programmes". Fair value of award credits**. It clarifies that the fair value of award credits must take into account: i) of the amounts of discounts and incentives that would have been granted to

customers who have not earned the right to participate in the point collection plan and ii) forfeitures.

- **IFRS 7 – “Financial instruments: disclosure”.** The amendment, issued by IASB on 7 October 2010, raises disclosure requirements for transactions involving transfers of financial assets. Improvements to the disclosure existing in IFRS 7 are required if an asset is sold but not derecognised off the balance sheet and additional information is introduced for assets which are derecognised but to which the entity continues to have an exposure even after the sale. The amendment will allow users of the financial statements to improve their understanding of the possible effects of any risks that may remain with the company that sold the asset. The guide for the derecognition of financial assets as per IAS 39 “Financial instruments: recognition and measurement” remains unchanged.
- **IFRS 9 – “Financial instruments”.** In response to the requests for simplification of the accounting rules applicable to financial instruments, submitted both by political bodies and by international institutions, the IASB initiated a project for the replacement of the current IAS 39 “Financial instruments: recognition and measurement”. The project was divided into three distinct phases: i) classification and assessment of financial assets, ii) depreciated cost and impairment, iii) hedges. Regarding the first phase, on 12 November 2009 the IASB issued the accounting standard IFRS 9 “Financial instruments”, which shall be adopted from 1 January 2013. The new accounting standard pertains to the classification and assessment of financial assets. Portfolio categories shall be reduced to three (depreciated cost, fair value with changes in income statement and fair value with changes in the statement of comprehensive income for equity instruments). The Held To Maturity and Available For Sale categories were eliminated. Changes were also made to the classification rules of the three categories in question, including those for the Fair Value Option (FVO). The IFRS 9 uses a single method to determine whether a financial asset is measured at depreciated cost or at fair value. The method is based on the financial instrument management model adopted by the entity (business model) and on the contractual characteristics of the cash flow of the financial assets. The new standard also requires a single impairment method to be used. The new IFRS has not been endorsed by the European Commission, which has postponed its process while awaiting the completion of the other phases. On 28 October 2010, the IASB completed the accounting standard IFRS 9 with the part pertaining to the classification and measurement of financial liabilities. The IASB opted for the substantial maintenance of the framework of the current IAS 39. Consequently, it confirmed the current obligation to separate the derivatives embedded in financial liabilities; the full recording of fair value changes as offset entries in the income statements is prescribed, for instruments other than derivatives, only for financial liabilities held for trading. For the financial liabilities designated within the fair value option, the change in fair value attributable to changes in the credit risk of the liability is recorded directly among the other comprehensive income entries, unless this creates and/or exacerbates the accounting mismatch, in which case the entire change in fair value is recorded in the income statement. That amount recorded among the other comprehensive income entries is not reversed to the income statement when the liability is settled or extinguished.

A.2 - PRINCIPAL FINANCIAL STATEMENT AGGREGATES

Accounting Standards

The accounting standards adopted with reference to the principal asset and liability items for the preparation of the Financial Statements as of 31 December 2010 are described below.

1) Financial assets held for trading

a) initial recognition

For purchase and sale transactions involving standard financial instruments, assets are initially recorded on the settlement date ("regular way", whose settlement terms are generally established by regulations or by the conventions of the involved market, usually for debt and equity securities), and on the date of stipulation of the transaction for the remaining financial instruments (see derivative agreements).

Financial assets held for trading are initially measured at their fair value, which generally corresponds to the amount paid, without considering the transactions costs or income directly attributable to the instrument itself, which are booked to the income statement.

In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recorded at fair value.

The appropriate reference accounting standard is applied to the primary agreement.

b) classification

The following are classified in this category: i) financial assets acquired primarily for the purpose of generating earnings as a result of short-term price fluctuations; ii) financial assets that are part of portfolios of financial instruments whose overall management is geared towards effective strategies for securing profits in the short term; iii) derivative contracts, with the exception of those designated as hedging derivatives; and iv) structured instruments (for these financial instruments, derivatives embedded in the primary contracts have not been reported separately).

c) measurement criteria

After the initial recognition, financial assets held for sale are assessed at fair value, recording changes as offsetting entries in the income statement.

To determine the fair value of financial instruments listed on active markets, market prices are used. In the absence of an active market, generally accepted estimation methods and measurement models are used, which are based on data obtained from the markets, such as: methods based on the measurement of listed instruments with similar characteristics, discounted cash flow methods, option price models, and prices recorded in recent comparable transactions. For more details, please see section A.3 "Fair value disclosure" below.

Equity instruments and the related derivatives whose fair value cannot be reliably determined according to the guidelines above, are stated at cost, adjusted for any impairment losses. These impairment losses are not written back.

Financial instruments such as repurchase agreements and securities lending, considering that they are short-term transactions (no longer than twelve months), fair value is represented by the initial recognition value including the economic component accrued as of the reference date.

In determining the cost of the securities portfolio, the Bank applies the "weighted average daily cost" method.

d) derecognition

The financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits. Securities received within a transaction that contractually calls for the subsequent sale and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded or eliminated from the accounts. Consequently, in the case of securities acquired with resale agreement the amount paid is recorded in the financial statements as a payable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among payables to banks, or to customers, or among other liabilities. In particular for repurchase agreements and securities lending, for which the Bank continues to retain essentially all the risks and benefits of ownership of the transferred asset, the Bank continues to record the entire amount of the transferred asset in the balance sheet, as an offsetting entry to a financial liability equal to the consideration received.

e) income recognition

The effects of measurement, transfers and/or closures are booked to Item 80 of the income statement, "Net income from trading activities", while coupon income or any remuneration accrued for activities regarding repurchase agreements or securities lending are recorded in the income statement, under Item 10 "Interest income and similar income" and Item 20 "Interest expense and similar charges".
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, under Item 70 "Dividends and similar income".
Differentials on transactions in derivatives are booked to the income statement under the suitable item in relation to the management nature of the contracts.

2) Financial assets at fair value

a) initial recognition

Financial assets are initially recorded at the settlement date for debt and capital securities, and at the granting date for receivables.
These financial assets are initially measured at their fair value, which generally corresponds to the amount paid, without considering the transactions costs or income directly attributable to the instrument itself, which are booked to the income statement.
The Fair Value Option (FVO) is applied to all financial assets and liabilities which, differently classified, would have caused a distortion in accounting representation of the balance sheet and financial statement, and to all instruments which are managed and measured with a view to fair value.

b) classification

Financial assets to be measured at fair value through profit and loss (with the exception of equity instruments lacking a reliable fair value) are classified under this category when:

- the designation at fair value eliminates or reduces the significant distortions in the accounting representation of the financial performance of the financial instruments;

or:

- the management and/or measurement of a group of financial instruments at fair value through profit and loss is

consistent with a Risk management or investment strategy, documented and reported to the company management; or:
- in the event of an instrument containing an embedded derivative which significantly changes the cash flows of the host instrument, and which must be separated.

c) measurement criteria
Subsequent to initial recognition, these assets are measured at fair value.
To determine the fair value of the financial instruments listed on an active market, market listed prices are used.
In the absence of an active market, generally accepted estimation methods and measurement models are used, which are based on data obtained from the markets, such as: methods based on the measurement of listed instruments with similar characteristics, discounted cash flow methods, option price models, and prices recorded in recent comparable transactions.
For more details, please see section A.3 "Fair value disclosure" below.

d) derecognition
Financial assets are derecognised upon expiration of the contractual rights on the cash flows derived from the assets themselves or when the financial assets are sold, transferring substantially all rights/benefits connected to it.

e) income recognition
Gains and losses deriving from the measurement of financial assets at fair value are recorded in Item 110 "Net result from financial assets and liabilities at fair value" in the income statement.
The same treatment is reserved to derivative assets connected with the Fair Value Option, whose economic effect is classified in item 110 "Net result from financial assets and liabilities at fair value".

3) Financial assets available for sale

a) initial recognition
Financial assets are initially recorded at the settlement date for debt and equity securities ("regular way", whose settlement terms are generally established by regulations or market conventions), whilst for the remaining financial instruments they are initially recorded on the date of stipulation of the transaction (e.g. in the case of receivables they are initially recorded on the disbursement date).
They are initially recorded at their fair value, which normally corresponds to the amount paid, inclusive of transaction costs or income directly attributable to the instruments. If recording takes place following reclassification of the assets held to maturity, the recognition value is represented by the fair value at the time of the transfer. For debt securities, any difference between the initial amount and the repayment amount is amortised over the term of the instrument, at amortised cost.

b) classification
This category includes non-derivative financial assets not classified as receivables, financial assets held for trading, financial assets at the fair value recorded in the income statement or assets held to maturity.
This category specifically includes equity investments, even of a strategic nature, not held for trading purposes and not qualifiable as controlling interests, associates or jointly-controlled companies, and bonds which are not subject to trading.

These investments can be subject to sale for any reason, such as liquidity needs or changes in interest rates, in exchange rates or in stock prices.

c) measurement criteria

After the initial recording, assets available for sale continue to be assessed at fair value, with the recording in the income statement of the interest portion as it results from the application of the depreciated cost and of the related exchange rate effect and with the allocation in a dedicated shareholders' equity reserve of the profits/losses deriving from the fair value change net of the related tax effect, liability item 130 "Valuation reserves", with the exception of impairments. Exchange rate changes relating to equity instruments are recorded in the specific shareholders' equity reserve. Equity instruments whose fair value cannot be reliably determined are stated at cost, adjusted for any impairment losses. For more details of the procedures for determining fair value, please see section A.3 "fair value disclosure" below.
Impairment testing is carried out at the close of each set of financial statements or interim report. Indicators of a possible impairment are, for example, significant financial distress of the issuer, breaches or failure to pay interest or principal, the possibility that the beneficiary may file for bankruptcy or is subjected to another insolvency procedure, the disappearance of an active market for the asset. In particular, regarding equity instruments listed on active markets, objective evidence of impairment is considered the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the original purchase cost, or the prolonged presence for over twelve months of a market value lower than cost. If additional reductions occur in the following years, they are recorded directly in the income statement.
The amount of any write-down resulting from the impairment test is recorded in the income statement as a cost for the year. When the reasons for the impairment no longer apply, as a result of an event occurring subsequent to the recognition of impairment, the amounts are written back in the shareholders' equity on equity instruments and in the income statement on bonds.

d) derecognition

Financial assets are derecognised upon expiration of the contractual rights on the cash flows derived from the assets themselves or when the financial assets are sold, transferring substantially all rights/benefits connected to it.
Securities received within a transaction that contractually calls for the subsequent sale and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded or eliminated from the accounts. Consequently, in the case of securities acquired with resale agreement the amount paid is recorded in the financial statements as a receivable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among payables to banks, or to customers, or among other liabilities.

e) income recognition

At the time of the sale or of the exchange with other financial instruments or in the presence of an *impairment* recorded as a result of the impairment test, the results of the assessments cumulated in the reserves for assets available for sale are recorded in the income statement:

- In the item 100 "Profit (loss) from sale or repurchase of: b) financial assets available for sale", in case of sale or repurchase. The result also includes the difference accrued in the period;
- In the item 130 "Net value adjustments/write-backs due to impairment of: b) financial assets available for sale", if an impairment is recorded.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recording of the impairment, write-backs are posted to the income statement (under Item 130 as above) if the loss related to

debit and credit instruments, or to shareholders' equity, Item 130 under Liabilities, "Valuation reserves", if relating to equity instruments. However, the amount of the write-back cannot exceed the amortised cost of the instrument had there been no prior adjustments. Subsequent increases exceeding the cost must be posted to shareholders' equity as revaluation reserves.
The effective interest accrued is booked to the income statement, under Item 10 "Interest income and similar income".
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, which generally corresponds to the year in which the dividend is paid, under Item 70 "Dividends and similar income".

4) Financial assets held to maturity

a) initial recognition
These financial assets are initially recorded at the settlement date. They are initially recorded at their fair value, which normally corresponds to the amount paid, inclusive of transaction costs or income directly attributable to the instruments.
If an item is recorded in this category due to reclassification from "Assets available for sale", the fair value of the asset at the reclassification date is adopted as the new amortised cost of the asset.

b) classification
This category includes non-derivative financial assets with fixed or determinable payments and having set maturities, which the Bank has the intent and the ability to hold until maturity. If, following a change in intent or ability, it is no longer deemed feasible to hold an investment to maturity, the investment is reclassified under assets available for sale. Whenever sales or reclassifications are material in terms of quantity or quality, any remaining investment held to maturity must be reclassified as available for sale.

c) measurement and income recognition criteria
Subsequent to their initial recording, the financial assets held to maturity are measured at amortised cost using the effective interest rate method, adjust to take into account any effects of write-downs.
The result of applying this method is booked to the income statement, under Item 10 "Interest income and similar income".
Gains and losses deriving from the sale of these assets are booked to the income statement, under Item 100 "Profit (loss) from sale or repurchase of: c) financial assets held to maturity".
Impairment tests are carried out at the close of each set of financial statements or interim report.
If there is evidence of impairment, the amount of the impairment loss is measured as the different between the asset's carrying amount and the current value of estimated future cash flow, discounted at the effective original interest rate.
The amount of the loss is booked to the income statement under Item 130 "Net value adjustments/write-backs due to impairment of: c) financial assets held to maturity".
If the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, write-backs are made with booking to the income statement under the same item 130.

d) derecognition
The financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or

when the financial assets are sold, essentially transferring all the related risks and benefits.

5) Receivables

a) initial recognition

Initial recognition takes place:

- for a receivable:
  - at the disbursement date;
  - when the creditor acquires a right to the payment of the amounts agreed contractually;
- for a debt security:
  - on the settlement date.

The initial amount is quantified on the basis of the financial instrument's fair value, normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual instrument, which can be defined from the beginning of the transaction, even if settled subsequently. Costs that have the aforementioned characteristics but are reimbursed by the debtor counterparty or which can be classified as normal internal administrative expenses are excluded.

b) classification

Receivables include loans with customers or banks, provided directly and/or acquired from third parties, involving fixed or definable payments, which are not listed on an active market and which were not originally classified among financial assets available for sale and among the financial assets recorded at fair value with effects in the income statement.

The receivables item also includes trade receivables, receivables originated from financial lease transactions and securities acquired by subscription or private placement, with determined or determinable payments, not listed on active markets.

c) measurement and income recognition criteria

After initial recording, receivables are measured at the amortised cost, equal to the originally recorded value decreased/increased by repayments of principal, value adjustments/write–backs and amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/income directly related to the individual receivable. The effective interest rate is the rate that renders the current value of future credit flows, both in terms of principal and interest, estimated in the expected lifetime of the credit equal to the amount disbursed, including the costs/income attributable to the receivable. The economic effect of the costs and income is distributed throughout the expected residual life of the receivable.

The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible. These receivables are shown at their original carrying amount. A similar measurement criteria is adopted for receivables with undefined maturity date or which are valid until cancelled.

In classifying impaired exposures into the various risk categories (non-performing, watch-list, restructured and past due exposures), the Bank referred to the regulations issued by the Bank of Italy, complemented by internal provisions setting criteria and automatic rules for the passage of the receivables within the distinct risk categories.

Watch-list receivables include those past due by over 270 days.

The classification is carried out by the organisations autonomously, with the exception of receivables past due and/or

in serious default for over 180 days and watch-list receivables for the objective part pertaining to those past due and/or in serious default by over 270 days, which are recorded using automated procedures.
Receivables are analytically or collectively measured, depending on the various levels of impairment, In order to determine the adjustments to be made to the amounts in the financial statements, as illustrated below.
Analytical measurement is used for non-performing loans, watch-list exposures and restructured exposures, while collective measurement is used for exposures past due and/or in serious default by over 180 days, exposures subject to country risk, and performing exposures, as well as watch-list and restructured exposures which, according to the analytical analysis, do not present any value adjustments. With regard to impaired exposures in compliance with the indications provided in the latest update issued by the Bank of Italy in Circular 262/2005, the collective measurement in the tables of the explanatory notes is represented in any case as an analytical measurement.
For receivables subject to analytical measurement, the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said receivables at the time of measurement (amortised cost) and the current value of future cash flows, calculated applying the original effective interest rate.
The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure.
If the quality of the impaired receivable improves to the point that a reasonable certainty exists that principal and interest will be recovered in a timely manner, the original value of the receivables is restored in the subsequent years to the extent to which the reasons that led to the adjustment no longer hold true, provided that this assessment is objectively connectable to an event that took place after the adjustment itself. The write-back is booked to the income statement, and cannot exceed the amortised cost of the loan had there been no prior adjustments.
Receivables for which no individual, objective evidence of impairment was detected are subject to collective measurement to detect impairment. This measurement, developed based on Risk management models, is carried out on homogeneous categories of loans in terms of credit risk, and the related loss percentages are estimated by taking into account historical series, based on observable elements on the measurement date, which enable the value of the latent impairment to be estimated for each category of receivables.
The model for this type of measurement comprises the following steps:
- segmenting the receivables portfolio according to:
  - customer segments (turnover)
  - industry
  - geographic location
- determining the loss rate of the individual portfolio segments, assuming the Bank's historical experience as reference.

The value adjustments determined on a collective basis are booked to the income statement. At each balance sheet date or interim report, any additional value adjustments or write-backs are recalculated, using differential calculation methods, with reference to the entire portfolio of performing receivables at the same date.
All value adjustments and write-backs linked to the measurement of loans are recorded under Item 130 "Net value adjustments/write-backs due to impairment of loans". The adjustment component attributable to the discounting of cash flows is recognised on an accruals basis using the effective interest rate method, and booked to write-backs.

d) derecognition

Receivables transferred are written off of the assets in the financial statements only when the transfer results in the essential transfer of all risks/benefits linked to the receivables. On the other hand, when all the risks and benefits relating to the transferred receivables are retained, these receivables continue to be recorded under financial statement

assets, even though legally, ownership of the receivable has been effectively transferred.
If it is not possible to verify the essential transfer of risks and benefits, the receivables are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the receivables to be kept in the financial statements in an amount equal to the residual involvement, measure by the exposure to changes in the value of the loans transferred and to changes in their cash flows.
Lastly, transferred receivables are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties.

6) Hedging transactions

a) initial recognition – purpose
Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a specific risk, by using profits from a different item or group of items should that particular risk effectively occur.

b) classification – hedging type
IAS 39 envisages the following types of hedging:
- fair value hedging, which aims at hedging exposure to changes in the fair value of a financial statement item attributable to a specific risk;
- cash flow hedging, which aims at hedging exposure to changes in future cash flows attributable to specific risks associated with financial statement items;
- foreign investment hedge, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

c) measurement and income recognition criteria
Hedging derivatives are measured at fair value. Specifically:
- in the case of fair value hedging, the change in fair value of the item hedged is offset with the change in fair value of the hedging instrument. This offsetting is recognised by booking the changes in value to the income statement under item 90 "Net income from hedging activities", for both the item hedged (as regards the changes produced by the underlying risk factor), and the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, consequently constitutes its net economic effect;
- In the case of cash flow hedging, the changes in fair value of the derivative are recorded under shareholders' equity in a specific reserve, for the effective amount of the hedge, and are recorded in the income statement under Item 90 "Net income from hedging activities" only when the change in fair value of the hedging instrument does not offset the changes in cash flows of the hedged transaction;
- foreign investment hedges are accounted for using the same method as for cash flow hedges.

The hedging transaction must be related to a predefined risk management strategy, and must be consistent with the risk management policies adopted. Moreover, the derivative instrument is designated as a hedging instrument if there is official documentation regarding the relationship between the instrument hedged and the hedging instrument, and if it is effective both at the time the hedging begins and throughout the life of the hedge.
Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured

by comparing these changes, taking into account the intended goal of the Bank at the time the hedge was established. A hedge is effective (within the limits established by the range 80-125%) when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise the changes in the hedged instrument, resulting from the risk element being hedged.
The effectiveness of the hedge is carried out at the end of each year, using:
– Prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
– retrospective tests, which highlight the degree of hedging effectiveness reached during the related period.

d) derecognition - ineffectiveness
If the tests do not confirm the effectiveness of the hedge, both retrospectively and prospectively, the accounting of the hedged operations, according to the above, is interrupted and the hedging derivative contract is reclassified among instruments held for trading, while the financial instrument being hedged is once again measured based on its original class. In case of a cash flow hedge, any reserve is reversed to the income statement according to the amortised cost method over the residual life of the instrument.
The hedging relationships also cease when the derivative expires or when it is sold or exercised, or when the hedged element is sold, expires or is repaid.

7) Equity investments

a) initial recognition
The item includes the equity investments held in subsidiary and associated companies and in joint ventures. Upon initial recording, these equity investments are entered at the purchase cost, with the addition of directly attributable costs.

b) classification
For the purposes of classification in this item, subsidiary companies are considered to be those over which the power to determine the financial and operating policies is held so as to obtain benefits. This occurs when more than half the voting rights are held directly and/or indirectly or in the presence of other effective conditions of control, such as, for example the appointment of the majority of the directors.
Jointly-controlled entities are considered to be those for which contractual, shareholder or other types of agreements exist for the joint management of the activities and the appointment of the directors.
Associated companies are those in which 20% or more of the voting rights are held and those companies which, due to particular legal ties, such as participation in shareholders' voting pacts, must be considered to be subject to significant influence.
Within the sphere of such classification, the existence or otherwise of legal status is not taken into account and when ascertaining the voting rights, the potential voting rights which can currently be exercised are also considered.

c) measurement and income recognition criteria
The measurement criterion adopted for interests in subsidiaries and associates and in joint ventures is cost. At each balance sheet date or interim report, any objective evidence that the equity investment has undergone impairment is assessed.
When a parent company relinquishes control over an associated company ,but nonetheless continues to hold a

minority interest in the company, it shall measure said interest at fair value and allocate any difference between fair value and carrying value in the income statement.
If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of said equity investment represented by the higher amount between the fair value net of sale costs and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.
If the recovery value is lower than the carrying amount, the related difference is stated in the income statement under item 210 “Profit (losses) from equity investments”.
If the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, write-backs are made with booking to the income statement under the same aforesaid item 210.
Income relating to these investments is recorded in the income statement regardless of whether they were generated by the investee company before or after the acquisition date. If as a result of the recording of a dividend the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statement of the net assets of the same investment, including the related goodwill, the Bank assesses whether there is an indication that the investment has undergone impairment.

d) derecognition
The financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits.

8) Property, plant and equipment

a) initial recognition
Property, plant and equipment is initially stated at cost which comprises both the purchase price and all the possible related charges directly attributable to the purchase and bringing on stream of the asset.
Extraordinary maintenance costs which involve an increase in the future economic benefits are booked as an increase in the value of the assets, while ordinary maintenance costs are recorded in the income statement under item 150 “Administrative expenses – other”. Borrowing costs are recording according to the reference accounting treatment prescribed by IAS 23.

b) classification
Property, plant and equipment include land, properties used for business purposes, investment properties, plant, furniture and furnishings and all types of equipment.
Properties used for business purposes are those owned by the Bank and used in the production and delivery of services or for administrative purposes, whilst investment properties are those owned by the Bank for the purpose of collecting lease fees and/or held for the appreciation of the invested capital.
This item also includes, if there any, the assets used under financial lease agreements, even if the legal ownership of the same remains with the lessor, improvements and incremental costs incurred on third party assets relating to Property, plant and equipment which can be identified and separated from which future economic benefits are expected. With regard to properties, the components referring to land and buildings represent separate assets for accounting purposes and are stated separately at the time of purchase.

c) measurement and income recognition criteria

Property, plant and equipment, including properties not used for business purposes, are measured at cost, less any accumulated depreciation and impairment losses.

The fixed assets are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. The specific sections of the Explanatory Notes show the depreciation rate and the consequent expected useful life of the main asset categories.

Assets held as a result of financial lease agreements are depreciated with reference to their estimated useful life as are owned assets, or, if lower, on the basis of the expiry deadlines of the lease agreements.

On closure of each set of financial statements or interim report, the presence of any signs of impairment is checked, meaning indications which demonstrate that an asset may have undergone a loss in value.

In the event of the presence of said signs, the carrying amount of the asset is compared to its recoverable value, i.e. the lower of the fair value, net of any costs to sell, and the related value in use of the asset, taken to be the current value of the cash flows originated by the asset. Any adjustments are recorded in the income statement under item 170 "Net value adjustments/write-backs to property, plant and equipment". Periodic depreciation is recorded in the same item.

If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.

Leasehold improvement costs (typically on leased property), other than those referable to this section, are capitalized in item 150 "Other assets", whilst the related depreciation is recorded in item 190 "Other operating income/charges".

d) derecognition

Property, plant and equipment is eliminated from the balance sheet at the time of disposal or when the assets are permanently withdrawn from use and future economic benefits are not expected from their disposal. With regard to assets temporarily unusable or withdrawn from use to be sold, the depreciation process is not interrupted, unless the assets have been fully depreciated.

9) Intangible assets

a) initial recognition

Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. They are stated at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributed to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.

Goodwill is booked to assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.

If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference (badwill) is booked directly to the income statement.

b) classification, measurement and income recognition criteria

The cost of intangible fixed assets is amortized on a straight-line basis over the related useful life. If the useful life is indefinite, the asset is not amortized, but merely subjected to a periodic check of the adequacy of the value recorded for the fixed assets in the financial statements. Intangible assets deriving from software developed internally or acquired from third parties are amortized on a straight-line basis as from the completion and bringing on stream of the application on the basis of the related useful life.

On closure of each set of financial statements, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement item "180 Net value adjustments/write-backs to intangible fixed assets", is equal to the difference between the carrying amount of the assets and the recoverable value. Periodic depreciation is recorded in the same item.

Recorded goodwill is not amortised but subject to periodic checks on its carrying amount, carried out annually or more frequently in the presence of signs of an impairment in value. For such purposes, the cash generating units to which the goodwill is to be allocated are identified. The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recorded in the income statement item 230 "Value adjustments to goodwill". The statement of any subsequent write-backs is not permitted.

c) derecognition

Intangible fixed assets are eliminated from the balance sheet at the time of disposal and if future economic benefits are not expected from the same.

10) Non-current assets held for sale

a) initial recognition

Non-current assets held for sale and discontinued operations are measured at the time of initial recognition at carrying amount or fair value net of costs to sell, whichever is lower.

b) classification

The item contains the classification of non-current assets held for sale and discontinued operations, when the carrying amount will be recovered mainly through a sale transaction deemed highly likely, instead of through continuous use (the sale is likely to occur before the end of the next year).

c) measurement and income recognition criteria

Subsequent to initial recognition, non-current assets held for sale and discontinued operations are stated at carrying amount or fair value net of costs to sell, whichever is the lower, except for those which have already been measured at fair value. The related income and expense (net of taxation) is stated in the income statement under a separate item 280 "Gain/loss on non-current assets held for sale, net of taxation" when they relate to discontinued operations. In this specific case (discontinued operations) it is also necessary to represent the same economic disclosure in a separate entry also for the previous periods presented in the financial statements, reclassifying the income statements accordingly.

At the time of classification of a non-current asset under non-current assets held for sale, the amortisation/depreciation process is suspended.

d) derecognition
Non-current assets held for sale and discontinued operations are eliminated from the balance sheet on disposal.

11) Current and deferred taxation

a) initial recognition
The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.
Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.
The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.
In detail, current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances and other tax credits for withholdings made. Current assets also include tax assets whose repayment was requested from the cognisant Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.
Prepaid and deferred taxes are determined on the basis of the timing differences – without time-limits – between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes, applying the so-called balance sheet liability method.
Prepaid tax assets are recorded in the financial statements to the extent that there is a probability they will be recovered, assessed on the basis of the ability of the Bank to generate positive taxable income on an on-going basis.
Deferred tax liabilities are recorded in the financial statements, with the sole exception of the reserves subject to deferred taxation, since the balance of the unrestricted reserves already subject to taxation reasonably suggests that no operations will be carried out resulting in taxation of the same.

b) classification and measurement criteria
Prepaid and deferred tax assets and liabilities are systematically valued so as to take into account any changes in legislation or rates. The carrying amount of deferred tax assets is reviewed as of each balance sheet date to check the continuance of the condition of recoverability and, if necessary, it is reduced to the extent it is no longer probable that sufficient taxable income exists for the purpose of permitting the full or partial recovery of said assets.
Moreover, the balance of the tax provisions is adjusted to cover the charges that may derive from assessments already notified or otherwise from current disputes with the tax authorities.
As a result of compliance with the tax consolidation system, the liability relating to tax charges for IRES (company earnings' tax) which may be realistically predicted on the basis of legislation or current tax regulations, stated on the basis of a prudent estimate of the taxable income, has been recorded in relation to the Consolidating Entity under item 100 "Other liabilities". In the presence of tax losses, the Consolidating Entity recognises the credit (to be classified under item 150 "Other assets") on condition that, and to the extent that, the Bank itself can use the losses within the five-year period envisaged by law (in other words as if the Bank had not complied with the tax consolidation system).

The credit which may be recorded vis-à-vis the Parent Company for this purpose is measured each year so as to check the status of the recoverability conditions.

c) income recognition

Current taxes are recorded as an offsetting entry to the income statement item 260 "Income taxes for the year on current operations". The same item contains the deferred tax assets and liabilities relating to components which have affected in the income statement. In the cases where deferred and prepaid taxes concern transactions which have directly affected the shareholders' equity without influencing the income statement, for example valuations of financial instruments available for sale, the same are recorded as an offsetting entry to shareholders' equity, affecting the specific reserves when envisaged.

12) Payables and outstanding securities

a) initial recognition –

The initial recognition of these financial liabilities takes place upon collection of the deposited amounts or upon the issue of the debt securities.

Initial recognition takes place at fair value of the liabilities, usually equal to the amount collected or to the issue price, increased by any additional costs/income directly attributable to the individual deposit or issue transactions and not repaid by the creditor counterparty. Internal administrative costs are excluded. The fair value of any financial liabilities issued at conditions other than market ones is subject to specific estimate and the difference with respect to the amount collected is charged directly to the income statement, only when the conditions envisaged by IAS 39 have been satisfied.

b) classification

Payables to banks, payables to customers and outstanding securities include the various forms of deposits, both inter-bank and with respect to customers and deposits made through certificates of deposits and outstanding bonds, net of any repurchases. Among outstanding securities are classified all securities not subject to "natural" hedging with derivatives, which are classified among the liabilities at fair value.

Also excluded are payables recorded by the lessee within any financial leases that may have been stipulated.

c) measurement and income recognition criteria

After initial recognition, financial liabilities are measured at the amortised cost with the effective interest rate method.

Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the collected value.

With regard to structured instruments, if the requirements envisaged by IAS 39 are observed, the embedded derivative is separated from the host agreement and stated at fair value as an asset or liability held for trading. In this latter case, the host agreement is recognised at the amortised cost.

Contractual interest accrued is charged to the income statement, item 20 "Interest expense and similar charges".

c) derecognition

Financial liabilities are eliminated from the financial statements when they have matured or been discharged.

Derecognition also takes place when previously issued securities are repurchased issued. The difference between the carrying amount of the liability and the amount paid to acquire it is recorded in the income statement under item 100 "Profit (loss) from sale or repurchase of financial liabilities".

The re-placing of own securities on the market subsequent to their repurchase is considered as a new issue with statement at the new re-placement price, without any effect on the income statement.
In compliance with the provisions of IAS 32, the potential commitment to purchase treasury shares due to the issue of put options is represented in the financial statements as a financial liability with a reduction in the shareholders' equity for present value of the contractually set repayment amount as a direct offsetting entry.

13) Financial liabilities held for trading

a) initial recognition
For purchase and sale transactions involving standard financial instruments, liabilities are initially recorded on the settlement date ("regular way"), whose settlement terms are generally established by regulations or by the conventions of the involved market, whereas they are recorded at the date of stipulation of the transaction for derivative agreements. Financial liabilities held for trading are initially measured at their fair value, which generally corresponds to the amount collected, without considering the transactions costs or income directly attributable to the instrument itself, which are booked to the income statement. In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recorded at fair value. The appropriate reference accounting standard is applied to the primary agreement.

a) classification
This category contains:
- derivatives (with the exception of derivatives which are designated and effective hedging instruments), including embedded derivatives separated from structured financial instruments in accordance with the indications of IAS 39;
- liabilities referring to technical overdrafts on securities;
- repurchase agreements and security lending transactions.
-

b) classification, measurement, derecognition and income recognition criteria
The approach for recognition, subsequent measurement, derecognition and recognition of income components is the same as that illustrated in the previous Section 1 "Financial assets held for trading".

14) Financial liabilities at fair value

a) initial recognition
These financial liabilities are initially recorded at the settlement date. These financial assets are measured at their fair value, which generally corresponds to the amount collected, without considering the transactions costs or income directly attributable to the instrument itself, which are booked to the income statement.
The Fair Value Option (FVO) is applied to all financial assets and liabilities which, differently classified, would have caused a distortion in accounting representation of the balance sheet and financial statement, and to all instruments which are managed and measured with a view to fair value. The fair value of any financial liabilities issued at conditions other than market ones is subject to specific estimate and the difference with respect to the amount collected is charged directly to the income statement, only when the conditions envisaged by IAS 39 have been satisfied.

b) classification

Financial liabilities which are intended to be valued at fair value through profit and loss are classified in this category when:

– the designation at fair value eliminates or reduces the significant distortions in the accounting representation of the financial performance of the financial instruments;

or

– the management and/or measurement of a group of financial instruments at fair value through profit and loss is consistent with a risk management or investment strategy, documented and reported to the company management;

or

– in the event of an instrument containing an embedded derivative which significantly changes the cash flows of the host instrument, and which must be separated.

c) measurement criteria

Subsequent to initial recognition, financial liabilities are stated at fair value.

To determine the fair value of the financial instruments listed on an active market, market listed prices are used. In the absence of an active market, generally accepted estimation methods and measurement models are used, which are based on data obtained from the markets, such as: methods based on the measurement of listed instruments with similar characteristics, discounted cash flow methods, option price models, and prices recorded in recent comparable transactions. For more details, please see section A.3 "Fair value disclosure" below.

d) derecognition

Financial liabilities are eliminated when they have matured or been discharged. Derecognition also takes place when previously issued securities are repurchased issued. The difference between the carrying amount of the liability and the amount paid to acquire it is recorded in the income statement under item 110 "Net result from financial assets and liabilities at fair value".

e) income recognition

Gains and losses deriving from the change in the fair value of financial liabilities are recorded in the income statement item 110 - Net result from financial assets and liabilities at fair value"; the same treatment is reserved for derivative liability instruments associated with the fair value option, whose economic effect is classified in item 110 - Net result from financial assets and liabilities at fair value".

15) Provisions for risks and charges

a) initial recognition, classification, measurement criteria, and income recognition criteria

Allocations to the provisions for risks and charges are made solely when:

- There is a current (legal or implied) obligation as a result of a past event;
- it will probably be necessary to use resources able to produce economic benefits to meet the obligation;

and

- the amount of the obligation can be estimated reliably.

When the timing element is significant, the provisions are discounted back using the curve of the zero coupon rates with specific maturities coinciding with the time horizon relating to the recovery of the provision for the discharge of the estimated liability.

Allocations to the provision are recorded in the income statement under item 160 "Net provisions for risks and charges", where the interest payments accrued on the provisions that were discounted are also recorded.
No provision is made for liabilities which are merely potential and not probable, but disclosure is in any case provided in the explanatory notes, unless the likelihood of using resources is remote or the phenomenon is not significant.
The provision is used only for the costs for which said provisions were originally made.
As of each balance sheet date, these provisions are adjusted to reflect the best current estimate. If this is not necessary, the provision is cancelled and reversed to the income statement item 160 "Net provisions for risks and charges".
The sub-item 120 "Pensions and similar obligations" includes the provisions recorded on the basis of international accounting standard IAS 19 "Employee benefits" for the purpose of making good the technical deficit of the supplementary welfare funds with defined benefits. Pension plans are divided up into the two categories "defined benefits" and "defined contributions". While for defined contribution plans the liability of the company is established in advance, with regard to defined benefit plans, the liability is estimated and must take into account any insufficiency in the contributions or an insufficient return on the assets in which these contributions are invested, when required.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the afore-mentioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method. In detail, the obligation is calculated as the algebraic sum of the following values:

- current average value of the pension benefits determined considering, for employees in service, solely the years of service already accrued and making reference to hypotheses which take into account future salary increases;
- less the current value of any plan assets;
- subtracted (or added) any actuarial loss or gain not recorded in the financial statements, on the basis of the "corridor" method.

The corridor method envisages that the actuarial gains and/or losses, defined as the difference between the carrying amount of the liability and the current value of the Bank's commitments at period end, are recorded in the financial statements only when they exceed 10% of the current average value of the pension benefits or 10% of the current value of the assets of the pension fund, whichever is the higher. The excess with respect to said 10% is charged to the income statement in line with the average residual duration of the working life of the employees in service, in the same year in the case of retired personnel.
The provision accrued during the year recorded in the income statement, in item 150 "Administrative expenses of which: a) personnel expenses", equates to the sum of the annual interest accrued on the current average value of the pension benefits at the start of the year, the current average value of the benefits accrued by workers in service during the year, of actuarial profits and losses in the measure prescribed by the application of the corridor method, net of the expected return during the year in the assets invested by the fund.
The sub-item 120 "Provisions for risks and charges: other provisions" includes the provisions against estimated losses on legal disputes, including action for revocation, the estimated outlays for customer claims on security brokerage activities, and other outlays estimated for legal or implicit obligations existing at the end of the period. When the provisions have been valued analytically, the amounts provided are used directly to cover the charges effectively incurred.

16) Foreign currency transactions

a) initial recognition

Foreign currency transactions are recorded in the financial statements as of the settlement date, in the reporting currency, and are converted into Euro using the exchange rate in force as of the transaction date.

b) classification, measurement, derecognition and income recognition criteria

As of the close of each set of financial statements or interim report, the foreign currency financial statement items are treated as follows:

– monetary items are converted using the exchange rate as of the period-end date;
– non-monetary items stated at historic cost are converted using the exchange rate as of the transaction date;
– non-monetary items valued at fair value are converted using the exchange rates in force as of the period-end date.

The exchange differences which derive from the settlement of monetary elements or from the conversion of monetary elements at rates other than for initial conversion, or conversion of the previous financial statements, are recorded in the income statement item 80 "Net income from trading activities" (with the exception of financial instruments at fair value).
When a gain or a loss relating to a non-monetary element is recorded under shareholders' equity, the exchange difference relating to this element is also stated under equity. By contrast, when a gain or a loss is stated in the income statement, the related exchange difference is also recorded in the income statement, again under item 80.
It should also be noted that with regard to financial assets available for sale, whose amortised cost is as if it had been recorded in foreign currency, the exchange differences which derive from the changes in the amortised cost are recorded in the income statement, while other changes in the carrying amount are recorded in accordance with the matters indicated in Section 2 "Financial assets available for sale". In the event of financial assets available for sale which are not monetary elements (for example equity instruments), the gain or the loss recorded directly under shareholders' equity includes any related exchange differences.

17) Other information

■ ***Treasury shares***

Any treasury shares held are recorded in the financial statements under their own item and charged directly against shareholders' equity. No gain or loss is recorded in the income statement on the purchase, sale, issue or cancellation of the Bank's equity instruments. The amount paid or received is directly recorded under shareholders' equity.

■ ***Share-based payments***

The outstanding stock granting plan envisages the purchase and assignment on an annual basis to employees of a number of Banca Monte dei Paschi di Siena S.p.A. shares, equivalent in value to the amounts recognised as part of the Company Bonus.
This value is recorded as a personnel expense on an accruals basis.

■ ***Employee severance indemnities***

The employee severance indemnity is recorded on the basis of its actuarial value since it takes on the form of an employee benefit due on the basis of the defined benefits plan.

For discounting back purposes, the Projected Unit Credit method is used which envisages the projection of the future outlays on the basis of historic statistical analysis and the population curve and the financial discounting back of these flows on the basis of a market interest rate.
Costs accrued during the year for servicing the plan are recorded in the income statement, under item 150 "Administrative expenses of which: a) personnel expenses" as the net amount of the contributions paid, contributions pertaining to previous years not yet accounted for, estimated revenues deriving from plan assets, borrowing costs and actuarial profits/losses. Actuarial gains/losses, given by the difference between the carrying value of the liability and the present value of the obligation at the end of the period, are computed with the "corridor" method, i.e. as the excess cumulated actuarial gains/losses, recorded at the end of the previous year, compared to 10% of the present value of the benefits generated by the plan or 10% of the fair value of assets serving the plan, whichever is greater. This excess is also compared to the expected average working life of the plan participants. Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued up until 31 December 2006 remain with the Bank, while the portions of severance indemnity accruing as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or are maintained within the Bank, which then transfers said portions to the Treasury Funds managed by INPS (National Institute of Social Insurance).

■ *Other assets and other liabilities*

The other assets and liabilities posted in the balance sheet, respectively in the asset item 150 "Other assets" and the liability item 100 "Other liabilities", refer mainly to:
- items in transit;
- trade and tax receivables and payables;
- credit/debit positions deriving from the tax consolidation system;
- improvements and incremental expenses paid on third party properties other than those recorded in the asset item 110 "Property plant, and equipment", hence not being identifiable and separable on their own. Such costs are posted here because by effect of the lease agreement the (user) Bank has control over the assets and may draw future economic benefits from them. The costs are recorded in the income statement item 190 "Other operating income/charges" according to the shorter period between the one in which the improvements and expenses can be used and the residual validity of the agreement.

They are recorded only when one of the parties has provided the assets or concluded their service in accordance with the matters envisaged in the contract; by contrast, elimination takes place upon maturity, which usually corresponds with the collection or payment date.

■ *Dividends and recognition of revenues and costs*

Revenues are recognised when they are obtained or in any case: for sales of goods or services, when it is likely that future benefits will be received and such benefits can be quantified reliably; for services, when they are rendered:
Specifically:
- Dividends are recorded in the income statement when their distribution is resolved (usually coinciding with the date of resolution by the shareholders' meeting of the investee company which approves the financial statements and the related profit allocation proposal) and thus the right to receive the payment is established;
- interest is recognised pro rata temporis according to the contractual interest rate or to the effective interest rate in case of application of the amortised cost;
- default interest is recorded in the income statement solely at the time it is effectively collected;

- fees for revenues from services are stated, on the basis of the existence of contractual agreements, in the period in which the services were provided;
- revenues deriving from brokering or issuing financial instruments, determined by the difference between the price of the transaction and the fair value of the instrument, are recognised in the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same market where the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument;
- costs are stated in the income statement in the periods in which the related revenues are recorded. costs which cannot be associated with income are immediately stated in the income statement;
- any estimation errors on the costs provided in previous years are recorded in the pertinent individual items.

■ ***Guarantees given***

Adjustments due to any impairment in guarantees given are recorded under item 100 "Other liabilities". Write-downs due to impairments are recorded in Income Statement item 130 "Net value adjustments/write-backs due to impairment of: d) other financial transactions".

■ ***Amortised cost***

The amortised cost of a financial asset or liability is the value at which it has been gauged on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.
The effective interest rate is that which equals the current value of the contractual flows of the future payments or collections in cash until maturity or as of the subsequent date for the recalculation of the price at net carrying amount of the financial asset or liability.
For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).
The effective interest rate must be re-determined if the financial asset or liability was subjected to fair value hedging and said hedging relationship has ceased to exist.
In cases where it is not possible to reliably estimate the cash flows or the estimated life, the Bank uses the cash flows envisaged contractually for the entire duration of the agreement.
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortization process. The determination of the amortized cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate. With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. With regard to floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the determination of the cash flows is carried out on the basis of the last known rate. As of every rate review date, steps are taken to recalculate the repayment plan and the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.
Measurement at amortised cost is carried out for receivables, financial assets held to maturity and those available for sale, for payables and outstanding securities.
Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally

corresponds with the amount disbursed or paid inclusive – for instruments valued at amortised cost – of the transaction costs and the directly attributable commission such as fees and commission paid to agents, consultants, brokers and operators, as well as contributions collected by regulatory bodies and by the Stock Exchanges, taxes and transfer charges. These costs, which must be directly ascribable to the individual financial asset or liability, weigh into the original effective return and render the effective interest rate associated with the transaction different to the contractual interest rate.
The calculation of the amortised cost does not taken into account the costs which the Bank should incur irrespective of the transaction (for example: administrative, stationery, communication costs), those which, despite being specifically attributable to the transaction, belong to the normal loan management activities (for example: assets for the purpose of disbursing the credit facility).
With particular reference to receivables, the flat-fee reimbursements of costs incurred by the Bank for the performance of a service must not be booked as a decrease of the cost of disbursing the loan but, since they are able to adopt the form of other operating income, the related costs must be charged to their own income statement item.

■ ***Use of estimates and assumptions in the preparation of the financial statements***
Preparation of the financial statements also requires use of estimates and assumptions which may have significant effects on the values recorded in the balance sheet and in the income statement, as well as on information about potential assets and liabilities reported in the financial statements. Computation of these estimates entails use of available information and adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the reporting of operating facts. By their nature, the estimates and assumptions used may change from year to year and, therefore, it is possible that in subsequent years the current values in the financial statements may differ significantly as a result of a change in the subjective evaluations used.
The main cases for which the use of subjective evaluation by the Company Management is required are:
- quantification of losses for impairment of receivables and, in general, of the other financial assets;
- use of valuation models to measure the fair value of financial instruments not listed on active markets;
- evaluation of the congruity of the value of equity interests, goodwill and of other intangible assets;
- quantification of personnel provisions and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

Procedures for determining losses for impairment of receivables and other financial assets
At each financial statements date, financial assets not classified as “Financial assets held for trading” or as “Financial assets at fair value” are subjected to an impairment test to verify whether there is objective evidence of impairment which may lead to the determination that the carrying amount of the assets is not fully recoverable.
Impairments exist if there is objective evidence of a reduction in future cash flows, relative to the originally estimated ones, as a result of specific events; the impairment must be reliably quantifiable and be related to current, not merely expected events.
Impairments can also be caused by the combined effect of different events, rather than by a single event.
The objective evidence that a financial asset or a group of financial assets has undergone an impairment includes measurable data that become known with respect to the following events:
- significant financial hardships of the issuer or debtor;
- contract violation, e.g. a breach or a missed payment of interest or principal;
- granting the beneficiary some favourable terms which the Bank took into consideration mainly due to economic or legal reasons linked to the beneficiary’s financial hardship, which otherwise it would not have granted;

- reasonable likelihood that the beneficiary will declare bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties (however, the disappearance of an active market because the financial instruments of the company are no longer publicly traded is not evidence of an impairment);
- measurable data indicating the existence of a considerable reduction in estimated future cash flows for a group of financial assets from the time of the initial measurement of those assets, although the reduction cannot yet be identified with the individual financial assets in the group, including:
  - unfavourable changes in the status of beneficiaries' payments in the Group
  or
  - local or national economic conditions related to the breaches pertaining to the assets within the Group.

The objective evidence of impairment for an investment in an equity instrument includes information about important changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.
The impairment evaluation is carried out on an analytical basis for the financial assets that exhibit objective evidence of impairment losses and collectively for the financial assets for which the collective assessment is not requested or for which the analytical evaluation has not determined a value adjustment. The objective evaluation is based on the identification of homogeneous risk classes of the financial assets with reference to the characteristics of the debtor/ issuer, to the industry, the geographical area, the presence of any guarantees or of other significant factors.

With reference to receivables due from customers and from banks, the credits that were attributed the status of non-performing, watch-list, restructured receivables according to the definitions of the Bank of Italy, consistent with the IAS/IFRS principles, were subjected to analytical evaluation.
Said receivables are subject to analytical measurement and the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said receivables at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated applying the original effective interest rate. The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure. The cash flows pertaining to receivables whose recovery is expected in the short term are not discounted, because the financial factor is not significant.
The process for the analytical evaluation of the aforesaid impaired receivables entails the need to define repayment plan for each individual position, in order to determine the cash flows deemed recoverable. Receivables for which no individual, objective evidence of impairment was detected are subject to collective evaluation. This evaluation takes place for categories of receivables that are homogeneous in terms of credit risk and indicative of the debtor's ability to return the amounts due according to the contractual terms.
The segmentation drivers used for this purpose comprise: i) industry, ii) geographic location, and iii) customer segments (turnover). Based on the latter indicator, the main segmentations of the portfolio are identified:
- Retail;
- Small and Medium Enterprise Retail;
- Small and Medium Enterprise Corporate;
- Corporate;
- Large Corporate;
- Banks;
- Other.

For each portfolio segment, the loss rate is determined identifying the greatest possible synergies (to the extent allowed by the different regulations) with the approach prescribed for supervisory purposes by the provisions of the “New capital agreement” called Basel II. In particular, the amount of the period impairment of each loan belonging to a given homogeneous class is given by the difference between carrying value and the recoverable amount on the evaluation date, determined using the parameters of the calculation model prescribed by the new supervisory provisions, represented by the PD (probability of default) and by the LGD (loss-given default).
If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be objectively connected to an event that occurred after the recognition of the impairment (such as an improvement in the debtor’s financial solvency), the impairment loss recognised previously is reversed (by recording under income statement item 130 “Net adjustments/write-backs due to impairment”).

With reference to the receivables that are not subject to restructuring with their partial or full conversion into shares of the borrower companies, in compliance with the indications provided in joint Bank of Italy/Isvap/Consob Document no. 4 of 3 March 2010, these positions are evaluated taking into account the fair value of the shares received. In particular, in cases of impaired exposures this classification is also maintained for financial instruments received in conversion and, in the case of classification in the category “Assets available for sale”, the capital losses recognised after conversion are allocated directly to the income statement.

With regard to the financial assets recognised in the balance sheet item “Assets available for sale”, the impairment is recorded in the income statement when a fair value write-down was recognised directly in the shareholders’ equity and the aforesaid “objective evidence” exists. In such cases, the cumulative loss that was recognised directly in the shareholders’ equity must be reversed and recognised in the income statement even though the financial asset has not been eliminated. The amount of the total loss that is reversed from the shareholders’ equity and recognised in the income statement is given by the difference between the purchase cost (net of any repayment of principal and interest) and the current fair value, deducting any impairment losses on that asset previously booked to the income statement. Impairment losses booked to the income statement for an investment in an equity instrument classified as available for sale must not be reversed with effect booked to the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can objectively be correlated to an event that occurs after the impairment loss had been booked to the income statement, the impairment loss must be eliminated, with the reversed amount booked to the income statement. On the contrary, the existence of a negative reserve is not sufficient in itself to determine the recording of a write-down in the income statement.

Concerning equity instruments listed on active markets, the following are considered objective evidence of impairment: i) the presence, as at the date of the financial statements, of a market price at least 30% lower than the initial recognition value or ii) the presence of a market value lower than cost for over one year. If additional reductions occur in the following years, they are recorded directly in the income statement.

The fair value of financial instruments

Fair value is the amount at which an asset (or a liability) can be exchanged in an arms' length transaction between counterparties having a reasonable degree of knowledge of market conditions and of the significant facts connected to the subject of the trade. In the definition of fair value, a fundamental assumption is that an entity is fully operational and has no need to liquidate or considerably reduce operations or to carry out transactions at unfavourable conditions. Normally, the fair value reflects the credit quality of the instrument because it incorporates counterparty risk.

With regard to financial instruments, the fair value is determined by means of the use of prices acquired from the markets in the case of financial instruments listed on active markets, or by using internal valuation models for other financial instruments. A market is considered active if the prices, representing actual and regular market transactions occurring in a congruous reference time interval, are promptly and regularly available through stock markets, mediators, brokers, companies in the industry, quoting services or authorised entities.

The valuation method defined for a financial instrument is adopted with continuity over time and it is modified only as a result of significant changes in market or subjective conditions of the issuer of the financial instrument.

Mutual investment funds and equivalent investment instruments, spot and forward exchange transactions, futures, options and securities listed on a regulated market are considered listed in an active market. Equally, bonds for which prices "executable" on a quoting service can be measured continuously, and with a difference between offer and bid price that is lower than a range deemed congruous are also considered listed on an active market.

By contrast, all instruments that do not belong to the above categories are not deemed listed in an active market.

For financial instruments listed on active markets, the reference prices are used, or the official closing or contract liquidation prices are used (these prices are always recorded on the last open day of the market in the reference period).

Units of mutual investment funds and similar instruments are evaluated on the basis of the quotes provided by the respective management companies on the dates that are consistent, in terms of time, with the prices of the underlying financial instruments.

In case of absence of an active, liquid market, the determination of the fair value of financial instruments is mainly achieved thanks to the use of evaluation techniques aimed at establishing the price in a hypothetical arms' length transaction, motivated by normal market considerations, as at the date of evaluation. In incorporating all the factors considered by the operators in setting the price, the valuation models developed take into account the financial value of time at the risk-free rate, risks of insolvency, early payment and redemption, the volatility of the financial instrument, and, if the case warrants it, foreign exchange rates, raw materials prices, the price of the stock.

For bonds and derivative contracts, evaluation models were defined that refer to current market values of substantially identical instruments, to the financial value of time and to option pricing models, referring to specific elements of the entity being evaluated and considering the parameters obtainable from the market. Such parameters are identified and applied in light of the liquidity, depth and observability of the reference markets, and of changes in creditworthiness for counterparties and issuers. For derivative contracts, in consideration of their number and complexity, a reference systematic framework was identified which represents the common lines (calculation algorithms, processing models, market data used, basic assumptions of the model) on which the evaluation of every category of derivative instruments is based.

Procedure for determining the impairments of equity investments and of other intangible assets

- **Equity investments**

The impairment process provides for the determination of the recoverable value, represented by the fair value net of costs to sell or value in use, whichever is the higher. Value in use is the present value of the expected financial flows deriving from the impaired assets; it reflects the estimate of the cash flows expected from the asset, the estimate of the possible changes in the amount and/or in the timing of the cash flows, the cash value of time, the price able to remunerate the riskiness of the business and other factors that may influence the appreciation, by market operators, of the expected cash flows deriving from the asset. Therefore, to estimate the congruity of the recognition value of the equity investments, numerous assumptions are necessary; consequently, the result of this test inevitably discounts a certain level of uncertainty.

- **Other tangible and intangible assets**

Tangible and intangible assets with defined useful life are subjected to impairment test if there is an indication that the carrying value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
In general, for these assets (excluding goodwill) the carrying value is assumed normally to match value in use, because it is determined by a depreciation or amortisation process estimated according to the actual contribution of the asset to the production process and determination of fair value is extremely unreliable. The two values deviate from each other, giving rise to impairment, in case of damages, exit from the production process or other similar, non recurring circumstances.

A.3 - FAIR VALUE DISCLOSURE

A.3.1 Transfers between portfolios

The Bank did not apply the amendment to the accounting standards IAS 39 and IFRS 7 “reclassifications of financial assets” issued on 13 October 2009 by the IASB and endorsed by the European Commission on 15 October 2009 with Regulation 1004/2009. Therefore, no transfer was made either in 2009 or in the current year.

A.3.2 Fair value hierarchy

Fair value disclosure

In March 2010, the IASB published an amendment to the accounting standard IFRS 7 “Financial instruments: disclosures”, introducing the fair value hierarchy, which, briefly stated, pertains to the approaches adopted to determine fair value. The fair value hierarchy is applied to all financial instruments for which fair value assessment is recorded in the balance sheet. IAS 39 defines fair value as the amount at which an asset could be exchanged, or a liability discharged, in an unrestricted transaction between informed and independent parties. The existence of official quotes in an active market constitutes the best evidence of the fair value of a financial instrument. If they are not present or not available, the fair value is determined using internal evaluation models, based, for some types of instruments, on data obtainable on the market, or on estimates and assumptions formulated by the appraiser, which use inputs not derived from parameters that cannot be directly observed on the market.

The selection among the aforesaid methods is not optional, but rather they are applied in hierarchical order. The introduced amendment also prescribes that information shall be provided about the reliability of the inputs used in the process to determine fair value. These information are provided classifying the financial instruments in three different levels (fair value hierarchy), which reflect the reliability of the inputs used in making the assessments.
The fair value hierarchy attributes absolute priority to the official prices available on the active markets for assets and liabilities to be evaluated (effective market quotes) or for similar assets and liabilities (comparable approach); a lower priority is to be reserved for non observable inputs, which therefore are more discretionary (mark-to-model approach).
The manners of classification of financial instruments in the three levels of the fair value hierarchy are indicated below.

Level 1 (effective market quotes)
At this level are classified the financial instruments assessed using, without making adjustments, prices quoted on active markets for instruments identical to those being assessed.
According to IAS 39, a financial instrument is deemed to be quoted on an active market when the quoted price i) is promptly and regularly available in a stock exchange list or through an operator, a broker, a specialised firm or through quoting services, authorised agencies or regulatory authorities; ii) represents the fair value of actual market transactions that regularly took place in normal trades. If the quoted prices meet these requirements, they represent the best estimate of fair value and their use is mandatory to assess the financial instrument.
The definition contained in IAS 39 indicates that the concept of active market is typical of the single financial instrument subject to assessment and not of the market where it is listed; consequently, the circumstance that a financial instrument is listed in a regulated market is not, in itself, a sufficient condition for that instrument to be defined as listed on an active market.

Level 2 (comparable approach) and level 3 (mark-to-model approach)
Financial instruments not listed on active markets shall be classified in levels 2 or 3.
Classification in level 2 rather than 3 is determined on the basis of the observability on the markets of the significant inputs used to determine fair value. A financial instrument shall be classified in its entirety in a single level; when, for the purposes of assessing an instrument, inputs belonging to different levels are used, the level assigned to the assessed instrument is the same as that of the lowest-level significant input.
An instrument is classified in level 2 if all significant inputs are observable on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.
Level 2 inputs are the following:
- prices quoted on active markets for similar assets or liabilities;
- prices quoted for the instrument being examined or for similar instruments on non-active markets, i.e. those markets where i) there are few transactions, or ii) prices are not current or do not change substantially over time and among different market makers, or iii) public information is lacking;
- observable market inputs (interest rates or yield curves observable on different *buckets*, volatility, credit curves, etc.);
- inputs that derive mainly from observable market data whose relationship is supported by parameters such as correlation.

A financial instrument is considered level 3 if the adopted assessment techniques also use inputs that are not observable on the market and their contribution to fair value estimation is considered significant.

All financial instruments not listed on an active market are classified in level 3 when:

- although observable data are available, they require significant adjustments, based on non observable data;
- the estimate about future cash flow and the adjustment for the discount curve risk is based on the Bank's internal assumptions.

A.3.2.1 Accounting portfolios: break-down by fair value levels

Financial asset / liabilities measured at fair value	*31/12/2010*			*31/12/2009*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	5,562,290	26,176,690	18,255	3,232,749	17,049,592	34,147
2. Financial assets at fair value						
3. Financial assets available for sale		34,866	37,372	1,561	41,794	
4. Hedging derivatives		330				
Total	**5,562,290**	**26,211,886**	**55,627**	**3,234,310**	**17,091,386**	**34,147**
1. Financial liabilities held for trading	608,470	30,162,019	35,153	1,408,539	18,672,115	52,496
2. Financial liabilities at fair value						
3. Hedging derivatives						
Total	**608,470**	**30,162,019**	**35,153**	**1,408,539**	**18,672,115**	**52,496**

A.3.2.2 Yearly changes in financial assets at fair value (level 3)

		FINANCIAL ASSETS			
		held for trading	*at fair value*	*available for sale*	*Hedging*
1.	**Opening balances**	**34,147**		**1**	
2.	**Increases**	**10,739**		**37,729**	
2.1	Purchases			37,500	
2.2	Income allocated to:				
2.2.1	Income statement	9,280		229	
	- of which capital gains	*3,811*			
2.2.2	Shareholders' equity				
2.3	Transfers from other levels				
2.4	Other increases	1,459			
3.	**Decreases**	**26,630**		**358**	
3.1	Sales	663			
3.2	Redemptions	4,587			
3.3	Losses allocated to:				
3.3.1	Income statement	15,920			
	- of which capital losses	*13,347*			
3.3.2	Shareholders' equity			358	
3.4	Transfers from other levels				
3.5	Other decreases	5,460			
4.	**Closing balances**	**18,256**		**37,372**	

A.3.2.3 Yearly changes in financial liabilities at fair value (level 3)

		FINANCIAL LIABILITIES		
		held for trading	*at fair value*	*Hedging*
1.	**Opening balances**	**52,496**		
2.	**Increases**	**25,696**		
2.1	Issues			
2.2	Losses allocated to:			
2.2.1	Income statement	23,568		
	- of which capital losses	*17,824*		
2.2.2	Shareholders' equity			
2.3	Transfers from other levels			
2.4	Other increases	2,128		
3.	**Decreases**	**43,039**		
3.1	Redemptions	4,401		
3.2	Repurchases			
3.3	Income allocated to:			
3.3.1	Income statement	33,288		
	- of which capital gains	*932*		
3.3.2	Shareholders' equity			
3.4	Transfers from other levels			
3.5	Other decreases	5,350		
4.	**Closing balances**	**35,153**		

A.3.3 Disclosure on "day one profit/loss"

The fair value of financial instruments, in situations of non active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.

The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at the initial recognition and the amount that would have been determined at the same date using the selected evaluation technique. The difference, income/expense, has to be measured immediately at the first evaluation after initial recognition: this "phenomenon" is called "day one profit/loss".

The profits deriving from the characteristic intermediation of the investment banks must be excluded if arbitrage between different markets and products, in the presence of contained, book entry positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial credit risks.

During the year, there were no cases to be reported and handled according to the above criteria.

Part B
Notes to the Balance Sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2010	*31/12/2009*
a. Cash	2	1
b. Unrestricted deposits with Central Banks		
Totale	**2**	**1**

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Values	*31/12/2010*			*31/12/2009*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	5,132,810	2,557,011	7,195	2,772,337	2,099,905	8,591
1.1 Structured securities	*49,399*	*176,759*	*4,214*	*1,613*	*161,566*	*4,681*
1.2 Other debt securities	*5,083,411*	*2,380,252*	*2,981*	*2,770,724*	*1,938,339*	*3,910*
2. Equity securities	216,919			165,816	3,483	
3. Units in collective investment ndertakings	63,096	19,419		72,255		
4. Loans		12,202,536			5,659,316	
4.1 repurchase agreements		*8,896,057*			*3,358,518*	
4.2 other		*3,306,479*			*2,300,798*	
Total A	**5,412,825**	**14,778,966**	**7,195**	**3,010,408**	**7,762,704**	**8,591**
B. Derivative instruments						
1. Financial derivatives:	149,465	10,368,490	11,040	222,341	8,920,072	25,382
1.1 trading	*149,465*	*10,368,490*	*11,040*	*222,341*	*8,920,072*	*25,382*
1.2 associated with fair value option						
1.3 other						
2. Credit derivatives		1,029,234	20		366,816	174
2.1 trading		*1,029,234*	*20*		*366,816*	*174*
2.2 associated with fair value option						
2.3 other						
Total B	**149,465**	**11,397,724**	**11,060**	**222,341**	**9,286,888**	**25,556**
Total (A+B)	**5,562,290**	**26,176,690**	**18,255**	**3,232,749**	**17,049,592**	**34,147**

Note:
The above table includes the valuations on off-balance sheet transactions and the accrued coupon component.
Impaired assets, recorded in the sub-item "Debt securities – 1.2 Other debt securities", amount to € 3,088 thousand and pertain to bonds issued by the Lehman group, present in both years. The write-downs made amount to € 9,581 thousand, fully recorded in 2009.
The sub–item "Loans – 4.2 Other" comprises security loan transactions.

2.1.a Analysis of debt securities: structured securities

Structured debt securities	*31/12/2010*	*31/12/2009*
- Index Linked	11,504	30,347
- Reverse convertible		
- Convertible		
- Credit linked notes	603	302
- Equity Linked	115,357	75,536
- Step - up, Step down	12,533	1,610
- Dual Currency		
- Drop Lock		
- Target redemption note		754
- Cap Floater		
- Reverse Floater	22	21
- Corridor		
- Commodity	35,935	12,098
- Fund Linked	33,507	35,022
- Inflat	14,535	2,116
- Other	6,376	10,054
Total	**230,372**	**167,860**

2.2 Financial assets held for trading: breakdown by debtor / issuer

Items/Values	*31/12/2010*	*31/12/2009*
A. CASH ASSETS		
1. **Debt securities**	**7,697,016**	**4,880,833**
a) Governments and Central Banks	4,211,621	2,405,062
b) Other public entities	28,364	16,423
c) Banks	2,774,578	1,941,532
d) Other issuers	682,453	517,816
2. **Equity securities**	**216,919**	**169,299**
a) Banks	9,122	8,740
b) Other issuers	207,797	160,559
- Insurance companies	*360*	*15,006*
- Finance companies	*16,112*	*8,818*
- Non-financial companies	*191,325*	*136,735*
- Other		
3. **Units in collective investments undertakings**	**82,515**	**72,255**
4. **Loans**	**12,202,536**	**5,659,316**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	5,501,559	1,117,518
d) Others	6,700,977	4,541,798
Total A	**20,198,986**	**10,781,703**
B. DERIVATIVE INSTRUMENTS		
a) Banks	10,110,057	8,125,380
- fair value		
b) Customers	1,448,192	1,409,405
- fair value		
Total B	**11,558,249**	**9,534,785**
Total (A+B)	**31,757,235**	**20,316,488**

2.2.a Units in collective investment undertakings: breakdown by main categories

Categories/Balances	*31/12/2010*	*31/12/2009*
a. Stock	1,941	496
b. Bonds	3,936	13,095
c. Balanced	66,122	45,852
d. Cash		
e. Flexible		
f. Reserved		
g. Speculative		
h. Properties		
i. Other	10,516	12,812
Total	**82,515**	**72,255**

2.3 Cash financial assets held for trading: changes in the year

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	***Total***
A. Opening balances	**4,880,833**	**169,299**	**72,255**	**5,659,316**	**10,781,703**
B. Increases	**102,629,506**	**5,852,301**	**137,327**	**269,648,987**	**378,268,121**
B1. Purchases	101,885,089	5,788,437	126,302	269,611,661	**377,411,489**
B2. Positive *fair value* changes	33,565	12,639	4,938		**51,142**
B3. Other changes	710,852	51,225	6,087	37,326	**805,490**
C. Decreases	**99,813,324**	**5,804,681**	**127,067**	**263,105,766**	**368,850,838**
C1. Sales	98,360,284	5,336,522	126,337	263,085,677	**366,908,820**
C2. Redemptions			530		**530**
C3. Negative *fair value* changes	49,474	9,182	153		**58,809**
C4. Transfers to other portfolios					
C5. Other changes	1,403,566	458,977	47	20,089	**1,882,679**
D. Closing balances	**7,697,015**	**216,919**	**82,515**	**12,202,537**	**20,198,986**

Note:
Items B3 and C5 in the columns "Debt securities" and "Equity securities" include the components relating to technical overdrafts, included under "Financial liabilities held for trading" among the liabilities; while those in the "Loans" column relate to accruals for securities lending transactions and repurchase agreements accrued as of 31 December 2010.

Section 3 – Financial assets at fair value – Item 30

In the current and in the previous year the Bank has held no financial instruments classified in this category, in compliance with the guidelines set by the Board of Directors on 19 December 2007.

Section 4 – Financial assets available for sale – Item 40

4.1 Financial assets available for sale: breakdown by type

Items/Values	*31/12/2010*			*31/12/2009*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
a. Cash assets						
1. Debt securities		11,715	37,371		18,845	
1.1 Structured securities						
1.2 Other debt securities		*11,715*	*37,371*		*18,845*	
2. Equity securities	0	21,478	1	1,561	21,323	1
2.1 Measured at fair value		*21,478*		*1,561*	*21,323*	
2.2 Measured at cost			*1*			*1*
3. Units in collective investment undertakings		1,673			1,625	
4. Loans						
Total	**0**	**34,866**	**37,372**	**1,561**	**41,793**	**1**

Note:
on the debt securities indicated in level 3 of financial year 2010 (€ 37,371 thousand) there is a hedge of the interest rate risk, obtained through derivative agreements such as asset swaps (fair value hedge).

4.1.a Analysis of debt securities: structured securities

The Bank holds no structured security in this category

4.2 Financial assets available for sale: breakdown by debtor / issuer

Items/Values	*31/12/2010*	*31/12/2009*
1. **Debt securities**	**49,086**	**18,845**
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other issuers	49,086	18,845
2. **Equity securities**	**21,479**	**22,885**
a) Banks		
b) Other issuers	21,479	22,885
- Insurance companies		
- Finance companies	*1,175*	*1,175*
- Non-financial companies	*20,304*	*21,710*
- Other		
3. **Units in collective investment undertakings**	**1,673**	**1,625**
4. **Loans**		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Others		
Total	**72,238**	**43,355**

4.2.a Units in collective investment undertakings: breakdown by main categories

Categories/Balances	*31/12/2010*	*31/12/2009*
a. Stock		
b. Bonds		
c. Balanced		
d. Cash		
e. Flexible		
f. Reserved		
g. Speculative		
h. Properties	1,673	1,625
i. Other		
Total	**1,673**	**1,625**

4.3 Financial assets available for sale subject to micro-hedging

Items/Values	*31/12/2010*	*31/12/2009*
1. Financial assets subject to fair value micro-hedging	37,371	
a) interest rate risk	*37,371*	-
b) price risk		
c) exchange rate risk		
d) credit risk		
e) cumulative risks		
2. Financial assets subject to cash flow micro-hedging		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**37,371**	

4.4 Financial assets available for sale: changes in the year

		Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	***Total***
A	**Opening balances**	**18,845**	**22,885**	**1,625**		**43,355**
B.	**Increases**	**40,439**	**532**	**48**		**41,019**
B1.	Purchases	37,500	413			37,913
B2.	Positive fair value changes	1,599	119	48		1,766
B3.	Write-backs					
	- booked to income statement					
	- booked to shareholders' equity					
B4.	Transfers from other portfolios					
B5.	Other changes	1,340				1,340
C.	**Decreases**	**10,198**	**1,938**			**12,136**
C1.	Sales	9,390	1,472			10,862
C2.	Redemptions					
C3.	Negative fair value changes	707	377			1,084
C4.	Write-downs due to impairment					
	- booked to income statement					
	- booked to shareholders' equity					
C5.	Transfers to other portfolios					
C6.	Other changes	101	89			190
d.	**Closing balances**	**49,086**	**21,479**	**1,673**		**72,238**

Section 5 - Financial assets held to maturity - Item 50

As of 31 December 2010 (and likewise as of 31 December 2009), the Bank has held no financial instruments classified in this category, in compliance with the guidelines set by the Board of Directors on 19 December 2007.

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by type

Type of transaction / values	*31/12/2010*	*31/12/2009*
A. Due from Central Banks		
1. Restricted deposits		
2. Compulsory reserve		
3. Repurchase agreements		
4. Other		
B. Due from banks	**1,696,935**	**2,364,314**
1. 1 Current accounts and unrestricted deposits	103,456	1,638,633
2. Restricted deposits	1,059,441	161,851
3. Other loans:	534,038	563,830
3.1 Lending repurchase agreements		
3.2 Financial lease		
3.3 other	*534,038*	*563,830*
4. Debt securities		
4.1 Structured securities		
4.2 Other debt securities		
Total (carrying amount)	**1,696,935**	**2,364,314**
Total (fair value)	**1,696,935**	**2,364,314**

Note:
The sub–item B. "Due from banks – 2. Restricted deposits" comprises about € 12 thousand (€ 22,677 thousand in 2009), as mandatory reserve fulfilled indirectly (through the Parent Company Banca Monte dei Paschi di Siena).
The sub–item B. "Due from banks – 3. Other loans: 3.3 Other" mainly comprises receivables such as collateral with short-term maturities.
Additionally, the Bank holds a subordinated debt instrument for nominal € 6,000 thousand issued by Banca Popolare di Garanzia, which was subjected to compulsory winding-up with decree of the Ministry of the Economy and Finance of 16 December 2009. The position is currently classified as non-performing and it was subjected to a value adjustment equal to its entire carrying amount.

6.2 Due from banks subject to micro-hedging

No financial assets classified in this category have been subject to micro-hedging.

6.3 Financial lease

There is no extant agreement.

Section 7 - Loans to customers - Item 70

7.1 Loans to customers: breakdown by type

Type of transaction / Balances	*31/12/2010*		*31/12/2009*	
	Performing	*Impaired*	*Performing*	*Impaired*
1. Current accounts	26		484	
2. Lending repurchase agreements				
3. Mortgage loans	10,749,975	2,350,169	10,615,600	1,899,277
4. Credit cards, personal loans and loans secured over wages and salaries	2,024		1,800	
5. Financial lease				
6. Factoring				
7. Other transactions	3,086,504		2,913,705	
8. Debt securities	37,672	1,281		1,270
8.1 Structured securities				
8.2 Other debt securities	37,672	*1,281*		*1,270*
Total carrying amount	**13,876,201**	**2,351,450**	**13,531,589**	**1,900,547**
Total fair value	**14,516,192**	**2,351,450**	**14,117,973**	**1,900,547**

7.1.a Loans to customers: analysis of impaired assets

Category / Balances	*31/12/2010*	*31/12/2009*
1. Non-performing	1,398,374	1,126,996
2. Watch-list	666,687	590,998
3. Restructured exposures	196,483	36,607
4. Past due exposures	89,906	145,946
Total carrying amount	**2,351,450**	**1,900,547**

7.1.b Loans to customers: details of other transactions

Type of transaction / Balances	*31/12/2010*	*31/12/2009*
1. Collateral credits	2,800,041	2,462,962
2. Deposits for disbursement of real estate credit transactions	229,140	390,852
3. Other	57,323	59,891
Total	**3,086,504**	**2,913,705**

7.2 Loans to customers: breakdown by debtor/issuer

Type of transaction / Balances	*31/12/2010*		*31/12/2009*	
	Performing	*Impaired*	*Performing*	*Impaired*
1. Debt securities:	**37,672**	**1,281**		**1,270**
a) Governments				
b) Other public entities				
c) Other issuers	37,672	1,281		1,270
- non-financial companies	37,672	*1,281*		*1,270*
- finance companies				
- insurance companies				
- other				
2. Loans to:	**13,838,529**	**2,350,169**	**11,214,975**	**1,899,277**
a) Governments	13,219		1,754	
b) Other public entities	17,670		15,970	
c) Others	13,807,640	2,350,169	11,197,251	1,899,277
- non-financial companies	*10,163,318*	*2,248,776*	*10,195,005*	*1,856,133*
- finance companies	*3,427,422*	*50,925*	*780,097*	
- insurance companies	*21,918*		*12,321*	
- other	*194,982*	*50,468*	*209,828*	*43,144*
Total	**13,876,201**	**2,351,450**	**11,214,975**	**1,900,547**

7.3 Loans to customers: assets subject to micro-hedging

No financial assets classified in this category have been subject to micro-hedging.

7.4 Financial lease

There is no extant agreement.

Section 8 - Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of hedge and by hierarchical levels

Items/Values	31/12/2010				31/12/2009			
	Level 1	Level 2	Level 3	Notional value	Level 2	Level 3	Level 3	Notional value
A. Financial derivatives		330		37,500				
1. Fair Value		*330*		37,500				
1. Cash flows								
1. Foreign investments								
B. Financial derivatives								
1. Fair Value								
1. Cash flows								
Total		**330**		**37,500**				

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions / type of coverage	Fair value						Flussi finanziari		Foreign invest
	Micro					Macro	Micro	Macro	
	int. rate risk	exch. rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale	330								
2. Receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**330**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected settlements									
2. Portfolios of financial assets and liabilities									

Section 9 - Value adjustments to financial assets subject to macro-hedging - Item 90

There are no such transactions for this financial statement item.

Section 10 - Equity investments - Item 100

10.1 Equity investments in subsidiaries under joint control or under significant influence: information on investment relationships

Name	*Registered offices*	*Type of relationship*	*% of equity investment*	*Available votes %*	*Carrying amount*
A. Subsidiaries under exclusive control					**972**
1. MPS Venture SGR S.p.A. *(1)*	Florence	control	48.000	48.000	972
B. Subsidiaries under joint control					
C. Companies subject to significant influence					**18,601**
1. Re.Gi.Im. S.p.A.	Rome	associated	40.000	40.000	3,680
2. Interporto Toscano SpA	Livorno	associated	36.303	36.303	8,370
3. Immobiliare Centro Milano S.p.A.	Milan	associated	33.333	33.333	40
4. Sviluppo Imprese Centro Italia S.p.A.	Florence	associated	29.000	29.000	1,507
5. Agricola Merse S.r.l.	Milan	associated	20.000	20.000	5,004
Total (A+B+C)					**19,573**

Note:
(1) The share representing 22% of MPS Venture SGR S.p.A., whose sale is currently at an advanced negotiation stage, was reclassified among "Non-current assets held for sale and discontinued operations, and associated liabilities" (IFRS 5 – see Section 14 below).
The Bank, despite having a controlling interest, does not draw up consolidated financial statements since it is the intermediate parent company with respect to Banca MPS, which prepares its own consolidated financial statements, and therefore this requirement does not apply, as prescribed by IAS 27 (see Section 2 – Part A of the Explanatory Notes).

10.2 Equity investments in subsidiaries, subsidiaries under joint control or under significant influence: accounting information

Name	*Total Assets*	*Revenue Total*	*Profit (loss)*	*Shareholders' equity*	*Carrying amount*	*Fair Value (if listed)*
A. Subsidiaries under exclusive control					**972**	
1. MPS Venture SGR SpA *(1)*	9,878	8,483	4,103	7,400	972	
B. Subsidiaries under joint control						
C. Companies subject to significant influence (2)					**18,601**	
1. Re.Gi.Im. S.p.A. *(3)*	9,200	na	na	9,200	3,680	
2. Interporto Toscano SpA	164,480	8,530	109	19,783	8,370	
3. Immobiliare Centro Milano S.p.A.	99,938	-	(107)	813	40	
4. Sviluppo Imprese Centro Italia SpA	8,848	2,159	600	8,232	1,507	
5. Agricola Merse Srl	76,038	1,601	(3,345)	31,243	5,004	
Total (A+B+C)					**19,573**	

Note:

(1) In June 2010, it voluntarily reduced its share capital from € 7,500 thousand to € 2,025 thousand, by reimbursing € 5,475 thousand to shareholder (as authorised in the extraordinary shareholders' meeting of 9 February 2010). The reimbursed share capital was brought to direct reduction of the carrying amount of the equity investment, which remains recorded at historical cost, i.e. the nominal value of the shares. The reported figures are taken from the draft financial statements as at 31 December 2010, approved in the Board of Directors meeting of 23 February 2011.

(2) The figures refer to the latest financial statements approved at 31 December 2009.

(3) The company was incorporated in October 2010 with an initial share capital of € 120 thousand, subsequently increased to € 4 million. As at 31 December 2010 the shareholders' equity of the company is € 9.2 million by virtue of a capital payment of € 5.2 million.

10.3 Equity investments: changes in the year

	31/12/2010	*31/12/2009*
A. Opening balances	**20,171**	**22,131**
B. Increases	**3,680**	**40**
B1. Purchases	3,680	40
B2. Write-backs		
B3. Revaluations		
B4. Other changes		
C. Decreases	**4,278**	**2,000**
C1. Sales		1,700
C2. value adjustments		
C3. Other changes	4,278	300
D. Closing balances	**19,573**	**20,171**
E. Total revaluations		
F. Total adjustments		

The above equity investments did not exhibit any sign of impairment in 2010.

Note to the 2010 financial statements:
B1. subscription upon incorporation of 40% of the share capital of Re.Gi.Im. - Realizzazione e Gestioni Immobili di Qualità S.p.A..
C3. of which: i) € 3,833 thousand relate to the voluntary reduction of the share capital of the subsidiary MPS Venture SGR S.p.A; ii) € 445 thousand, instead, relate to the transfer of the 22% share of MPS Venture SGR S.p.A among "Non-current assets held for sale and discontinued operations, and associated liabilities" (IFRS 5).

Note to the 2009 financial statements:
B1. Subscription of one third of the share capital of Immobiliare Centro Milano S.p.A. upon its incorporation.
C1. Partial sale of the investment in Newco S.p.A., completed during the first half.
C3. Transfer of the residual Newco S.p.A. share to asset item 40 "Financial assets available for sale", because the requirements to keep it in the current category were no longer met (as a result of the sale per C1 above, which reduced the share from 20% to 3%).

10.4 Commitments relating to equity investments in subsidiaries

As of the balance sheet date, there were no commitments relating to equity investments in subsidiaries .

10.6 Commitments relating to equity investments in companies under significant influence

Agricola Merse S.r.l.: the Bank has assumed a maximum commitment of € 5,000 thousand, to be paid as a possible supplement to the price for the acquisition of the equity investment, if certain conditions contained in the agreement are met. The commitment will reach maturing in the first half of 2011.

Re.Ge.Im. S.p.A.: the Bank has a commitment for a maximum value of € 12,720 thousand, relating to the residual capitalisation of the company, for the subscription of the share capital increase and/or principal payment. The commitment is connected to the completion of certain investments by the company.

Section 11 - Property, plant and equipment - Item 110

11.1 Property, plant and equipment: breakdown of assets measured at cost

Assets / Values	*31/12/2010*	*31/12/2009*
A. Assets used in the business		
1.1 owned	**965**	**40,273**
a) land		25,826
b) buildings		13,325
c) furniture	672	746
d) electronic equipment	118	191
e) other	175	185
1.2 held under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic equipment		
e) other		
Total A	**965**	**40,273**
B. Assets held for investment purposes		
2.1 owned	**14,873**	
a) land	10,426	
b) buildings	4,447	
2.2 held under financial leases		
a) land		
b) buildings		
Total B	**14,873**	
Total (A+B)	**15,838**	**40,273**

Note:
as a result of the transfer of the General Management and of all offices of Banca di Firenze to the spaces formerly occupied by Banca Toscana, in via Pancaldo 4 in Florence (owned by Perimetro Gestioni Proprietà Immobiliari Società Consortile S.p.A. with which the operating lease agreement was stipulated), the buildings no longer used were recorded among assets held for investment. Moreover, the company's own properties in via Mazzini and via Dei della Robbia, both in Florence, were separately sold to third parties.

11.2 Property, plant and equipment: breakdown of assets measured at fair value or revalued

There is no property, plant and equipment classified in this category.

11.3 Property, plant and equipment used in the business: changes in the year

	Land	*Buildings*	*Furniture*	*Electronic equipment*	*Other*	***Total***
A. Opening balances - gross	**25,826**	**26,317**	**4,948**	**8,990**	**237**	**66,318**
A.1 Total value reductions - net		12,992	4,202	8,799	52	26,045
A.2 Opening balances - net	**25,826**	**13,325**	**746**	**191**	**185**	**40,273**
B. Increases:			**92**	**10**		**102**
B.1. Purchases			92	10		102
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4. Positive fair value changes booked to:						
a) shareholders' equity						
b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes						
C. Decreases:	**25,826**	**13,325**	**166**	**83**	**11**	**39,411**
C.1 Sales						
C.2 Depreciation		547	166	83	11	807
C.3 Value adjustments due to impairment booked to:						
a) shareholders' equity						
b) income statement						
C.4 Negative fair value changes booked to:						
a) shareholders' equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:	25,826	12,778				38,604
a) intangible assets held for investment purposes	*25,826*	*12,778*				*38,604*
b) discontinued operations						
C.7 Other changes						
D. Net closing balances	**-**	**-**	**672**	**118**	**174**	**964**
D.1 Total value reductions - net			4,368	8,882	63	13,313
D.2 Closing balances - gross			**5,040**	**9,000**	**237**	**14,277**
E. Measured at cost						

11.4 Property, plant and equipment held for investment purposes: changes in the year

	Land	*Buildings*	*Total*
A. Opening balances			
B. Increases:	**25,826**	**12,778**	**38,604**
B.1. Purchases			
B.2 Capitalised improvement costs			
B.4. Positive fair value changes			
B.3 Write-backs			
B.5 Exchange gains			
B.6 Transfers from properties used for business	25,826	12,778	38,604
B.7 Other changes			
C. Decreases:	**15,400**	**8,331**	**23,731**
C.1 Sales			
C.2 Depreciation		75	75
C.3 Negative fair value changes			
C.4 Value adjustments due to impairment			
C.5 Exchange losses			
C.6 Transfers to other asset portfolios:	15,400	8,256	23,656
a) properties used for business			
b) Non-current assets held for sale	*15,400*	*8,256*	*23,656*
C.7 Other changes			
D. Closing balances	**10,426**	**4,447**	**14,873**

Note:
as a result of the completion of the centralisation of the offices in Florence to the via Pancaldo site (owned by Perimetro Gestioni Proprietà Immobiliari Società Consortile S.p.A.), the freed properties (land and buildings) were reclassified from "property, plant and equipment used for business" to "property, plant and equipment held for investment". And, by effect of the negotiations held and concluded during the year with the actual sale, two properties (see note in previous section 11.1) were reclassified under asset item 140 "Non-current assets held for sale and discontinued operations, and associated liabilities"; specifically:
- *30 June 2010, the property located in viale Mazzini, 46 – Florence, formerly the Bank's registered office, sold on 29 December 2010, was reclassified;*
- *30 September 2010, the property located in via dei Della Robbia, 41 - Florence, sold on 23 November 2010, was reclassified.*

11.5 Commitments to buy Property, plant and equipment (IAS 16/74.c)
As of the balance sheet date, there were no commitments undertaken to buy Property, plant and equipment.

11.6 Property, plant and equipment: working life

Main categories of Property, plant and equipment	*years*
Land and works of art	indefinite
Buildings	33
Furniture	8
Electronic and ordinary office machines	5
Electronic data processing equipment	2
Vehicles	4
Telephones	5

Statement of revaluations made (Article 10 of Italian Law No. 72/83)

Properties	*Law 576/75*	*Law 72/83*	*Law 408/90*	*Law 413/91*	*Law 342/00*	*Law 266/06*
Florence - Via Scialoia, 47			180		336	237
Florence - Piazza D'Azeglio, 22	230	804	2,745	1,175	336	1,857
Florence - Piazza D'Azeglio, 26		319	173	4,638	1,109	3,670
Florence - Via della Mattonaia						97
Florence - Piazza Stazione (parking space)					14	3
Total	**230**	**1,123**	**3,098**	**5,813**	**1w,795**	**5,864**

Section 12 - Intangible assets - Item 120

12.1 Intangible assets: breakdown by type of asset

Assets / Values	*31/12/2010*		*31/12/2009*	
	Defined duration	*Indefinite duration*	*Defined duration*	*Indefinite duration*
A.1 Goodwill				
A.2 Other intangible assets			**3**	
A.2.1 Assets measured at cost:			3	
a) Intangible assets generated internally				
b) Other assets			*3*	
A.2.2 Financial assets at fair value:				
a) Intangible assets generated internally				
b) Other assets				
Total			**3**	

12.2 Intangible assets: changes in the year

	Goodwill	*Other intangible assets: generated internally*		*Other intangible assets: other*		***Total***
		Defined duration	*Defined indefinite*	*Defined duration*	*Defined indefinite*	
A. Opening balances				**3,137**		**3,137**
A.1 Total value reductions - net				3,134		3,134
A.2 Opening balances - net				**3**		**3**
B. Increases						
B.1. Purchases						
B.2 Increases in internal intangible assets						
B.3 Write-backs						
B.4. Positive fair value changes						
- booked to shareholders' equity						
- booked to income statement						
B.5 Exchange gains						
B.6 Other changes						
C. Decreases				**3**		**3**
C.1 Sales						
C.2. Value adjustments				3		3
- Amortisation				*3*		*3*
- Write-downs						
- booked to shareholders' equity						
- booked to income statement						
C.3 Negative fair value changes						
a) booked to shareholders' equity						
b) booked to income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
D. Net closing balances				**-**		**-**
D.1 Total net value adjustments						
E. Gross closing balances						
F. Measured at cost						

12.3 Intangible fixed assets: working life

Main categories of intangible assets	*years*
Industrial patents and intellectual property rights	indefinite
Trademarks	indefinite
Software	3
Concessions and other licences	5

Section 13 – Tax assets and liabilities – Asset Item 130 and Liability Item 80

Current taxes

As of 31.12.2010 current tax liabilities amount to € 13,752 thousand, as the estimated payable for IRAP taxes, while current tax assets amount to € 9,116 thousand, broken down as follows:

• € 8,704 thousand for paid IRAP advances

• € 412 thousand for other receivables awaiting liquidation

As a result of the adhesion to the national tax consolidation system as a consolidated company (adhesion renewed in 2007 for the 2007-2010 time frame), the Bank determines the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Patent Company BMPS, which, as consolidating company, after consolidating the taxable amounts belonging to the scope of consolidation, will pay any tax due to the tax authorities. With respect to IRES, the debit and credit positions are posted respectively among "Other liabilities" and "Other assets".

Deferred taxation

Deferred taxation is measured with the "balance sheet liability method" specified in IAS 12 in accordance with the specifications prescribed by the Bank of Italy.

For 2010, there were no extraordinary events that had a significant impact on the quantification of tax liabilities for deferred taxes and of tax assets for prepaid taxes. Moreover, relative to 2009, there were neither changes in prospective tax rates nor significant changes to the tax treatment of income components impacting on deferred taxation.

The rates used to determine prepaid and deferred taxes for IRES and IRAP purposes are respectively equal to 27.5% and 4.82% as a result of the provisions of Law 244/2007 (so-called "2008 Budget law").

13.1 Prepaid tax assets: breakdown

Prepaid tax assets essentially result from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for € 76,627 thousand and to IRAP for € 939 thousand.

Specifically:

- the sub-item "Receivables" represents the total amount of the write-downs to receivables exceeding the portion allowed for deduction for IRES purposes and carried forward in the eighteen subsequent years;
- the prepaid taxes posted in sub-item "other financial instruments", recorded as offsetting entries to shareholders' equity, pertain to taxation on negative valuation reserves relating to financial assets available for sale;
- the amount in sub-item "others" refers to provisions for unsecured loans and derivative agreements that are not deductible for tax purposes.

Items / Balances	*31/12/2010*	*31/12/2009*
1. Receivables	70,933	64,420
2. Other financial instruments	4,792	2,586
3. Goodwill		
4. Deferred charges		
5. Intangible fixed assets		
6. Entertaining expenses	3	10
7. Personnel-related costs	56	65
8. Tax losses		
9. Valuation reserves		
10. Other	1,782	2,396
Prepaid tax assets - gross	**77,566**	**69,477**
Offsetting against deferred tax liabilities	-	-
Net prepaid tax assets	**77,566**	**69,477**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for € 3,605 thousand and IRAP for € 53 thousand. They are mainly recorded as offsetting entries in the income statement for € 3,571 thousand (versus € 3,104 thousand for 2009) in addition to € 87 thousand recorded as offsetting entries to the shareholders' equity, fully recorded in revaluations of AFS securities (in 2009, they were € 173 thousand).

The main taxable temporary differences that led to the emergence of deferred taxes pertain to:

Items / Balances	*31/12/2010*	*31/12/2009*
1. Capital gains to be split into instalments		
2. Goodwill		
3. Intangible fixed assets		
4. Receivables		
5. Financial instruments	3,461	2,905
6. Personnel-related costs	12	12
7. Other	185	360
Deferred tax liabilities - gross	**3,658**	**3,277**
Offsetting against prepaid tax assets	-	-
Net deferred tax liabilities	**3,658**	**3,277**

13.3 Change in prepaid taxes (as offsetting entry to the income statement)

The table shows all prepaid taxes to be absorbed in subsequent years as offsetting entries to the income statement. Among the main prepaid taxes emerging during the year were those generated by the write-downs exceeding the deductible limit in the year for € 13,823 (€ 22,817 thousand in 2009) and by the taxed allocations to provisions, made during the year, i.e. € 6,334 thousand (€ 4,966 thousand in 2009). Among the tax reductions during the year, the following should be pointed out:

- the uses in 2010 of provisions taxed in previous years amounting to € 1,403 (versus € 4,066 thousand in 2009);
- € 9,383 thousand referable to write-downs on receivables split into eighteenths brought forward from previous years, for the portion deductible in the current year (versus € 2,695 in 2009).

		31/12/2010	*31/12/2009*
1.	**Opening balance**	**66,892**	**48,749**
2.	**Increases**	**20,157**	**28,449**
2.1	Prepaid taxes recorded in the year	20,157	28,242
	a) relating to previous years		-
	b) due to change in accounting standards		-
	c) write-backs		-
	d) other	*20,157*	*28,242*
2.2	New taxes or increase in tax rates		-
2.3	Other increases		207
3.	**Decreases**	**10,986**	**10,306**
3.1	Prepaid taxes cancelled during the year	5,200	9,706
	a) transfers	*5,200*	*9,706*
	b) written-off as non-recoverable		-
	c) due to changes in accounting standards		-
	d) other		-
3.2	Reductions in tax rates		-
3.3	Other decreases	5,786	600
4.	**Closing balance**	**76,063**	**66,892**

13.4 Change in deferred taxes (as offsetting entry to the income statement)

The table shows all deferred taxes to be absorbed in subsequent years as offsetting entries to the income statement.

		31/12/2010	*31/12/2009*
1.	**Opening balance**	**3,104**	**2,731**
2.	**Increases**	**1,375**	**2,667**
2.1	Deferred taxes recorded during the year	1,375	2,667
	a) relating to previous years	*40*	
	b) due to change in accounting standards		
	c) other	*1,335*	*2,667*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**908**	**2,294**
3.1	Deferred taxes cancelled during the year	908	2,294
	a) transfers	*444*	*2,011*
	b) due to change in accounting standards		
	c) other	*464*	*283*
3.2	Reductions in tax rates		
3.3	Other decreases		
4.	**Closing balance**	**3,571**	**3,104**

13.5 Change in prepaid taxes (as offsetting entry to shareholders' equity)

The prepaid taxes offsetting shareholders' equity refer to changes in the valuation reserve of the financial assets available for sale, measured at fair value.

		31/12/2010	*31/12/2009*
1.	**Opening balance**	**2,586**	**23,464**
2.	**Increases**	**113**	**482**
2.1	Deferred taxes recorded during the year	113	482
	a) relating to previous years		
	b) due to change in accounting standards		
	c) other	*113*	*482*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**1,196**	**21,360**
3.1	Deferred taxes cancelled during the year	1,196	21,360
	a) transfers	*679*	*21,154*
	b) written-off as non-recoverable		
	c) due to changes in accounting standards		
	d) other	*517*	*206*
3.2	Reductions in tax rates		
3.3	Other decreases		
4.	**Closing balance**	**1,503**	**2,586**

13.6 Change in deferred taxes (as offsetting entry to shareholders' equity)

The changes pertain to taxes measured on the changes in the shareholders' equity reserves relating to the financial assets available for sale measured at fair value. In relation to the write-backs of equity investments having the requirements for participation exemption, deferred taxes were measured on the taxable rate of 5%.

		31/12/2010	*31/12/2009*
1.	**Opening balance**	**174**	**423**
2.	**Increases**	**23**	**36**
2.1	Deferred taxes recorded during the year	23	36
	a) relating to previous years		
	b) due to change in accounting standards		
	c) other	*23*	*36*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**110**	**285**
3.1	Deferred taxes cancelled during the year	110	285
	a) transfers	*86*	*242*
	b) due to change in accounting standards		
	c) other	*24*	*43*
3.2	Reductions in tax rates		
3.3	Other decreases		
4.	**Closing balance**	**87**	**174**

13.7 Current tax assets

Items / Balances	*31/12/2010*	*31/12/2009*
1. IRES advances		
2. IRAP advances	8,704	3,362
3. IRAP receivables		1,501
4. Other receivables and withholdings	412	405
Current tax assets - gross	**9,116**	**5,268**
Offsetting against current tax liabilities	-	-
Current tax assets - net	**9,116**	**5,268**

Note:
for IRES advances, please see explanatory notes - part B, Asset "Section 15 – Other assets".

Sezione 14 Non-current assets held for sale and discontinued operations, and associated liabilities – Asset Item 140 and Liability Item 90

14.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

		31/12/2010	*31/12/2009*
A.	**Individual assets**		
A.1	Financial assets		
A.1	Equity investments	445	
A.2	Property, plant and equipment		
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A	**445**	
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading		
B.2	Financial assets at fair value		
B.3	Financial assets available for sale		
B.4	Financial assets held to maturity		
B.5	Due from banks		
B.6	Loans to customers		
B.7	Equity investments		
B.8	Property, plant and equipment		
B.9	Intangible assets		
B.10	Other assets		
B.	**Total B**		
C.	**Liabilities associated to non-current assets held for sale**		
C.1	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
D.	**Liabilities associated to groups of assets held for sale**		
D.1	Due to banks		
D.2	Due to customers		
D.3	Outstanding securities		
D.4	Financial liabilities held for trading		
D.5	Financial liabilities at fair value		
D.6	Provisions		
D.7	Other liabilities		
	Total D		

Note:
for details, please see Explanatory Notes – Part B, Assets "Section 10 – Equity Investments".

14.2 Other information

As indicated in section 11.4 above, the following properties, whose negotiations were started and ended during the year with their actual sale, were reclassified under item 140 "Non-current assets and groups of assets held for sale":

- the property located in viale Mazzini, 46 – Florence, formerly the Bank's registered office, reclassified for IFRS 5 purposes on 30 June, and sold on 29 December 2010 at the value of € 14,726 thousand;
- the property located in via dei Della Robbia 41 – Florence, reclassified in accordance with IFRS 5 on 30 September 2010, and sold on 23 November 2010 at the value of € 15,500 thousand.

14.3 Information about equity investments in companies subject to significant influence not valued at shareholders' equity

The summary of the economic-financial data of MPS Venture is shown schematically in the Explanatory Notes Part B, Assets "Section 10 – Equity Investments".

Section 15 – Other assets - Item 150

15.1 Other assets: breakdown

Type of transaction / Balances	*31/12/2010*	*31/12/2009*
1. Amounts due from the tax authorities and similar	4,803	2,103
2. Items being processed	2,608	2,220
3. Amounts receivable associated with the supply of goods and services	206	162
4. Improvement and incremental costs on third party assets	2,459	471
5. Accrued income not attributable to own items	3,905	9,664
6. Prepaid expenses not attributable to own items	4,344	1,339
7. Receivable from consolidating entity for tax consolidation system	9,288	10,036
8. Receivables for reimbursement to personnel seconded with third parties	4,546	4,424
9. Other	693	396
Total	**32,852**	**30,815**

Note:
the sub-item "Amounts due from the tax authorities and similar" include amounts due from foreign tax authorities for € 1,366 thousand (€ 1,398 in 2009); while "Receivable from consolidating entity for tax consolidation system" includes both IRES advances and receivables for the requests for reimbursement of the excess IRES taxes paid as a result of the non deduction of IRAP in accordance with Article 6 of Law Decree 185/2009.

LIABILITIES

Section 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by type

Type of transaction / Balances	*31/12/2010*	*31/12/2009*
1. Due to Central Banks		
2. Due to banks	**6,490,888**	**5,520,763**
2.1 Current accounts and unrestricted deposits	209,068	531,103
2.2 Restricted deposits	4,855,733	3,236,457
2.3 Loans	1,366,447	1,675,839
2.3.1 borrowing repurchase agreements		
2.3.2 other	*1,366,447*	*1,675,839*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other amounts payable	59,640	77,364
Total	**6,490,888**	**5,520,763**
Fair Value	**6,503,064**	**5,543,853**

Note:
the sub-item “Due from banks – 2.3. Loans: 2.3.2 Other” also comprises receivables such as collateral with short-term maturities.

1.2 Analysis of Item 10 “Due to banks”: subordinated liabilities
No subordinated liabilities in relation to banks are recorded in the financial statements.

1.3 Analysis of Item 10 “Due to banks”: structured payables
No structured liabilities in relation to banks are recorded in the financial statements.

1.4 Due from banks subject to micro-hedging
No financial liabilities classified in this category have been subject to micro-hedging.

1.5 Payables for financial lease
There is no liability for financial leases recorded in the financial statements.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of transaction / Balances	31/12/2010	31/12/2009
1. Current accounts and unrestricted deposits		
2. Restricted deposits	3,111	3,095
3. Loans	10,791,311	10,730,279
3.1 borrowing repurchase agreements		
3.2 other	*10,791,311*	*10,730,279*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	238,116	398,206
Total	**11,032,538**	**11,131,580**
Fair Value	**11,261,195**	**11,351,709**

Note:
The sub-item "Loans – 3.2 Others" includes both the medium – long term loans stipulated with MPS Ireland and the collateral collected from institutional counterparties.
The sub-item "Other amounts payable" is mainly made up of deposits for disbursing real estate credit transactions and it also includes the payable to the Lehman Group of € 2,368 thousand, for positions in derivatives and repurchase agreements, covered with the compensation agreement stipulated with the same counterparty (the amount remained unchanged from the previous year).

2.2 Analysis of Item 20 "Due to customers": subordinated liabilities

No subordinated liabilities in relation to customers are recorded in the financial statements.

2.3 Analysis of Item 20 "Due to customers": structured payables

No structured liabilities in relation to customers are recorded in the financial statements.

2.4 Due to customers subject to micro-hedging

No financial liabilities classified in this category have been subject to micro-hedging. a.

2.5 Payables for financial lease

There is no liability for financial leases recorded in the financial statements.

Section 3 – Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by type

Type of security /Balances	*31/12/2010*				*31/12/2009*			
	Carrying amount	*Fair Value*			*Carrying amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	279,154		278,814		304,415		304,451	
1.1 structured								
1.2 other	*279,154*		*278,814*		*304,415*		*304,451*	
2. Other securities					0		0	
2.1 structured								
2.2 other					*25*		*25*	
Total	**279,154**		**278,814**		**304,415**		**304,451**	

Note:
the 2010 carrying amount includes € 1,154 thousand in interest accrued as of the balance sheet date (versus € 411 thousand in 2009).

3.2 Analysis of item 30 "Outstanding securities": subordinated securities

Name of liability	*Currency*	*date of issue*	*maturity*	*interest rate*	*carrying amount*	
					31/12/10	*31/12/09*
1. HT Series bond	Euro	30/09/2003	30/09/2013	floating	44,007	58,663
2. HU Series bond	Euro	30/09/2003	30/09/2013	floating	4,216	5,620
3. BancaVerde bond	Euro	22/12/2003	22/12/2013	floating	30,016	40,020
4. Series II bond	Euro	30/06/2005	30/06/2015	floating	50,001	50,002
5. Tier III bond	Euro	21/12/2009	17/01/2012	floating	150,914	150,110
					279,154	**304,415**

Main features of the subordinated securities

HT/HU Series: Repayment shall be in five straight-line principal instalments on 30 September of each year as from the end of the sixth year of duration; partial or total early repayment is possible, subject to the authorization of the Bank of Italy, as from 30 September 2009.

Bancaverde: repayment shall be in five straight-line principal instalments on 22 December of each year as from the end of the sixth year of duration; partial or total early repayment is possible, subject to the authorization of the Bank of Italy, as from 22 December 2009.

Series II: Repayment shall be in five straight-line principal instalments on 30 June each year as from the end of the sixth year of duration; early repayment is not possible.

Tier III: repayment shall be in a single instalment upon maturity; early repayment is not possible.

The subordination clause provide that, in case of Bank liquidation, the loans shall be reimbursed only after all other creditors not equally subordinated are satisfied. The Bank may freely acquired on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy.

As of 31 December 2010, the Bank did not hold any portions of these securities in its receivable portfolio.

3.3 Outstanding securities subject to micro-hedging

No financial liabilities classified in this category have been subject to micro-hedging.

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction / Balances	*TOTAL 31 DECEMBER 2010*				
	Par value or notional value	*Fair Value*			*Fair value(*)*
		Level 1	*Level 2*	*Level 3*	
A. Cash liabilities					
1. Due to banks		440,676	1,843,460		2,284,136
2. Due to customers			16,893,321		16,893,321
3. Debt securities					
3.1 Bonds:					
3.1.1 structured					
3.1.2 other transactions					
3.2 Other securities					
3.1.1 structured					
3.1.2 other					
4. Other securities		15,608			**15,608**
Total A		**456,284**	**18,736,781**		**19,193,065**
B. Derivative instruments					
1. Financial derivatives		152,186	10,378,666	35,153	
1.1 trading		*152,186*	*10,378,666*	*35,153*	
1.2 associated with fair value option					
1.3 other					
2. Credit derivatives			1,046,572		
2.1 trading			*1,046,572*		
2.2 associated with fair value option					
2.3 other					
Total B		**152,186**	**11,425,238**	**35,153**	
Total (A+B)		**608,470**	**30,162,019**	**35,153**	

(*)= *fair value calculated by excluding the changes in value due to the change in the creditworthiness of the issuer since the issue date.*

Note:
the sub-items "Due to banks" and "Due to customers" include technical overdrafts on bonds per financial counterparty, while the item "other securities" shows the technical overdrafts on equity securities and similar instruments, which are recorded at fair value consistently with the standards applied to "long" positions.

Type of transaction / Balances	*TOTAL 31 DECEMBER 2009*				
	Par value or notional value	*Fair Value*			*Fair value(*)*
		Level 1	*Level 2*	*Level 3*	
A. Cash liabilities					
1. Due to banks		20,870	1,090,585		1,111,455
2. Due to customers		1,096,218	7,871,123		8,967,341
3. Debt securities					
3.1 Bonds:					
3.1.1 structured					
3.1.2 other transactions					
3.2 Other securities					
3.1.1 structured					
3.1.2 other					
4. Other securities		22,686			22,686
Total A		**1,139,774**	**8,961,708**		**10,101,482**
B. Derivative instruments					
1. Financial derivatives		268,765	9,325,261	52,496	
1.1 trading		*268,765*	*9,325,261*	*52,496*	
1.2 associated with fair value option					
1.3 other					
2. Credit derivatives			385,146		
2.1 trading			*385,146*		
2.2 associated with fair value option					
2.3 other					
Total B		**268,765**	**9,710,407**	**52,496**	
Total (A+B)		**1,408,539**	**18,672,115**	**52,496**	

(*)= fair value calculated by excluding the changes in value due to the change in the creditworthiness of the issuer since the issue date.

Note:
the sub-items "Due to banks" and "Due to customers" include technical overdrafts on bonds per financial counterparty, while the item "other securities" shows the technical overdrafts on equity securities and similar instruments, which are recorded at fair value consistently with the standards applied to "long" positions.

4.2 Analysis of Item 40 "Financial liabilities held for trading": subordinated liabilities

Name of liability	*Currency*	*date of issue*	*maturity*	*interest rate*	*carrying amount*
A. Due to banks					**37,486**
DEUT BK 03/13 5.125	Euro	31/01/03	31/01/13	fixed	705
COMMERZBK01/11 6.125	Euro	02/05/01	02/05/11	fixed	210
DEUTSBK 10/20 5.0	Euro	24/06/10	24/06/20	fixed	512
SOC GEN-TV 05/49	Euro	26/01/05	29/01/49	floating	99
BMPS 05/17 TV	Euro	30/11/05	30/11/17	floating	648
UNICREDIT CAP 16 TV	Euro	07/04/06	07/04/16	floating	2,204
BMPS 06/16 4.875	Euro	31/05/06	31/05/16	fixed	6,459
BCO POPOLAR 7/49 RFL	Euro	21/06/07	29/06/49	fixed	3,108
RBS 08/18 6.934	Euro	09/04/08	09/04/18	fixed	999
INTESA 08/18 6.625	Euro	08/05/08	08/05/18	fixed	104
UNICREDIT 08/18 6.7	Euro	05/06/08	05/06/18	fixed	361
INTESA 08/49 TM	Euro	20/06/08	29/06/49	floating	297
SOC GEN-TV 09/49	Euro	04/09/09	29/09/49	floating	1,081
INTESA 09/19 5	Euro	23/09/09	23/09/19	fixed	947
INTESA 09/49 TM	Euro	14/10/09	29/10/59	fixed	241
UNICREDIT-TM PERPET	Euro	10/12/09	29/12/49	floating	2,691
BMPS 10/20 5	Euro	21/04/10	21/04/20	fixed	52
UNICRED-TM 10/49	Euro	21/07/10	21/07/49	floating	6,848
BMPS 10/20 5.6	Euro	09/09/10	09/09/20	fixed	863
MACQUARIE 10/20 6.00	Euro	21/09/10	21/09/20	fixed	188
INTESA-TM 10/49	Euro	01/10/10	01/06/49	floating	49
CRED AGRIC 10/21 3.9	Euro	19/10/10	19/04/21	fixed	912
BCO POPOLAR 10/20 6	Euro	05/11/10	05/11/20	fixed	7,908
B. Due to customers					**14,259**
MUNICH RE-TM 03/23	Euro	16/04/03	21/06/23	floating	215
DONG ENERGY-TM 05/49	Euro	29/06/05	29/06/49	floating	0
ALLIANZ FII 22 6.125	Euro	31/05/02	31/05/22	fixed	121
ALLIANZ FII-TM 02/25	Euro	13/12/02	13/01/25	floating	205
UNICREDIT 05/49 TM	Euro	27/10/05	27/10/49	floating	111
GENERALI F-TM 06/49	Euro	16/06/06	16/06/49	floating	88
GENERALI F-TM 07/49	Euro	08/02/07	08/02/49	floating	9,544
BBVA INT PR-TV 09/99	Euro	21/10/09	21/10/99	floating	3,975
Total (A+B)					**51,745**

4.3 Analysis of Item 40 "Financial liabilities held for trading": structured payables

Name of liability	*Currency*	*date of issue*	*maturity*	*interest rate*	*carrying amount*
A. Due to banks					**54**
- ABN AMROBK 12 REVFL (equity linked)	Euro	20/12/06	20/09/12	floating	54
B. Due to customers					
-					-
Total (A+B)					**54**

4.4 Cash financial liabilities held for trading (excluding "technical overdrafts"): changes in the year

Changes/ Types	*Due to banks*	*Due to customers*	*Outstanding securities*	***Total 31/12/10***	***Total 31/12/09***
A. Opening balances	**1,063,522**	**7,869,056**		**8,932,578**	**8,217,379**
B. Increases	**30,321,638**	**1,058,790,537**		**1,089,112,175**	**1,070,213,228**
B.1 Issues					
B.2. Sales	30,315,147	1,058,760,760		1,089,075,907	1,070,196,004
B.3. Positive fair value changes					
B.4 Other changes	6,491	29,777		36,268	17,224
C Decreases	**29,542,842**	**1,049,766,271**		**1,079,309,113**	**1,069,498,029**
C.1. Purchases	29,537,009	1,049,754,880		1,079,291,889	1,069,490,361
C.2. Redemptions					
C.3 Negative fair value changes					
C.4 Other changes	5,833	11,391		17,224	7,668
D. Closing balances	**1,842,318**	**16,893,322**		**18,735,640**	**8,932,578**

Note:
Items B.3 and C.2 "Other changes" include the components relating to interest accrued at year end.

Section 5 - Financial liabilities at fair value - Item 50

No positions have been classified in this category.

Section 6 – Hedging derivatives – Item 60

There are no such transactions for this financial statement item.

Sezione 7 – Value adjustments to financial liabilities subject to macro-hedging - Item 70

There are no such transactions for this financial statement item.

Section 8 - Tax liabilities - Item 80

8.1 Current tax liabilities

Items / Balances	*31/12/2010*		*31/12/2009*	
	taxation to shareholders' equity	*taxation to income statement*	*taxation to shareholders' equity*	*taxation to income statement*
1. IRES payables				
2. IRAP payables		13,752		12,252
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**13,752**		**12,252**
Offsetting against current tax assets		-		-
Amounts due for current taxes - net		**13,752**		**12,252**

With regard to tax liabilities relating to IRES, following the Bank's participation in the tax consolidation system of the MPS Group, the IRES liability is classified under Other liabilities in the item "Amounts due to the Parent Company for tax consolidation".

8.2 Deferred tax liabilities

Deferred tax liabilities details are discussed in the explanatory notes part B - Assets - Section 13 "Tax assets and tax liabilities".

Section 9 - Liabilities associated with assets held for sale - Item 90

None of the Bank's liabilities are classified in this category.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

Type of transaction / Balances	*31/12/2010*	*31/12/2009*
1. Taxes due to the tax authorities and similar	5,528	6,268
2. Amounts due to social security and welfare institutions	2,562	2,521
3. Amounts due to the Parent Company for tax consolidation	55,875	46,500
4. Sums available to customers	611	1,241
5. Liabilities for payment agreements on Parent Company shares	951	3,224
6. Other amounts due to employees	10,089	14,004
7. Items being processed	1,687	8,742
8. Amounts payable associated with the payment of supplies of goods and services	8,438	7,318
9. Guarantees given	9,942	2,400
10. Payables for reimbursement of cost of personnel seconded to Bank	-	2,179
11. Deferred income not attributable to own items	1,939	1,992
12. Other	10,509	9,322
Total	**108,131**	**105,711**

Section 11 - Employee severance indemnity - Item 110

11.1 Employee severance indemnity: changes in the year

		31/12/2010	*31/12/2009*
A.	**Opening balances**	**2,541**	**4,193**
B.	**Increases**	**62**	**125**
B.2	Provision for the year	23	
B.3	Other increases	39	125
C	**Decreases**	**326**	**1,777**
C.1	Indemnities paid	326	295
C.2	Other decreases		1,482
D.	**Closing balances**	**2,277**	**2,541**

11.2 Other information

11.2.1 Main actuarial hypothesis used

Main actuarial hypotheses / Percentages	*31/12/2010*	*31/12/2009*
1. Average discounting back rate (*)	3.8304%	4.1330%
2. Estimated salary increase rates	-	-

(*) the zero coupon rates curve as of 31 December of the present year, taken from Euro swap rates, was used.

11.2.2 Amount of liabilities pursuant to Article 2424-bis of the Italian Civil Code

Pursuant to Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity is € 3,137 thousand (€ 3,379 thousand as at 31 December 2009).

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2010*	*31/12/2009*
1. Company pension funds	6,158	6,709
2. Other provisions for risks and charges:	15,393	6,339
2.1 legal disputes	*4,163*	*3,092*
2.2 staff costs		
2.3 other	*11,230*	*3,247*
Total	**21,551**	**13,048**

Note:
the sub-item "other provisions for risks and charges: 2.3 other" includes reliable estimates of likely charges for the Bank, connected to low interest financing and to some typical operating transactions, e.g. derivatives with corporate customers.

12.2 Provisions for risks and charges: changes in the year

		Pension funds	*Other*	***Total***
A.	**Opening balances**	**6,709**	**6,339**	**13,048**
B.	**Increases**	**55**	**9,279**	**9,334**
B.1	Provision for the year	55	9,097	9,152
B.2	Changes due to the passage of time		182	182
B.3	Changes due to discount rate changes			
B.4	Other increases			
C.	**Decreases**	**606**	**225**	**831**
C.1	Uses in the year	606	155	761
C.2	Changes due to discount rate changes		50	50
C.3	Other changes		20	20
D.	**Closing balances**	**6,158**	**15,393**	**21,551**

12.3 Defined-benefit company pension funds

12.3.1. Illustration of the funds

Reference should be made to the statements of account for the pension funds attached to the explanatory notes.

12.3.2. Changes in the year in company pension funds

Items / Balances	*31/12/2010*		*31/12/2009*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**6,709**		**7,058**	
Increases	**55**		**256**	
Welfare cost relating to current work services				
Borrowing costs				
Members contributions to plan				
Actuarial losses				
Exchange losses				
Welfare cost relating to past work services	55		256	
Other changes				
Decreases	**606**		**605**	
Indemnities paid	606		605	
Welfare cost relating to past work services				
Actuarial gains				
Exchange gains				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances	**6,158**		**6,709**	

12.3.3 Changes in the year in plan assets and other information

The assets of the defined-benefit pension funds are invested in the Bank's assets; no specific assets have been classified as plan assets.

12.3.3.a Fair value of the plan assets: breakdown

No specific asset is classified under plan assets.

12.3.4. Reconciliation between the current value of the funds, current value of the plan assets, and assets and liabilities recorded in the balance sheet

No specific asset is classified under plan assets.

12.3.5. Main actuarial hypotheses used

Main actuarial hypotheses / Percentages	*31/12/2010*	*31/12/2009*
1. Average discounting back rate	4.50%	4.50%
2. Estimated salary increase rates	1.80%	1.80%

Section 13 - Refundable shares - Item 140

There are no such transactions for this financial statement item.

Section 14 - Bank's shareholders' equity - Items 130, 150, 160, 170, 180, 190 and 200

The Bank's shareholders' equity has the following composition:

Items / Balances	*31/12/2010*	*31/12/2009*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	567,925	544,790
4. (Treasury shares)		
5. Valuation reserves	(2,680)	(3,591)
6. Equity instruments		
7. Profit (loss) for the year	82,420	49,814
Total	**1,152,189**	**1,095,537**

Note:
Valuation reserves comprise a positive tax effect of € 1,416 thousand, attributed to the category "Financial assets available for sale" (for 2009, the positive effect was € 2,413 thousand). The gross amount of said reserves, without tax effect, would be € (4,096) thousand (for 2009, € (6,003) thousand).

14.1 "Share capital" and "Treasury shares": breakdown

14.1.a Share capital: breakdown

Items/Values	*Number of shares*	*Unit par value*	*Share capital*
a) ordinary shares *(fully paid-up)*	891,724,988	€ 0.31	276,435

14.1.b Treasury shares: breakdown

As of the balance sheet date, the Bank did not hold any treasury shares.

14.2 Capital - number of shares: changes in the year

	Items/ Type	*Common stock*	*Other*
A.	**Shares existing at the start of the year**	**891,724,988**	
	- fully paid-up	891,724,988	
	- partly paid-up		
A.1	Treasury shares (-)		
A.2	**Outstanding shares: initial balance**	**891,724,988**	
B.	**Increases**		
B.1	New issues		
	- against payment:		
	- business combination transactions		
	- conversion of bonds		
	- exercise of warrants		
	- other		
	- bonus:		
	- in favour of employees		
	- in favour of directors		
	- other		
B.2	Sales of treasury shares		
B.3	Other changes		
C.	**Decreases**		
C.1	Cancellation		
C.2	Purchase of treasury shares		
C.3	Sales of companies		
C.4	Other changes		
D.	**Outstanding shares: final balance**	**891,724,988**	
D.1	Treasury shares (+)		
D.2	Shares existing at the end of the year	891,724,988	
	- fully paid-up	*891,724,988*	
	- partly paid-up		

14.3 Capital: other information

The share capital, amounting to € 276,435 thousand, is fully subscribed and paid-in.

14.4 Profit reserves: other information

Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital.
A part of these reserves is allocated, in accordance with Article 2359 bis of the Italian Civil Code, to safeguard against the risks connected with purchases of stock issued by the parent company Banca Monte dei Paschi di Siena, including the derivative financial instruments connected to them, according to the limits and terms prescribed upon renewal by the Shareholders' Meetings.

14.5 Equity instruments: breakdown and changes in the year

There are no such transactions for this financial statement item.

14.6 Other information

14.6.1 Valuation reserves

14.6.1.1 Valuation reserves: breakdown

Items / Components	31/12/2010	31/12/2009
1. Financial assets available for sale	(4,096)	(6,004)
2. Property, plant and equipment		
3. Intangible assets		
4. Foreign investment hedging		
5. Cash flow hedging		
6. Exchange differences		
7. Non-current assets held for sale		
8. Special revaluation laws		
9. Tax effect	1,416	2,413
Total	**(2,680)**	**(3,591)**

14.6.1.2 Valuation reserves: changes in the year

	Financial assets available for sale	*Non-current assets held for sale*	*Special revaluation laws*	*Tax effect*	***Total***
A. Opening balances	**(6,003)**			**2,412**	**(3,591)**
B. Increases	**3,868**			**(1,218)**	**2,650**
B.1 Fair value increases	1,767			(540)	1,227
B.2 Other changes	2,101			(678)	1,423
C. Decreases	**1,961**			**(222)**	**1,739**
C.1 Fair value decreases	726			(136)	590
C.2 Other changes	1,235			(86)	1,149
D. Closing balances	**(4,096)**			**1,416**	**(2,680)**

14.6.1.3 Valuation reserves relating to financial assets available for sale: breakdown

Assets / Balances	*31/12/2010*		*31/12/2009*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities		4,650	5	8,002
2. Equity securities	637	255	2,124	255
3. Units in collective investment undertakings	172		125	
4. Loans				
Total	**809**	**4,905**	**2,254**	**8,257**

14.6.1.5 Valuation reserves relating to financial assets available for sale: change in the year (before tax effects)

		Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*
1.	**Opening balances**	**(7,997)**	**1,869**	**125**	
2.	**Positive changes**	**3,701**	**120**	**47**	
2.1	fair value increases	1,599	120	47	
2.2	Transfer to income statement of negative reserves	2,102			
	- due to impairment				
	- due to conversion	*2,102*			
2.3	Other changes				
3.	**Negative changes**	**354**	**1,607**		
3.1	fair value increases	349	377		
3.2	Transfer to income statement of positive reserves	5	1,230		
	- due to conversion	*5*	*1,230*		
3.3	Other changes				
4.	**Closing balances**	**(4,650)**	**382**	**172**	

14.6.2 Equity: availability and possibility of distribution of the various items

				Summary of uses made in previous three years	
	Amount	*Possibility of utilisation (*)*	*Available portion*	*for coverage of loss*	*for other reasons*
Share capital	**276,435**				
Capital reserves	**363,865**	A,B,C,	**363,865**		
Profit reserves	**378,750**	A,B,C	**346,619**		
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**40,087**	A,B,C	**42,767**		
TOTAL RESERVES	**793,334**		**763,883**		
Profit for 2010	82,420				
Total Equity	**1,152,189**				

(*) Key: A for share capital increases; B for coverage of losses; C for distribution to shareholders.

Note:
the sub-item "Profit reserves" includes the amount of € 57,155 as merger surplus constituted with profit reserve deriving from the extraordinary merger of former MPS Banca Verde into former MPS Banca Merchant, which took place on 18 October 2004.

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	*31/12/2010*	*31/12/2009*
1. Financial guarantees given	246,751	234,452
a) Banks		
b) Customers	*246,751*	*234,452*
2. Commercial guarantees given	18,282	44,733
a) Banks		
b) Customers	*18,282*	*44,733*
3. Irrevocable commitments to grant finance	2,543,917	3,597,957
a) Banks	60,527	167,089
- certain to be called on	*60,527*	*167,089*
- not certain to be called on		
b) Customers	2,483,390	3,430,868
- certain to be called on	*887,839*	*1,671,488*
- not certain to be called on	*1,595,551*	*1,759,380*
4. Commitments underlying derivatives on receivables: protection sales	26,122,831	11,653,172
5. Assets lodged as collateral for third party bonds	840,925	
6. Other commitments	671,974	455,323
Total	**30,444,680**	**15,985,637**

2.1 Assets lodged as collateral for the Bank's liabilities and commitments

Portfolios	*31/12/2010*	*31/12/2009*
1. Financial assets held for trading	4,417,168	2,485,194
2. Financial assets at fair value		
3. Financial assets available for sale		
4. Financial assets held to maturity		
5. Due from banks	619,858	656,969
6. Loans to customers	2,798,714	2,462,806
7. Property, plant and equipment		

Note:
These are mainly assets lodged as collateral for repurchase agreements, security lending transactions and derivatives.

2.2 Other information: guaranteed deposit transactions

Type of guaranteed deposit	*Origin of the securities pledged as collateral*	
	Lending repurchase agreements	*Borrowed securities*
Borrowing repurchase agreements	8,283,244	2,824,782
Lent securities	178,958	242,116
Total assets pledged as collateral for deposits	8,462,203	3,066,898

3 Information on operating leases

Items / Balances	*31/12/2010*	*31/12/2009*
- Within 1 year	702	554
- Between 1 and 5 years	832	450

4 Management and brokerage on behalf of third parties

Type of services	*31/12/2010*	*31/12/2009*
1. Execution of order on customers' behalf		
a) Purchases	13,236,355	5,144,557
1. Settled	*13,026,055*	*5,045,635*
2. Not settled	*210,300*	*98,922*
b) Sales	13,236,355	5,144,557
1. Settled	*13,026,055*	*5,045,635*
2. Not settled	*210,300*	*98,922*
2. Portfolio management		
a) Individual		
b) Collective		
3. Custody and administration of securities		
a) Third party securities deposited with the Bank associated with its role as custodian bank (excluding asset management)		
1. Securities issued by the Bank		
2. Other securities		
b) Third party securities on deposit (excluding asset management): Other	139,773	121,208
1. Securities issued by the Bank		
2. Other securities	139,773	121,208
c) Third party securities deposited with third parties	82,310	65,338
d) Bank's securities deposited with third parties	7,911,963	4,315,443
4. Other transactions	**145,574**	-

Note:

The amounts indicated in point 3 "Custody and administration of securities" concern the par value of the securities.
The sub-items "third party securities" include € 28,433 thousand as guarantees given against securities lending and derivative activities (€ 18,418 thousand in 2009). These guarantees have a total fair value of € 27,461 thousand (€ 18,696 thousand in 2009) and remain deposited with the custodian bank Monte dei Paschi di Siena.
The "other transactions" pertain to order receipt and collection activities (with the value of the fulfilled orders indicated).

Part C
Notes to the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest and other income: breakdown

Items / Technical forms	*Debt securities*	*Loans*	*Other ransactions*	***Total 31/12/2010***	***Total 31/12/2009***
1. Financial assets held for trading	156,796	55,273	1	**212,070**	**171,747**
2. Financial assets available for sale	667			**667**	**7,831**
3. Financial assets held to maturity					
4. Due from banks		7,383	871	**8,254**	**13,349**
5. Loans to customers	148	326,451		**326,599**	**459,191**
6. Financial assets at fair value					
7. Hedging derivatives					
8. Other assets			14	**14**	**177**
Total	**157,611**	**389,107**	**886**	**547,604**	**652,295**

Note:
The interest accrued during the year relating to positions classified as "impaired" amount to € 20,984 thousand (€ 35,422 as of 31/12/2009). Default interest is measured for accounting purposes at the time of collection.

1.3 Interest and other income: other information

	31/12/2010	*31/12/2009*
1. Interest income on foreign currency financial assets	12,856	14,241
2. Interest income on financial lease transactions	-	-

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/10***	***Total 31/12/09***
1. Due to Central Banks				**0**	
2. Due to banks	46,086			**46,086**	**(84,733)**
3. Due to customers	157,389			**157,389**	**(271,334)**
4. Outstanding securities		6,694		**6,694**	**(5,564)**
5. Financial liabilities held for trading	73,666			**73,666**	**(58,946)**
6. Financial liabilities at fair value					
7. Other liabilities and provisions				**0**	
8. Hedging derivatives			37	**37**	**(2,532)**
Total	**277,141**	**6,694**	**37**	**283,872**	**(423,109)**

1.5 Interest expense and similar charges: differentials relating to hedging transactions

Types /Items	*31/12/2010*	*31/12/2009*
A. Positive differentials relating to hedging transactions	198	2,417
B. Negative differentials relating to hedging transactions	(235)	(4,949)
C. Balance (A-B)	**(37)**	**(2,532)**

1.6 Interest expense and similar charges: other information

	31/12/2010	*31/12/2009*
1. Interest expense on foreign currency liabilities	(20,034)	(19,786)
2. Interest expense on liabilities for financial lease transactions	-	-

Section 2 – Fees – Items 40 and 50

2.1 Fee income: breakdown

Type of services / Balances	*31/12/2010*	*31/12/2009*
a) Guarantees given	1,522	1,548
b) Credit derivatives		
c) asset management, services and consultancy:	124,821	25,813
1. financial instrument trading		
2. foreign currency trading		
3. portfolio management		
3.1. individual		
3.2. collective		
4. custody and administration of securities		
5. custodian bank		
6. securities placement	*111,328*	*17,483*
7. order reception and transmission	*1,830*	*888*
8. advisory services	*11,663*	*7,442*
8.1. on investments	*1,229*	*1,781*
8.2. on financial structure	*10,434*	*5,661*
9. distribution of third party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services		
e) securitisation services		
f) factoring services		
g) tax collection and State lottery services		
h) management of multilateral trading systems		
i) holding and managing current accounts		
j) other services	42,532	44,387
Total	**168,875**	**71,748**

Note:
the increase in fees, per sub-item c) "asset management, services and consultancy", to be correlated with the respective sub-item included in item 50 "Fee expense" (see section 2.2. below), reflect the increase in debt/equity capital market transactions and in the structuring of financial instruments according to the need of the Network of the BMPS Group.

2.1.a Fee income: breakdown of fees for consulting activities on financial structure

Type of services / Balances	*31/12/2010*	*31/12/2009*
a) project finance activities	5,709	3,614
b) sworn certification activities	308	253
c) acquisition finance activities	3,681	1,063
d) advisory activities	413	50
e) principal finance securitisation activities	-	678
f) other innovative finance activities	323	3
Total	**10,434**	**5,661**

2.1.b Fee income: breakdown of fees for other services

Type of services / Balances	*31/12/2010*	*31/12/2009*
a) for early repayment/termination of loans and mortgage loans	24,402	25,482
b) fees for services	2,077	2,506
c) other	16,053	16,399
Total	**42,532**	**44,387**

2.2 Fee income: distribution channels for products and services

Channels / Balances	*31/12/2010*	*31/12/2009*
a) **at Bank branches:**		
1. asset management		
2. securities placement		
3. third party services and products		
b) **door-to-door sales:**		
1. asset management		
2. securities placement		
3. third party services and products		
c) **other distribution channels:**		
1. asset management		
2. securities placement	111,328	17,483
3. third party services and products		

2.2 Fee expense: breakdown

Services / Balances	*31/12/2010*	*31/12/2009*
a) on guarantees received	(105)	(122)
b) on credit derivatives		
c) on asset management and other services:	(106,407)	(30,658)
1. financial instrument trading	*(19,482)*	*(22,411)*
2. foreign currency trading	*(4)*	*(16)*
3. portfolio management:		
3.1. owned by the Bank		
3.2. delegated by third parties		
4. Custody and administration of securities	(237)	
5. financial instrument placement	(86,684)	(8,231)
6. financial promoters offering financial instruments, products and services		
d) on collection and payment services	(24)	(31)
e) on other services	(26,069)	(23,399)
Total	**(132,605)**	**(54,210)**

Note:
the increase in fees, per sub-item c) "asset management, services and consultancy", to be correlated with the respective sub-item included in item 40 "Fee income" (see section 2.1 below), reflect the increase in the volumes of the financial instruments structured by the Bank and placed with customers of the BMPS Group Network.

2.3.a Fee expense: breakdown of fees for other services

Type of services / Balances	*31/12/2010*	*31/12/2009*
a) presentation of loan applications	(8,942)	(6,323)
b) handling of non-performing positions	(6,454)	(5,645)
c) expense and fees paid to Barclays, Citibank and Clearstream	(4,236)	(2,864)
d) other	(6,437)	(8,567)
Total	**(26,069)**	**(23,399)**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2010*		*31/12/2009*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	177,429	223	195,001	
B. Financial assets available for sale	22	48	150	27
C. Financial assets at fair value				
D. Equity investments	1,793		3,518	
Total	**179,244**	**271**	**198,669**	**27**

Section 4 - Net income (loss) from trading activities - Item 80

4.1 Net income from trading activities: breakdown

Transactions / Income components	*Capital gains (A)*	*Trading gains (B)*	*Capital losses (C)*	*Trading losses (D)*	***Net profit (loss) (A+B-C-D)***	
					31/12/2010	***31/12/2009***
1. Financial assets held for trading						
1.1 Debt securities	26,766	102,336	(48,889)	(110,098)	**(29,885)**	**81,191**
1.2 Equity securities	11,803	35,341	(9,087)	(352,084)	**(314,027)**	**1,968**
1.3 Units in collective investment undertakings	4,938	6,087	(153)	(4)	**10,868**	**14,800**
1.4 Loans						
1.5 Other						
2 Financial liabilities held for trading						
2.1 Debt securities	6,799	23,039	(585)	(21,104)	**8,149**	**(3,287)**
2.3 Payables						
2.2 Other	837	276	(95)	(84,216)	**(83,198)**	**(23,866)**
3. Other financial assets and liabilities:						
- Exchange differences					**61**	**(225)**
4. Derivative instruments						
4.1 Financial derivatives:						
- on debt securities and interest rates	1,555,090	6,942,781	(1,131,983)	(7,327,491)	**38,397**	**22,070**
- on equity securities and share indexes	137,540	1,511,674	(154,649)	(1,288,932)	**205,633**	**(193,525)**
- on foreign currency and gold					**7,978**	**15,404**
- Other	51,578	140,912	(63,592)	(125,477)	**3,421**	**9,361**
4.2 Credit derivatives	454,178	157,872	(456,098)	(153,113)	**2,839**	**(19,759)**
Total	**2,249,529**	**8,920,318**	**(1,865,131)**	**(9,462,519)**	**(149,764)**	**(95,868)**

Section 5 - Net income from hedging activities - Item 90

5.1 Net income from hedging activities: breakdown

Income components / Balances	*31/12/2010*	*31/12/2009*
A. Income related to:		
A.1 fair value hedging derivatives		
A.2 Hedged financial assets (fair value)	367	21,856
A.3 Hedged financial liabilities (fair value)		
A.4 Financial derivatives hedging cash flows		
A.5 Foreign currency assets and liabilities		
Total income from hedging activities (A)	**367**	**21,856**
B. Costs related to:		
B.1 fair value hedging derivatives	(358)	(22,174)
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Financial derivatives hedging cash flows		
B.5 Foreign currency assets and liabilities		
Total expense from hedging activities (B)	**(358)**	**(22,174)**
C. Net income from hedging activities (A-B)	**9**	**(318)**

Section 6 - Profit (loss) on sale/repurchase - Item 100

6.1 Profit (loss) on sale/repurchase: breakdown

Items / Income components	*31/12/2010*			*31/12/2009*		
	Gains	*Losses*	*Net profit (loss)*	*Gains*	*Losses*	*Net profit (loss)*
Financial assets						
1. Due from banks						
2. Loans to customers						
3. Financial assets available for sale	2,110	(2,238)	(128)	6,038	(51,196)	(45,158)
3.1 Debt securities	*880*	*(2,150)*	*(1,270)*	*1,779*	*(50,819)*	*(49,040)*
3.2 Equity securities	*1,230*	*(88)*	*1,142*	*4,259*	*(377)*	*3,882*
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**2,110**	**(2,238)**	**(128)**	**6,038**	**(51,196)**	**(45,158)**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Outstanding securities						
Total liabilities						

Section 7 – Net result from financial assets and liabilities at fair value - Item 110

There are no such transactions for this financial statement item..

Section 8 – Net value adjustments/write-backs due to impairment - Item 130

8.1 Net value adjustments due to impairment of receivables: breakdown

Transactions / Income components	*Value adjustments*			*Write-backs*				***Total***	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	***31/12/2010***	***31/12/2009***
A. Due from banks			(80)					(80)	**(6,700)**
- Loans			*(80)*					*(80)*	***(700)***
- Debt securities								*0*	***(6,000)***
B. Loans to customers	(3,532)	(189,229)	(2,961)	60,777	19,650			(115,295)	(119,393)
- Loans	*(3,532)*	*(189,229)*	*(2,961)*	*60,777*	*19,650*			*(115,295)*	*(119,393)*
- Debt securities									
C. Total	**(3,532)**	**(189,229)**	**(3,041)**	**60,777**	**19,650**			**(115,375)**	**(126,093)**

8.2 Net value adjustments due to impairment of financial assets available for sale: breakdown

Transactions / Income components	*Specific value adjustments*		*Specific write-backs*		*Total*	
	Cancellations	*Other*	*From interest*	*Other write-backs*	***31/12/2010***	***31/12/2009***
A. Debt securities						
B. Equity securities						(244)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total						**(244)**

8.3 Net value adjustments due to impairment of financial assets held to maturity: breakdown
None of the Bank's financial assets are classified in the category "Financial assets held to maturity".

8.4 Net value adjustments due to impairment of other financial transactions: breakdown

Transactions / Income components	*value adjustments*			*Write-backs*				***Total***	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	***31/12/2010***	***31/12/2009***
A. Guarantees given		6,142	1,400					7,542	**(10,124)**
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**6,142**	**1,400**					**7,542**	**(10,124)**

Section 9 - Administrative expenses - Item 150

9.1 Personnel expenses: breakdown

Type of costs / Balances	*31/12/2010*	*31/12/2009*
1. Employees	**(49,098)**	**(55,425)**
a) wages and salaries	(36,035)	(36,811)
b) social security charges	(8,721)	(9,384)
c) severance indemnities	(2,357)	(2,623)
d) pension costs		
e) provision for personnel severance indemnities	(62)	(125)
f) provision for pensions and similar obligations:	(890)	(1,118)
- defined-contributions	*(835)*	*(862)*
- definite benefits	*(55)*	*(256)*
g) payments to external supplementary welfare funds		
- defined-contributions		
- definite benefits		
h) costs deriving from payment agreements based on Parent Company equity instruments (*stock granting*)	1,393	(1,869)
i) other employee benefits	(2,426)	(3,495)
2. Other working personnel	**(558)**	**(283)**
3. Directors and Statutory Auditors	**(957)**	**(863)**
4. Retired personnel		
5. Recovered expenses for employees seconded at other companies	**17,342**	**15,304**
6. Expense reimbursements for third party employees seconded at the Bank	**(8,158)**	**(7,176)**
Total	**(41,429)**	**(48,443)**

Note:
sub-item h) "costs deriving from payment agreements based on Parent Company equity instruments" has positive sign, by effect of the flow to contingency of € 2,060 thousand as provision made in 2009 but not distributed in 2010 due to the failure to reach planned targets.

9.2 Average number of employees by category

Employee categories /Average number	*31/12/2010*	*31/12/2009*
Employees:	**412**	**414**
a) executives	33	35
b) managers	217	215
c) other employees	162	164
Other personnel	**10**	**6**
Total	**422**	**420**

9.3 Defined-benefit company pension funds: total costs

Items / Balances	*31/12/2010*	
	Defined-benefit company pension funds	*Employee severance indemnities*
1. Welfare cost relating to current employment services (+)		
2. Borrowing costs (+)		
3. Estimated return on plan assets (-)		
4. Envisaged return on any reimbursement rights recorded as assets (-)		
5. Actuarial gains and losses (±)		
6. Welfare cost relating to past employment services (+)	(55)	(39)
7. Effect of any reduction or discharge		
8. Effect deriving from booking of assets		
Total	**(55)**	**(39)**

9.3.a Contributions to the Plan which the Bank estimates it will pay out in the next year

Items / Balances	*31/12/2010*	
	Defined-benefit company pension funds	*Employee severance indemnities*
1. Contributions to the Plan which the Banks estimates it will pay out in the next year	60	=

9.5 Other administrative expenses: breakdown

Items / Balances	*31/12/2010*	*31/12/2009*
1. substitute tax	(79)	(152)
2. municipal property tax	(100)	(103)
3. stamp duty	(9)	(10)
4. other taxation	(153)	(174)
5. rental of bank properties	(1,867)	(1,822)
6. fees for outside professionals	(5,671)	(5,420)
7. maintenance of furnishings and property used for business purposes	(416)	(542)
8. postal charges	(96)	(114)
9. telephone charges	(359)	(573)
10. advertising	(48)	(36)
11. sundry rents and leasing	(668)	(598)
12. information and searches	(180)	(173)
13. transport	(262)	(234)
14. electricity, heating and water	(229)	(310)
15. security	(161)	(242)
16. reimbursement of staff vehicle and travel costs	(585)	(635)
17. other staff costs	(1,227)	(1,149)
18. contracts for cleaning of premises	(360)	(395)
19. rental of data lines and transmission	(7,591)	(5,969)
20. printed matter, stationery and consumables	(119)	(148)
21. Insurance companies	(16)	(19)
22. services outsourced from Group companies	(14,004)	(14,006)
23. membership fees	(324)	(646)
24. entertaining expenses	(132)	(183)
25. subscriptions to publications	(63)	(59)
26. sundry	(1,944)	(1,058)
Total	**(36,663)**	**(34,770)**

Section 10 - Net provisions for risks and charges - Item 160

10.1 Net provisions for risks and charges: breakdown

Items/Values	*31/12/2010*			*31/12/2009*		
	Personnel costs	*Legal disputes*	*Other*	*Personnel costs*	*Legal disputes*	*Other*
1. Provisions for the year		(1,222)	(8,057)		(3,183)	(1,570)
2. Write-backs		70			2,460	
Total		**(1,152)**	**(8,057)**		**(723)**	**(1,570)**

Note:
the sub-item "Other" includes reliable estimates of likely charges for the Bank, connected to low interest financing and to some typical operating transactions, e.g. derivatives with corporate customers.

Section 11 - Net value adjustments/write-backs to property, plant and equipment - Item 170

11.1 Net value adjustments on property, plant and equipment: breakdown

	Assets / Income components	*Depreciation (A)*	*Value adjustments - due to impairment (B)*	*Write-backs (C)*	*Net profit (loss) (A+B-C)*	
					31/12/2010	*31/12/2009*
A.	**Property, plant and equipment**					
A.1	**Owned by the Bank**	(882)			(882)	(1,135)
	- For use in business	*(807)*			*(807)*	*(1,135)*
	- Investment property	*(75)*			*(75)*	
A.2	**Acquired under financial lease**					
	- For use in business					
	- Investment property					
	Total	**(882)**			**(882)**	**(1,135)**

Section 12 - Net value adjustments/write-backs to intangible assets - Item 180

12.1 Net value adjustments to intangible fixed assets: breakdown

	Assets / Income components	*Amortisation (A)*	*Value adjustments - due to impairment (B)*	*Write-backs (C)*	*Net profit (loss) (A+B-C)*	
					31/12/2010	*31/12/2009*
A.	**Intangible assets**					
A.1	**Owned by the Bank**	(3)			(3)	(73)
	- Generated internally by the Bank					
	- Other	*(3)*			*(3)*	*(73)*
A.2	**Acquired under financial lease**					
	Total	**(3)**			**(3)**	**(73)**

Section 13 - Other operating income and charges - Item 190

13.1 Other operating charges: breakdown

Items / Balances	*31/12/2010*	*31/12/2009*
1. Amounts not receivable not attributable to own items	(73)	(169)
2. Out-of-period expense not attributable to own items	(8)	(27)
3. Amortisation of leasehold improvement costs classified among “Other assets”	(306)	(27)
4. Settlements paid for litigation	(5)	(786)
5. Other	(94)	(195)
Total	**(486)**	**(1,204)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2010*	*31/12/2009*
1. Amounts not payable not attributable to own items	45	107
2. Out-of-period income not attributable to own items	282	128
3. Rental income from properties used for business	339	348
4. Other costs charged back	4,654	4,842
5. Other	158	54
Total	**5,478**	**5,479**

Section 14 - Profit (loss) from equity investments - Item 210

There are no such transactions for this financial statement item.

Section 15 - Net result from property, plant and equipment and intangible assets at fair value - Item 220

There are no such transactions for this financial statement item.

Section 16 - Value adjustments to goodwill - Item 230

There are no such transactions for this financial statement item.

Section 17 - Gains (losses) on disposal of investments - Item 240

17.1 Gains (losses) on disposal of investments: breakdown

Income components / Balances	*31/12/2010*	*31/12/2009*
A. Properties		
1. Gains on disposal	6,570	
2. Losses on disposal		
B. Other assets		
1. Gains on disposal		
2. Losses on disposal		
Net profit (loss)	**6,570**	

Note:
these are profits realised through the sale of two properties no longer used for business as a result of the move of the Offices and Departments located in Florence to the spaces formerly used by Banca Toscana, in Via Pancaldo 4, also in Florence. Specifically:

- *€ 5,411 thousand relate to the sale of the property located in Viale Mazzini, 46 in Florence, which took place on 29 December 2010*
- *€ 1,159 thousand, instead, relate to the sale of the property located in Via dei Della Robbia, 41 in Florence, executed on 23 November 2010*

Section 18 - Income taxes for the year on profit from current operations - Item 260

18.1 Income taxes for the year on profit from current operations: breakdown

Components / Balances	*31/12/2010*	*31/12/2009*
1. Current taxes (-)	(66,575)	(55,700)
2. Changes in current taxes for previous years (+/-)	8,786	1,704
3. Reduction in current taxes for the year (+)	1,412	869
4. Change in prepaid taxes (+/-)	9,171	18,142
5. Change in deferred taxes (+/-)	(467)	(374)
6. Taxes for the year (-)	**(47,673)**	**(35,359)**

Note:
2010 accounting period. The item "current taxes" represents the IRES and IRAP taxes accrued during the year, including the permanent negative difference deriving from the partial deductibility of interest expense amounting to € 3,136 thousand (of which € 2,589 thousand for IRES and € 547 thousand for IRAP), in accordance with Italian Law No. 133/08. "Changes in current taxes for previous years" represents the outflow to income statement of the higher taxes for which provisions were made in the previous year, which was affected by the change made to the procedures to calculate allocations to credit risk provisions, per Article 106 of the Consolidated Income Tax Law ("TUIR"). "Reduction in current taxes for the year" includes the recognition of the tax credit on the sale of units in collective investment undertakings pursuant to Article 9, Paragraph 3 of Law 77/83.

2009 accounting period. The item "current taxes" includes the negative effect deriving from the partial deductibility of interest expense amounting to € 4,831, in accordance with Italian Law No. 133/08. The aggregate also includes the measurement of the IRAP credit for € 868 thousand for the years 2004 to 2007, in line with Law 2/09.

18.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

IRES

Items / Balances	*31/12/2010*		*31/12/2009*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	130,093		85,173	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**130,093**		**85,173**	
Theoretical tax charge – IRES with application of the nominal rate	**35,775**	**27.50%**	**23,423**	**27.50%**
- Non deductible portion of interest expense	2,590		4,171	
- Non deductible write-downs and losses on equity securities	-		68	
- Non deductible costs	1,641		1,262	
- Other increases	3,334		1,988	
Total tax effect of increases	**7,565**		**7,489**	
- Capital gains and revaluations on exempt equity investments	298		1,016	
- Dividends	474		958	
- Change in current taxes for previous years	2,731		1,704	
- Other decreases	1,740		1,075	
Total tax effect of decreases	**5,243**		**4,753**	
IRES taxation to income statement	**38,097**		**26,159**	
of which: - Income taxes for the year from current operations	38,097		26,159	
- Income taxes for the year of discontinued operations				

IRAP

Items/Values	31/12/2010		31/12/2009	
	Amount	%	Amount	%
A. Profit (Loss) on current operations, before taxation	130,093		85,173	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**130,093**		**85,173**	
Theoretical tax charge – IRAP with application of the nominal rate	**5,074**	**3.90%**	**3,322**	**3.90%**
- Personnel expenses	1,616		1,889	
- Net value adjustments on receivables	4,793		5,322	
- Rate increases implemented by regions	1,801		1,757	
- Other increases	1,216		1,223	
Total tax effect of increases	**9,426**		**10,191**	
- Profits on equity investments				
- Prepaid taxes relating to previous years				
- Dividends	3,501		3,875	
- Other decreases	1,425		438	
Total tax effect of decreases	**4,926**		**4,313**	
IRAP taxation to income statement	**9,574**		**9,200**	
of which: - Income taxes for the year from current operations	9,574		9,200	
- Income taxes for the year of discontinued operations held for sale				

Section 19 - Gains (Losses) on discontinued operations, net of taxation - Item 280

There are no such transactions for this financial statement item.

Section 21 - Earnings per share

21.1 Weighted average reconciliation of outstanding ordinary shares

(Number of shares)

Items / Balances	*31/12/2010*	*31/12/2009*
1. Weighted average of outstanding shares (+)	891,724,988	873,735,822
2. Diluting effect deriving from put options sold (+)		
3. Diluting effect deriving from ordinary shares to be assigned as a the result of share-based payments		
4. Diluting effect deriving from convertible liabilities (+)		
Weighted average of the outstanding ordinary shares for diluted earnings per share	**891,724,988**	**873,735,822**

21.2 Other information

21.2.a Reconciliation of profit (loss) for the period – basic earnings per share numerator

(amounts in euros)

Items / Balances	*31/12/2010*	*31/12/2009*
1. Net profit (loss)	82,420,165	49,814,234
2. Profit (loss)attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**82,420,165**	**49,814,234**

21.2.b Net profit (loss) reconciliation – diluted earnings per share numerator

(amounts in euros)

Items / Balances	*31/12/2010*	*31/12/2009*
1. Net profit (loss)	82,420,165	49,814,234
2. Profit (loss)attributable to other categories of shares		
3. Interest expense on convertible instruments (+)		
4. Other (+/-)		
Net profit attributable to ordinary shares - diluted earnings per share numerator	**82,420,165**	**49,814,234**

21.2.c Basic and diluted earnings per share

(amounts in euros)

Items / Balances	*31/12/2010*	*31/12/2009*
1. Basic earnings per share	0.09243	0.05701
2. Diluted earnings per share	0.09243	0.05701

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	*Gross amount*	*Income tax*	*Net amount*
10. Profit (loss) for the period	130,093	**(47,673)**	**82,420**
Other revenue components net of taxes			
20. Financial assets available for sale	**1,907**	**(997)**	**910**
a) fair value changes	1,041	(404)	637
b) transfer to income statement	866	(601)	265
- impairment adjustments			
- gains/losses on disposal	*866*	*(601)*	*265*
c) other changes		8	8
30. Property, plant and equipment			
40. Intangible assets			
50. Foreign investment hedging			
a) fair value changes			
b) transfer to income statement			
c) other changes			
60. Cash flow hedging			
a) fair value changes			
b) transfer to income statement			
c) other changes			
70. Exchange differences			
a) fair value changes			
b) transfer to income statement			
c) other changes			
80. Non-current assets held for sale			
a) fair value changes			
b) transfer to income statement			
c) other changes			
90. Actuarial income (losses) on definite benefit plans			
100. Portion of revaluation reserves of equity investments booked to shareholders' equity			
a) fair value changes			
b) transfer to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
110. Total other revenue components	**1,907**	**(997)**	**910**
120. Comprehensive income (Item 10+110)			**83,330**

Part E
Information on Risks and Related Hedging Policies

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

As part of the strategic priorities established in the Parent Company's Business Plan, the Bank continues to pursue an improvement in the quality of its loan portfolio with the aim of contributing towards the generation of value, containing the cost of the credit risk and the flow of non-performing positions. In this context, in June 2008, the MPS Group received from the Bank of Italy the authorisation to use advanced internal methods to determine capital requirements in view of credit risk (AIRB – Advanced Internal Rating Based).
MPSCS uses the internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses and to retail customers.
In 2008, all rating models pertaining to corporate and retail customers were completed; they were appropriately made compliant with the prescriptions of the "Basel 2" regulations. In parallel, the Bank also upgraded the "organisational and IT" instruments that use the internal rating system both in the Bank's credit processes (disbursing and monitoring systems) and in risk management, budgeting, planning and capital management processes, to allow the ratings to be used for multiple management and budget planning activities according to a new paradigm based on value creation and on the measurement of risk-adjusted performance.
The rating formation process entails the acquisition of quantitative (financial and trend) information as well as qualitative information.
In addition, the decision-making system, endowed with specific independence, can exercise the "override" power, changing the rating in the presence of qualitative-quantitative elements not considered in the previous stages.
To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.
Lastly, we inform that with respect to the credit risk linked to operations in financial instruments, it is mitigated by effect of the collateralisation agreements (Credit Support Annex for OTC derivatives, International Securities Market Association for repurchase agreements, Overseas Securities Lender's Agreement for securities lending) and netting agreements, stipulated directly with mostly institutional counterparties.

2. Credit risk handling policies

2.1 Organizational aspects, management gauging and control systems

2.1.1 Organizational aspects, management, gauging and control systems: banking book

The Bank carries out medium and long-term lending, mainly ordinary, to corporate customers and in all its technical forms, directed at the growth of manufacturing and production sectors.
To safeguard against the risk assumed, reimbursement sources are assessed on the basis of past, current and prospective income capabilities, as a function of the funded project and of the quality of management, the quality and quantity of the equity and financial means available to the companies, which can be appropriately complemented with the shareholders' intervention with adequate resources depending on the funded project. The presence of secured

guarantees (mortgages, liens) or unsecured guarantees (sureties, patronage, joint facilities) contributes to mitigate the underlying risk.
On the basis of the aforementioned criteria, the transactions are grouped into categories of differing risk intensity (essentially real estate and non-real estate), on which the decision-making autonomy limits for the credit of the various appointed bodies are parameterized; these limits undergo an increase or decrease depending on the rating assigned to said counterparty. The process (launched in May 2009) for assigning the project rating to specialised lending transactions continued and is now consolidated; these transactions are those exposures in which - as defined by Bank of Italy Circular no. 263 of 27 December 2006 and subsequent updates – usually the debtor is a Special Purpose Vehicle (SPV) whose assets are almost exclusively represented by financial assets and the primary reimbursement source for the obligation is represented by the income generated by the financed project. These transactions are identified on the basis of a specific questionnaire, included in corporate systems, aimed at identifying them in their various possible types, e.g. IPRE (Income Producing Real Estate), Project Finance or Object Finance, and are given a project rating (also known as Rating SL). This is an assessment, referred to a given time horizon, made on the basis of all reasonably accessible information and expressed through a classification - STRONG, GOOD, SUFFICIENT, WEAK – of the ability of the proceeds deriving from use of the works completed to pay back the loan granted for the completion of the project.
The limits to decision-making authority for specialised lending transactions are associated to the basic rating (C1 class), since the counterparty ratings are not assigned. For the classes at greater risk, with SUFFICIENT or WEAK classification, minimum competence levels were defined and assigned respectively to the Credit Department Head and to the General Manager.
During the year, the Parent Company BMPS carried out the verification and validation of the process, and as soon as the Supervisory Body grants its authorisation, the calculation of the capital absorption will be carried out using the respective classification. In the final months of 2010, the “slotting review process was also started; it entail the verification of the classification of specialised lending and, when necessary, the assignment of a new project rating based on updated elements, pertaining to the project and the sponsors’ assessment.
Simultaneously and altogether experimentally, a mathematical economic model (so-called Expert Model) continued to be used to determine the project rating of the Project Finance and “advanced” IPRE transactions.
The entire lending activity also includes granting credit facilities for connected derivative transactions to corporate customers, to contain exposure according to the market risks (interest rate, exchange rate and goods) assumed by the contracting persons (corporate clients).
The General Management, on a consistent basis with the directives of the Credit Policies and Control Department of the Parent Company BMPS, establishes the criteria and methods for monitoring the credit facility positions, on an on-going basis making the best possible use of information about the credit facility position, which is made available within the MPS Group. At the organisational structure level, the Loan Division continues to carry out the activity described above with the Bank’s competent organisations, represented by:

- Credit Assessment Department, with regard to the activities summarised below:
  - implementation of initiatives aimed at achieving the loan quality objectives by product/segment/other parameters within the framework of the overall economic consistencies outlined by General Management via the Planning, Management Control and Risk Management staff;
  - assessment of creditworthiness via i) the examination of the proposals originating from the peripheral Local Offices of the Sales Division, and ii) the analysis of the credit capacity of the applicant, the risk of the transaction and the guarantees backing the same, with the subsequent preparation of the report that summarises and set out the assessment and appraisal work carried out;
  - merit surveys to assign counterparty and project rating;
  - decision on the counterparty rating for exclusive customers, possibly with override validation, and on the project

rating, by validating the "Specialized Lending" Questionnaire;

- limited to advanced IPRE and PROJECT FINANCE, validation of the expert model.

Starting in October 2010, a substantial change to the credit disbursement process was started, experimentally for now and limited to the Padua and Milan Local Offices; the change may lead to the gradual move of the preliminary assessment of loan applications to the Local Offices, subject to the general principles of the currently enforced creditworthiness analysis and the exclusive task assigned to the Credit Assessment Department, i.e. managing the rating (ratification, confirmation or decision). Within the Credit Assessment Department, the Proposal Review Sector was created and assigned the task to assess the transactions originated by the competent business functions, for which it formulates a technical opinion.

- Credit Disbursement Department, with regard to the resolution of the credit facility proposals falling under its autonomy and the proposal of the others, with justified opinion, to the Supervising Bodies.
- Stipulations Department, relating to both the stipulation of the loan agreements, checking the documentation and necessary compliance, and the disbursement of the loan after having checked all the prescribed conditions.

Subsequent to disbursement of the balance, in the event of request for any type of changes, if it is performing the position returns to being the responsibility of the Post Disbursements sector of the Credit Assessment department, responsible for the rating review process. Otherwise, in the presence of arrears or even more severe situations which cause the exposures to be classified as "doubtful loans", the request is the responsibility of the competent staff functions under the General Management.

The above topics are analytically regulated by specific corporate standards.

With respect to credit risk measuring models, please see sub-section D, "Models for measuring credit risk" below.

2.1.2 Organizational aspects, management, gauging and control systems: trading portfolio

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department, is the responsibility of the Counterparty Assessment Department. Usually, market counterparties are regulated intermediaries, such as banks, IMEL (Electronic money institutions), investment firms, financial firms (as per Art. 107 TUF), insurance companies, as well as territorial, governmental and supranational agencies. Usually, the ratings are assigned by major international rating agencies and they are normally within the investment grade range.

The lending process also requires a decision by the Parent Bank BMPS to determine a limit "country risk" assigned to the Group's individual corporate entities, among them also MPSCS, which, in compliance with this limit, autonomously approves its own credit lines, as regulated by the internal documents "Financial credit autonomy – autonomy for market risk, issuer risk, country risk" and "Counterparty lending process for financial operations". The Counterparty Assessment Department is taken with carrying out all stages of the lending process, from the initial investigation review to the assessment of creditworthiness, from the loan proposal to the decision.

The credit line granted is dynamic, i.e. it may be used until reaching the overall limit for financial operations, in its various technical forms. For the purposes of the absorption of the overall counterparty risk, weighing coefficients have been identified; they are differentiated in relation to the financial nature of the operations, to the duration and average volatility of the underlying asset.

Credit lines have one-year validity and the Counterparty Assessment Department periodically reviews and revises the creditworthiness of each counterparty with a credit line. If, during the year, doubtful loan situations should emerge with negative consequences on the degree of reliability, the Department proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an adequate reduction to its amount. Each revision is immediately notified to the involved corporate functions.

With quarterly periodicity, the Counterparty Assessment Department produces a report for the Board of Directors

concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdraughts relative to the credit lines granted, together with comments on the causes and nature of the overdraughts; iii) the counterparties provided with credit lines and the record of pre-lending investigations, the situation of collaterals and of the country risk.
The Parent Company BMPS is informed daily with updates on loans granted to counterparties and the related utilisations, by feeding a dedicated application (Zeta limit), in accordance with the directives issued by BMPS.
Regarding operational controls, the Counterparty Assessment Department oversees compliance with the total credit line limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit lines granted and on the record of their utilisation. The irregularities noted are notified to the Top Management and to the Internal Audit Department. Monitoring takes place through the Murex application which is supplied data by the position keeping systems, able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC application. In the presence of collateralisation agreement, exposure is measured net of the collateral deposited by the counterparties. Overdraughts – in terms of amount and duration – are monitored daily by the Counterparty Assessment Department.

2.2 Credit risk mitigation techniques

The Bank, for typical ordinary lending operations, and normally for transactions beyond the short term, essentially requires the acquisition of secured guarantees. In particular, mortgages are currently acquired on property assets, related to real estate operations for acquisition, construction and restructuring of buildings, both those intended for sale and those for the direct use of the applicants for production investments.
Other secured guarantees acquired mainly concern securities, listed or unlisted on organized markets, and are also used to support short-term transactions.
Both short and medium-term loan transactions are sometimes backed by unsecured guarantees, provided essentially by private individuals (sureties) and sometimes by businesses (sureties and binding letters of patronage).
With regard to credit facilities granted to economic operators, additional guarantees are often acquired, granted by Credit Consortiums whose activities are often carried out in collaboration with Trade Associations. Many of the main Credit Consortiums are reviewing their processes so as to make the guarantees they issue "eligible" according to Basel 2, AIRB method regulations.
"Basel 2" legislation introduced important regulatory innovations on risk mitigation, specifically with regard to the management of secured and unsecured guarantees, enhancing the fundamental role that they cover in lending processes as a risk protection element.
Moreover, the New Capital Adequacy Agreement in fact offers banks the opportunity to endow themselves with an internal system dedicated to the handling of credit risk mitigation techniques (Credit Risk Mitigation, hereinafter CRM), which, when the prescribed qualitative and quantitative criteria are met, make it possible to mitigate risk and, consequently, to cut down capital absorption.
The mitigation effect is obviously only permitted in the presence of regulatory requirements established by the above legislation, diversified in relation to the various capital requirement calculation methods.
The MPS Group maintains an internal CRM system, paying particular attention to the continuous evolution of the system, in order to pursue consistency with the requirements defined per Circular No. 263 issued by the Bank of Italy Supervisory Body on 27 December 2006 (as subsequently updated).
As was mentioned in the preceding paragraph "General aspects", for the relationships with market counterparties for operations in financial instruments, both repurchase agreements and securities lending whether for financial and

credit derivatives, the Bank uses (bilateral) netting agreement that allow, in case of default, to offset all extant credit and debit positions within its own scope of operations.
To optimise the credit risk management and mitigation, MPSCS adopts the following protocols: ISDA (CSA for derivatives), GMSLA (Global Master Securities Lending Agreement for securities lending) and GMRA (Global Master Repurchase Agreement for repurchase agreements). To date, as collateral agreements, there are 105 CSA hedging operations in OTC derivatives, 47 GMRA agreements to hedge repurchase agreement operations and 65 GMLA agreements to hedge securities lending operations. In the presence of particular circumstances and conditions, these agreements may contribute to reduce regulatory capital absorptions.
Another mitigation technique used by the Bank is adhesion to the "SwapClear" service, whose agreement was executed in the second half of 2010, through the Barclays PLC broker (indirect adhesion). It is a clearing activity (performed by LCH Clearnet Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the clearer, through the novation legal mechanism. This "circuit" entails the liquidation of the daily variation margin on individual transactions, automatically offsetting the mutual credit and debit positions.

2.3. Impaired financial assets
Management and control activities for impaired loans (with the exception of non-performing positions) are disciplined by the Bank's internal Document "Administration of position under doubtful loan risk" and by the Parent Bank's directive which disciplines the more extensive category of "doubtful loans".
All the positions which are classified as "180 days past due" (positions in arrears by more than 180 days, exceeding 5% of the total exposure), "watch-list" (positions meeting objective and subjective "watch-list" requirements) or "restructured loans" are handled by the Bank's Credit Management and Credit Quality Division, while recovery activities for positions classified as "non-performing" are entrusted to the Group company MPS Gestione Crediti Banca (hereinafter MPSGCB), specialising in this sector.
The Credit Management Division, which manages all impaired, not yet non-performing positions, has the objective of i) recovering past due amounts and ii) returning the position to a performing status. On the basis of the analysis of each individual position and joining up with the other Group banks, it makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position.
The return of "impaired loans" to performing status takes place in various ways according to the classification category: with regard to "180 days past due" the mere payment of the arrears present beyond 180 days is sufficient, while for "watch-list" positions not only must payment take place but also the disappearance of any subjective hypothesis which could have led to this classification must be verified. With regard to "restructured positions", the instructions of the Supervisory Body must be followed. With respect to "non-performing positions", they can return to a performing status only if, upon payment of the arrears (and of any instalments due shortly), both the following conditions are met: i) absence of enforcement procedures and reports of dispute to the Risk Authority; ii) the overcoming of the economic-financial difficulties which led to the classification. Since non-performing positions, as already previously mentioned, are handled by MPSGCB, returns to performing status must be analyzed and proposed to the Bank by the assignee.
Every "doubtful loan" position is adequately analysed. In particular, the valuation concerns both positions due to be included in the category "180 days past due", and those already present in this category (so as to assess any requisites for changeover to watch-list or non-performing status), as well as those present in the watch-list category (since the time factor affects the valuation of the reversibility of the debtor's state of difficulty). The analysis and the handling of the position obviously also involves the estimation of the write-downs of the par values of the loans

(doubtful outcomes and discounting back in accordance with the criteria identified as per the IAS). These decisions, which exclusively concern “restructured loan”, “watch-list” or “non-performing” positions, take into account the loan recovery prospects, usually basing themselves on the value of the guarantees acquired to cover said transactions. With regard to the valuation of “non-performing” loans, the proposal to update the assessment obviously comes from MPSGCB which manages the position.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Impaired and performing exposures: amounts, value adjustments, changes and economic and geographic distribution

A.1.1. Portfolios /Quality Distribution of exposures by portfolio category and credit quality (financial statement amounts)

Portfolios / Quality	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other assets*	***Total***
1. Financial assets held for trading	4,328	1,006	716	103	31,451,649	**31,457,802**
2. Financial assets available for sale					49,086	**49,086**
3. Financial assets held to maturity						
4. Due from banks					1,696,935	**1,696,935**
5. Loans to customers	1,398,374	666,687	196,483	89,906	13,876,201	**16,227,651**
6. Financial assets at fair value						
7. Financial assets pending disposal						
8. Hedging derivatives					**330**	**330**
TOTAL 31 December 2010	**1,402,702**	**667,693**	**197,199**	**90,009**	**47,074,201**	**49,431,804**
TOTAL 31 December 2009	**1,130,084**	**590,998**	**36,607**	**145,946**	**35,986,594**	**37,890,229**

Note:
the financial assets held for trading, classified in the "non-performing" category comprise:
- *€ 3,088 thousand of exposures to companies of the Lehman Group (original amount of € 12,669 thousand subjected to value adjustments of € 9,581 thousand, recorded in 2008);*
- *€ 927 thousand of exposures to customers for differentials of OTC derivative agreements not paid at maturity, subjected to value adjustments of € 3,934 thousand, of which € 3,089 thousand recording during the year;*
- *€ 313 thousand from the valuation of an OTC derivative agreement with a company subjected to insolvency procedure as the counterparty.*

whilst the amounts recorded in the "watch-list", "restructured exposures" and "past due loans" category relates both to flows for derivative agreements not liquidated regularly upon expiration, and to the value of the agreements still extant towards counterparties classified in the different categories of impaired receivables.

A.1.2 Distribution of exposures by portfolio category and credit quality (gross and net amounts)

Portfolios / Quality	*Impaired assets*			*Performing*			**Total (net exposure)**
	Gross exposure	*Specific value adjustments*	*Gross exposure*	*Gross exposure*	*Portfolio value adjustments*	*Gross exposure*	
1. Financial assets held for trading	10,087	(3,934)	6,153			31,451,649	**31,457,802**
2. Financial assets available for sale				49,086		49,086	**49,086**
3. Financial assets held to maturity							
4. Due from banks	6,000	(6,000)	0	1,697,715	(780)	1,696,935	**1,696,935**
5. Loans to customers	3,206,627	(855,177)	2,351,450	13,950,443	(74,242)	13,876,201	**16,227,651**
6. Financial assets at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives						330	**330**
Total 31 December 2010	**3,222,714**	**(865,111)**	**2,357,603**		**(75,022)**	**47,074,201**	**49,431,804**
Total 31 December 2009	**2,619,730**	**(716,095)**	**1,903,635**		**(72,517)**	**35,986,594**	**37,890,229**

Details for performing exposure portfolios

Portfolio / Exposure category	*subject to re-negotiation (*)*	*Other expo-sures*	*Total*
1. Financial assets held for trading		31,451,649	**31,451,649**
2. Financial assets available for sale		49,086	**49,086**
3. Financial assets held to maturity			
4. Due from banks		1,696,935	**1,696,935**
5. Loans to customers	291,558	13,584,643	**13,876,201**
6. Financial assets at fair value			
7. Financial assets pending disposal			
8. Hedging derivatives		330	**330**
	1,628,175	**45,446,026**	**47,074,201**

Note:
in accordance with the clarifications received from the Supervisory Body, the exposures subjected to renegotiation within Collective Agreements (e.g. ABI_MEF Master Agreement) are distinguished from the other exposures.

Details of performing loans: seniority of past due items

Type of exposure / Balances	*Gross exposure*			*Value adjustments*	*Net exposure*
	past due	*yet to expire*	*Total*		
A. Exposures subject to renegotiation					
- without past due amounts	-	286,026	286,026	(1,926)	284,100
- with amounts past due up to 3 months	177	7,333	7,510	(52)	7,458
- with amounts past due from 3 to 6 months	-	-	-	-	-
Total	**177**	**293,359**	**293,536**	**(1,978)**	**291,558**
B. Other exposures					
- without past due amounts		45,955,300	45,955,300	(66,453)	45,888,847
- with amounts past due up to 3 months	49,514	780,813	830,327	(5,866)	824,461
- with amounts past due from 3 to 6 months	23,364	46,696	70,060	(725)	69,335
Total	**72,878**	**46,782,809**	**46,855,687**	**(73,044)**	**46,782,643**
Total A+B	**73,055**	**47,076,168**	**47,149,223**	**(75,022)**	**47,074,201**

A.1.3 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure / Balances	*Gross exposure*	*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
A. Cash exposures				
a) Non-performing	6,000	(6,000)		-
b) Watch-list				
c) Restructured exposures				
d) Past due exposures				
e) Other assets	9,973,852		(780)	9,973,072
Total A	**9,979,852**	**(6,000)**	**(780)**	**9,973,072**
B. Off-balance sheet exposures				
a) Impaired				
b) Other	7,861,902			7,861,902
Total B	**7,861,902**			**7,861,902**
Total A+B	**17,841,754**	**(6,000)**	**(780)**	**17,834,974**

A.1.4 Cash exposures to banks: changes in gross impaired exposures

Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A. Initial gross exposure	**6,000**			
- of which: exposures sold but not derecognised				
B. Increases	**0**			
B.1 transfers from performing loans				
B.2 transfers from other categories of impaired exposures				
B.3 Other increases				
C. Decreases	**0**			
C.1 transfers to performing loans				
C.2 cancellations				
C.3 collections				
C.4 disposals				
C.5 transfers to other categories of impaired exposures				
C.6 Other decreases				
D. Gross closing balance	**6,000**			
- of which: exposures sold but not derecognised				

A.1.5 Cash exposures to banks: changes in overall value adjustments

Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A. Initial value adjustments	**6,000**			
- of which: exposures sold but not derecognised				
B. Increases	**0**			
B.1 value adjustments				
B.2 transfers from other categories of impaired exposures				
B.3 Other increases				
C. Decreases	**0**			
C.1 write-backs from valuation				
C.2 write-backs from collection				
C.3 cancellations				
C.4 transfers to other categories of impaired exposures				
C.5 Other decreases				
D. Closing balance of overall value adjustments	**6,000**			
- of which: exposures sold but not derecognised				

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure / Balances	*Gross exposure*	*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
A. Cash exposures				
a) Non-performing	2,097,602	(696,140)		1,401,462
b) Watch-list	797,337	(130,650)		666,687
c) Restructured exposures	219,750	(23,267)		196,483
d) Past due exposures	95,026	(5,120)		89,906
e) Other assets	25,619,855		(74,242)	25,545,613
Total A	**28,829,570**	**(855,177)**	**(74,242)**	**27,900,151**
B. Off-balance sheet exposures				
a) Impaired	55,830	(10,909)		44,921
b) Other	22,286,613		(2,967)	22,283,646
Total B	**22,342,443**	**(10,909)**	**(2,967)**	**22,328,567**
Total A+B	**51,172,013**	**(866,086)**	**(77,209)**	**50,228,718**

A.1.7 Cash exposures to customers: changes in gross impaired exposures

Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A. Initial gross exposure	**1,755,558**	**664,495**	**38,538**	**155,140**
- of which: exposures sold but not derecognised				
B. Increases	**452,943**	**406,306**	**197,012**	**94,459**
B.1 transfers from performing loans	122,487	329,286	137,811	90,703
B.2 transfers from other categories of impaired exposures	255,293	56,809	56,000	
B.3 Other increases	75,163	20,211	3,201	3,756
C. Decreases	**110,899**	**273,464**	**15,800**	**154,573**
C.1 transfers to performing loans	1,208	7,913	4,157	11,285
C.2 cancellations	18,860	944	459	7
C.3 collections	89,649	25,803	2,190	22,977
C.4 disposals				
C.5 transfers to other categories of impaired exposures		238,804	8,994	120,304
C.6 Other decreases	1,182			
D. Gross closing balance	**2,097,602**	**797,337**	**219,750**	**95,026**
- of which: exposures sold but not derecognised				

A.1.8 Cash exposures to customers: changes in overall value adjustments

Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A. Initial value adjustments	**625,474**	**73,497**	**1,931**	**9,194**
- of which: exposures sold but not derecognised				
B. Increases	**166,298**	**70,955**	**22,295**	**373**
B.1 value adjustments	159,523	69,882	21,337	349
B.2 transfers from other categories of impaired exposures	6,743	1,009	956	
B.3 Other increases	32	64	2	24
C. Decreases	**95,632**	**13,802**	**959**	**4,447**
C.1 write-backs from valuation	71,636	4,445		2,950
C.2 write-backs from collection	4,325	1,046	499	149
C.3 cancellations	18,860	944	459	7
C.4 transfers to other categories of impaired exposures		7,367	1	1,340
C.5 Other decreases	811			1
D. Closing balance of overall value adjustments	**696,140**	**130,650**	**23,267**	**5,120**
- of which: exposures sold but not derecognised				

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash and "off-balance sheet" exposures by external rating classes

Exposures	External rating classes						Unrated	Total
	AAA/AA- Classe1	A+/A- Class 2	BBB+/ BBB- Class 3	BB+/BB- Class 4	B+/B- Class 5	Lower than B- Class 6		
A. Cash exposures	5,242,983	10,052,590	766,627	27,359	13,728	193,435	21,576,501	**37,873,223**
B. Derivatives	6,513,429	7,914,479	4,378,245	293,688	173,457	108,207	8,173,515	**27,555,020**
1. Financial derivatives	*714,616*	*116,835*	*2,004*	*2*		*85,199*	*658,830*	***1,577,486***
2. Credit derivatives	*5,798,813*	*7,797,644*	*4,376,241*	*293,686*	*173,457*	*23,008*	*7,514,685*	***25,977,534***
C. Guarantees given						265,033		**265,033**
D. Irrevocable commitments to grant finance	867,317	48,922	4,546	824	624	1,448,182		**2,370,415**
Total	**12,623,729**	**18,015,991**	**5,149,418**	**321,871**	**187,809**	**2,014,857**	**29,750,016**	**68,063,691**

The external rating classes adopted to fill out the table are those used by Standard & Poor's. The exposures considered are those in the balance sheet, shown in the above Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers). In the presence of multiple assigned external ratings, the criteria adopted to select the rating are those prescribed by the Bank of Italy (in the presence of two ratings, the worse one is used, in the presence of three or more assigned ratings, the second-best is selected). To assure that the information is significant, trans-coding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

A.2.2 Distribution of cash and off-balance sheet exposures by internal rating classes

Exposures	Internal rating classes					Administrative default	Unrated	Total
	High quality	Good quality	Sufficient quality	Mediocre quality	Weak quality			
A. Cash exposures	601,198	1,783,772	4,715,923	2,155,193	402,646	2,461,027	25,753,464	**37,873,223**
B. Derivatives	204,308	315,445	153,254	19,161	3,054	4,262	26,855,536	**27,555,020**
1. Financial derivatives	*2,212*	*19,209*	*55,470*	*19,161*	*3,054*	*4,262*	*1,474,118*	***1,577,486***
2. Credit derivatives	*202,096*	*296,236*	*97,784*				*25,381,418*	***25,977,534***
C. Guarantees given	*6,677*	32,754	87,940	74,057	17,495	27,337	18,773	**265,033**
D. Irrevocable commitments to grant finance	181,728	252,103	632,886	433,444	17,041	30,374	822,839	**2,370,415**
Total	**993,911**	**2,384,074**	**5,590,003**	**2,681,855**	**440,236**	**2,523,000**	**53,450,612**	**68,063,691**

The table describes the breakdown of the Bank's customer by risk classes attributed according to the rating assigned by internal models. For this purpose, only the exposures (counterparties) whose internal rating is periodically determined (Corporate and Private customers) without any trans-coding from official rating to internal rating concerning instead sectors such as "banks", "non banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the positions referred to these latter segments - while provided with official ratings - were indicated as "unrated" in internal rating models.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1. Guaranteed exposures to banks

	Value of net exposure	Secured guarantees (1)			Unsecured guarantees (2)									Total (1)+(2)
					Credit derivatives					Endorsement credits				
						Other derivatives								
		Properties	Securities	Other secured guarantees	credit linked notes	Governments and Central Banks	Other public entities	Banks	Other operators	Governments and Central Banks	Other public entities	Banks	Other operators	
1. Guaranteed cash exposures	**6,010,048**		**5,889,637**											**5,889,637**
1.1 Fully guaranteed	915,548		915,548											**915,548**
- of which impaired														
1.2 Partially guaranteed	5,094,500		4,974,089											**4,974,089**
- of which impaired														
2. Guaranteed "off-balance sheet" exposures	**778,294**			**758,796**										**758,796**
2.1 Fully guaranteed	1,447,610			559,457										**559,457**
- of which impaired														
2.2 Partially guaranteed	219,684			199,339										**199,339**
- of which impaired														

The "secured guarantees" acquired to safeguard "off balance sheet" exposures refer to the net counterparty risk, i.e. determined on the basis of netting and CSA arrangements, implicit in OTC derivative contracts.

A.3.2 Guaranteed exposures to customers

	Value of net exposure	Secured guarantees (1)			Unsecured guarantees (2)									Totale (1)+(2)
					Credit derivatives					Endorsement credits				
						Other derivatives								
		Properties	Securities	Other secured guarantees	credit linked notes	Governments and Central Banks	Other public entities	Banks	Other operators	Governments and Central Banks	Other public entities	Banks	Other operators	
1. Guaranteed ash exposures	**21,206,094**	**9,978,676**	**9,525,834**	**65,665**						**1,611**	**40,451**	**15,920**	**571,229**	**20,199,386**
1.1 Fully guaranteed	12,867,460	9,864,638	2,536,509	28,874						1,132	38,022	11,658	386,627	**12,867,460**
- of which impaired	*2,097,950*	*2,021,598*	*28,028*	*1,305*						*1,010*	*188*	*6,839*	*38,982*	***2,097,950***
1.2 Partially guaranteed	8,338,634	114,038	6,989,325	36,791						479	2,429	4,262	184,602	**7,331,926**
- of which impaired	*198,747*	*60,732*	*36,982*							40	651	1,306	21,837	***121,548***
2. Guaranteed "off-balance sheet" exposures	**200,473**	**7,335**	**29,003**	**66,238**									**13,229**	**115,805**
2.1 Fully guaranteed	48,231	7,335	28,953	233									11,710	**48,231**
- of which impaired	*6,737*		*1,074*										5,663	**6,737**
2.2 Partially guaranteed	152,242		50	66,005									1,519	**67,574**
- of which impaired														

The "secured guarantees" acquired to safeguard "off balance sheet" exposures refer to the net counterparty risk, i.e. determined on the basis of netting and CSA arrangements, implicit in OTC derivative contracts.

B. EXPOSURE DISTRIBUTION AND CONCENTRATION

B.1 Sector distribution of cash and "off balance sheet" exposures to customers (carrying amount)

B.1.1 Sector distribution of exposures: cash exposures to customers (carrying amount)

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	***Total 31/12/10***	***Total 31/12/09***
Governments							
- Net exposure					4,224,840	**4,224,840**	**2,406,816**
- Specific value adjustments							
- Portfolio value adjustments					(10)	**(10)**	**(11)**
Other public entities							
- Net exposure					46,034	**46,034**	**32,392**
- Specific value adjustments							
- Portfolio value adjustments					(102)	**(102)**	**(103)**
Finance companies							
- Net exposure	3,088	30,477		20,448	10,720,323	**10,774,336**	**5,667,097**
- Specific value adjustments	(2)	(16,154)		(1,206)		**(17,362)**	
- Portfolio value adjustments					(5,066)	**(5,066)**	**(3,980)**
Insurance companies							
- Net exposure					96,585	**96,585**	**72,272**
- Specific value adjustments							
- Portfolio value adjustments							
Non-financial companies							
- Net exposure	1,365,308	626,214	196,483	62,051	10,126,959	**12,377,015**	**12,183,916**
- Specific value adjustments	(675,558)	(113,881)	(23,267)	(3,516)		**(816,222)**	**(689,426)**
- Portfolio value adjustments					(67,749)	**(67,749)**	**(66,370)**
Other operators							
- Net exposure	33,066	9,995		7,407	330,874	**381,342**	**252,974**
- Specific value adjustments	(20,580)	(616)		(398)		**(21,594)**	**(20,670)**
- Portfolio value adjustments					(1,315)	**(1,315)**	**(1,354)**

B.1.2 Sector distribution of exposures: "off-balance sheet to customers" (carrying amount)

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other expo-sures*	***Total 31/12/2010***	***Total 31/12/2009***
Governments						
- Net exposure				4,684,513	**4,684,513**	**743,747**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				281,154	**281,154**	**29,375**
- Specific value adjustments						
- Portfolio value adjustments						
Finance companies						
- Net exposure				5,062,745	**5,062,745**	**2,625,676**
- Specific value adjustments						
- Portfolio value adjustments				(48)	**(48)**	**(39)**
Insurance companies						
- Net exposure				1,480,223	**1,480,223**	**909,923**
- Specific value adjustments						
- Portfolio value adjustments						
Non-financial companies						
- Net exposure	1,240	11,578	32,101	10,759,158	**10,804,077**	**6,825,163**
- Specific value adjustments	(3,934)	(6,142)	(833)		**(10,909)**	**(1,227)**
- Portfolio value adjustments				(2,745)	**(2,745)**	**(1,067)**
Other operators						
- Net exposure				15,853	**15,853**	**18,863**
- Specific value adjustments						
- Portfolio value adjustments				(174)	**(174)**	**(67)**

B.2 Geographic distribution of cash and "off-balance sheet" exposures to customers (carrying amount)

B.2.1 Geographic distribution of exposures: cash exposures to customers (carrying amount)

Geographic area / Exposures	Non-performing	Watch list	Restructured exposures	Past due exposures	Other exposures	**Total 31/12/2010**	**Total 31/12/2009**
Italy							
- Net exposure	1,397,729	666,223	189,366	89,906	24,573,637	**26,916,861**	**19,733,310**
- Total value adjustments	(688,883)	(130,131)	(22,890)	(5,120)	(73,002)	**(920,026)**	**(772,938)**
Other European countries							
- Net exposure	3,619	463	7,117		762,187	**773,386**	**746,333**
- Total value adjustments	(7,256)	(519)	(377)		(1,051)	**(9,203)**	**(8,811)**
America							
- Net exposure	115				204,248	**204,363**	**81,468**
- Total value adjustments					(189)	**(189)**	**(164)**
Asia							
- Net exposure					251	**251**	**2,115**
- Total value adjustments						**0**	
Rest of world							
- Net exposure					5,291	**5,291**	**12,240**
- Total value adjustments						**0**	

B.2.2 Sector distribution of exposures: "off-balance sheet to customers" (carrying amount)

Geographic area / Exposures	Non-performing	Watch-list	Other impaired assets	Other expo-sures	**Total 31/12/2010**	**Total 31/12/2009**
Italy						
- Net exposure	1,240	10,719	31,993	3,661,651	**3,705,603**	**2,678,708**
- Total value adjustments	(3,934)	(4,459)	(833)	(2,812)	**(12,038)**	**(2,236)**
Other European countries						
- Net exposure		859	108	16,833,678	**16,834,645**	**7,345,266**
- Total value adjustments		(1,683)		(137)	**(1,820)**	**(164)**
America						
- Net exposure				1,561,018	**1,561,018**	**1,066,037**
- Total value adjustments				(19)	**(19)**	**-**
Asia						
- Net exposure				25,926	**25,926**	**-**
- Total value adjustments						**-**
Rest of world						
- Net exposure				201,373	**201,373**	**62,736**
- Total value adjustments						

B.3 Geographic distribution of cash and "off balance sheet" exposures to banks (carrying amount)

B.3.1 Geographic distribution of exposures: cash exposures to banks (carrying amount)

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	***Total 31/12/10***	***Total 31/12/09***
Italy							
- Net exposure					8,715,961	**8,715,961**	**3,779,432**
- Total value adjustments	(6,000)				(682)	**(6,682)**	**(6,342)**
Other European countries							
- Net exposure					998,149	**998,149**	**3,678,088**
- Total value adjustments					(78)	**(78)**	**(333)**
America							
- Net exposure					258,962	**258,962**	**192,325**
- Total value adjustments					(20)	**(20)**	**(17)**
Asia							
- Net exposure						**0**	**3,387**
- Total value adjustments							
Rest of world							
- Net exposure						**0**	**(86,746)**
- Total value adjustments						**0**	**(8)**

B.3.2 Geographic distribution of exposures: "off-balance sheet" to banks (carrying amount)

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	***Total 31/12/2010***	***Total 31/12/2009***
Italy						
- Net exposure				1,228,698	**1,228,698**	**733,670**
- Total value adjustments						
Other European countries						
- Net exposure				6,018,556	**6,018,556**	**3,567,147**
- Total value adjustments						
America						
- Net exposure				508,723	**508,723**	**287,938**
- Total value adjustments						
Asia						
- Net exposure					**-**	**1,955**
- Total value adjustments						
Rest of world						
- Net exposure				105,926	**105,926**	**81,586**
- Total value adjustments						**-**

B.5 Significant risks

a) amount of the nominal value	38,375,297
b) amount of the weighted value	5,285,858
c) number	30

In this section are measured the amounts and the number of the "positions at risk" that constitute a "significant risk" in accordance with the current supervisory regulations (Bank of Italy Circular no. 155).

C. SECURITISATION AND ASSET SALE TRANSACTIONS

C.1 SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

The Bank acts as investor as well as market maker for issues where the Parent Company is the originator. The internal organizational structure which oversees these operations is the Credit Trading Desk. Its main objective involves providing liquidity for the transactions carried out by the MPS Group with a view to also providing support in terms of pricing to customers who have acquired the securitisations of the Group. For such purposes, ongoing and structured analysis is used on the underlying flows of these transactions principally attributable to residential mortgage loans and consumer credit disbursement activities of the Parent Company. With regard to the role of investor, in relation to deals originated outside the MPS Group, activities are oriented at seizing the various opportunities which the market offers, so as to maximize the portfolio's returns in terms of profit. The process for assessing and measuring the risks connected to the positions temporarily held is centralised at the Risk Management Department of the Parent Company BMPS within the scope of market risk measurement. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows. The protection instruments (CDS and synthetic indexes) besides being extremely illiquid, are difficult to refer to the same seniority class of the securitised instrument present in the portfolio; this is why is considered more effective and prudent to hedge the underlying element using credit indexes and CDS. In this way, it is possible to anticipate any cash drops in these flows which could have an impact on the performance of said issues. During 2010, operations on securities relating to securitisation were carried out via purchases and sales on the secondary market. These financial instruments are classified for a total of € 282.24 million in the trading portfolio (asset item 20 "Financial assets held for trading") and for an overall equivalent value of € 11.71 million in the banking book (asset item 40 "Financial assets available for sale"). The Bank only holds cash exposures (guarantees or credit facilities). The Bank also acted as arranger for securitisation transactions on behalf of the BMPS Group. The Bank has no equity investments in special purpose vehicles and does not perform servicer activities in transactions of this type.

QUANTITATIVE INFORMATION

C.1.1 Exposures deriving from securitisations broken down by quality of underlying assets

Quality of underlying assets / exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Gross exposure	*Net exposure*	*Gross exposure*	*Net exposure*	*Gross exposure*	*Net exposure*
A. Own underlying assets:						
a) Impaired						
b) Other						
B. Third party underlying assets	**280,943**	**277,341**	**10,696**	**10,803**	**6,025**	**5,815**
a) Impaired	7,312	7,191	594	4		
b) Other	273,631	270,150	10,102	10,799	6,025	5,815
Total 31 December 2010	**280,943**	**277,341**	**10,696**	**10,803**	**6,025**	**5,815**
Total 31 December 2009	**181,814**	**161,327**	**12,984**	**11,337**	**2,992**	**2,927**

There are no exposures either as guarantees given or as credit lines.

C.1.2 Exposures deriving from the Bank's main securitisations broken down by type of asset securitised and type of exposure

The Bank has not carried out any securitisation transaction on its own assets.

C.1.3 Exposures deriving from main "third party" securitisations broken down by type of asset securitised and type of exposure

Type of underlying assets	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying amount	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*
- residential mortgage loans	118,764	491	9,706	1,357	5,815	(210)
- non-residential mortgage loans	45,878	(184)	1,093	(660)		
- bond	94,054	(397)	4	(590)		
- other assets	18,645	(3,512)				
Total	**277,341**	**(3,602)**	**10,803**	**107**	**5,815**	**(210)**

As of the date of these financial statements, there are no exposures deriving from guarantees given and/or from credit lines, in reference to third party securitisations.

C.1.3.1 Type of securitisation assets: analysis of residential mortgage loans

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying amount	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*
GRAN 2004-2 2B TV44			643	(109)		
SIENA MTGE TV DE38	21,724	142				
SIENA MTGE TV DE38			5,125	(195)		
SIENA MTGE TV DE38					5,815	(210)
STORM 10/52 TV	4,915	(88)				
ARENA A1 TV NO41	1,473	(15)				
ARENA A2 TV NO41	5,022	34				
AIREM2004-1X3BE66TV			678	(149)		
FOSSIM-TV 10/54 A2	5,016	(20)				
HIPOCAT 01/33 TV			389	(86)		
SIENA MTGEA1-TV10/70	15,021	(15)				
SIENA MTGEA2 – TV10/70	10,030	(1)				
CORDUSIO R 09/13 TV	3,247	(32)				
BP MORT TV 07/44	2,842	414				
ATLAM1 JA 03-36 TV	1,528	216				
GRAN 2044 TV			2,871	1,896		
SPOLETO MTG 04/35 TV	1,880	25				
DUTCH-TV 10/42 A1	3,905	(59)				
DUTCH–TV 10/15 A2	9,889	(130)				
SAEC 9 A2-TV 10/92	4,969	(31)				
CORDUSIO UB 06/42 TV	3,682	252				
CASSA CENTR-TV 07/43	14,741	(120)				
BCCM 1 A 38 TV	3,916	(21)				
PERMANENT M 42 TV	4,964	(60)				
TOTAL	**118,764**	**491**	**9,706**	**1,357**	**5,815**	**(210)**

C.1.3.2 Type of securitisation assets: analysis of non-residential mortgage loans

Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ Write-backs	Carrying amount	Value adjustments/ Write-backs	Carrying amount	Value adjustments/ Write-backs
FIP FUND 05/23 TV	8,675	(75)				
FIP FUND 05/23 TV	17,687	80				
PATRIMONIO 06/21 TV	1,230	(65)				
ATLAN FI 06/47 TV	10,481	(20)				
CASAFORTE 10/40 CL A	6,756	(104)				
TITAN EUR 07/17 TV			1,093	(660)		
PATRIMONIO 06/21 TV	1,049	-				
TOTAL	**45,878**	**(184)**	**1,093**	**(660)**		

C.1.3.3 Type of securitisation assets: analysis of bonds

Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ Write-backs	Carrying amount	Value adjustments/ Write-backs	Carrying amount	Value adjustments/ Write-backs
CREDICO F3 A1 15 TV	7,240	(246)				
PATAGONIA-ZC 01/80	79,623	(29)				
EMPYR TV 06/13	920	(382)				
RUTLN RAT TV 06/13	1,084	122				
KENMO 2X 7EB1 TV 14			4	(590)		
CLOVERIE 07/14 TV	603	300				
GREYL TV 06/14	3,607	(149)				
SHAMR CAP 07/12 TV	977	(13)				
TOTAL	**94,054**	**(397)**	**4**	**(590)**		

C.1.3.4 Type of securitisation assets: analysis of other assets

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying amount	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*	*Carrying amount*	*Value adjustments/ Write-backs*
PREPS 05 05-14 TV	4,059	(1,434)				
PREPS-05/2 05-14 TV	3,418	(2,145)				
PHARM 4 A 08/32 TV	7,517	64				
DOLOMITI F 02/17 TV	153	1				
SCCI 05/11 TV	3,294	4				
DOLOMITI F 02/17 TV	204	(2)				
TOTAL	**18,645**	**(3,512)**				

C.1.4 Exposures deriving from securitisations broken down by portfolio and by type

Exposures / portfolio	*Financial assets held for trading*	*Financial assets - fair value option*	*Financial assets available for sale*	*Financial assets held to maturity*	*Receivables*	***Total 31 December 2010***	***Total 31 Dec. 2009***
1. Cash exposures	**282,245**		**11,714**			**293,959**	**175,591**
- "Senior"	268,430		8,911			277,341	161,326
- "Mezzanine"	8,000		2,803			10,803	11,338
- "Junior"	5,815					5,815	2,927
2. Off-balance sheet exposures	**489**					**489**	
- Senior	489					489	
- "Mezzanine"							
- "Junior"							

C.1.5 Total amounts of securitised assets underlying junior securities or other forms of credit support

Assets / Values	*Traditional securitisations*	*Synthetic securitisations*
A. Own underlying assets:		
A.1 Entirely derecognised		
A.2 Partly derecognised		
A.3 Not derecognised		
B. Third party underlying assets	**87,708**	
B.1 Non-performing	3,260	
B.2 Watch-list	1,408	
B.3 Restructured		
B.4 Past due	398	
B.5 Other assets	82,642	

C.1.6 Interests in special purpose vehicles

The Bank owns no interests in special purpose vehicles relating to its own securitisations.

C.1.7 Servicer activity - collections of securitised credits and reimbursement of securities issued by the special purpose vehicle

The Bank does not carry out any servicer activity.

C.2 SALES

C.2.1 Financial assets sold not derecognised

Financial assets sold not derecognised refer to securities subjected to repurchase agreements and securities lending, within the asset item 20 “Financial assets held for negotiation”, such as:

- Debt securities: € 3,758,265 thousand (€ 2,177,764 thousand in 2009)
- Equity securities: € 5,695 thousand (€ 252 thousand in 2009)

C.2.2 Financial liabilities with respect to sold and not derecognised financial assets

Financial liabilities with respect to sold and not derecognised financial assets per C.2.1 above, recorded in the liability item 40 “Financial liabilities held for trading”, are broken down as follows:

- Due to customers: € 3,127,405 thousand (€ 1,855,940 thousand in 2009)
- Due to banks: € 636,555 thousand (€ 322,076 thousand in 2009)

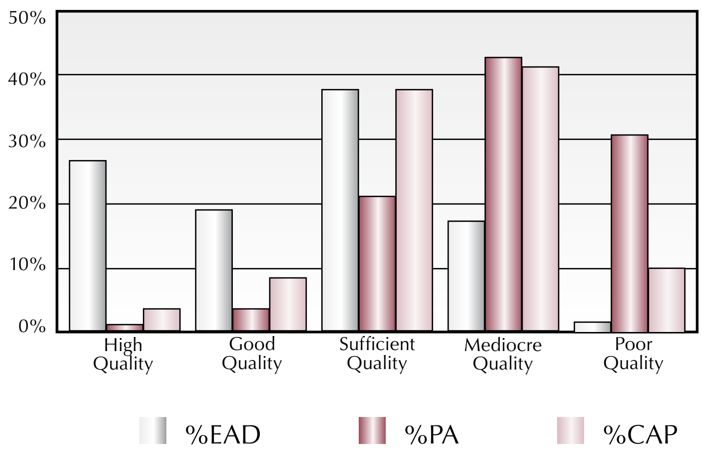
C.3COVERED BOND TRANSACTIONS

The Bank issued no covered bank bonds.

D. CREDIT RISK GAUGING MODELS

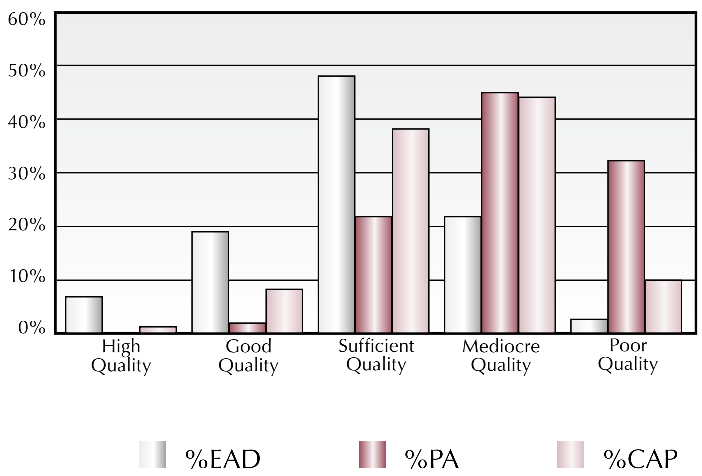
Analysis of the credit risk is carried out by means of the use of the Loan Portfolio Model developed internally within the Parent Company BMPS; as analytical output it produces the classic risk measurements of the Estimated Loss, Unestimated Loss and Economic Capital diversified inter-risk, with a timeframe of one year and a confidence interval gauged to the official rating assigned to said Group. The inputs are numerous: probability of default (PD), LGD rates, number and types of guarantees which assist the loan transaction, internal operating EAD ratios.
The Loan Portfolio Model developed within the MPS Group uses a “Merton” approach to describe the insolvency of each counterparty present in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable that expresses its credit worthiness falls below a pre-set threshold value, along a reference time frame (usually, one year). The synthetic variable expressing the counterparty’s credit worthiness is defined “Credit Worthiness Index” (CWI) and it incorporates both the specific risk component and the systemic component. The sensitivity of the credit worthiness of each counterparty to changes in macroeconomic factors is estimated with a multi-varied regression econometric model between the variable expressing the solvency of a counterparty (PD) and the selected credit driver. Loss distribution is estimated with appropriate statistical functions that approximate loss distribution for each counterparty through the use of conditioned default probabilities.
The output of the portfolio provides detailed measurements for individual positions as well as the component of absorbed management capital with the indication of the impact of diversification with respect to a building block logic.
The model enables to highlight the time dynamics of credit risk according to various possibilities of aggregation of the analysed variables, by legal entity, by type of customer, by geographical area, by industry, by rating class, by continental areas. Further indications deriving from the Loan Portfolio Model refer to the “what-if” analysis produced on certain discriminating variables such as the probabilities of default, the LGD rates, the performance of the value of the guarantees and the available margins on credit facilities, so as to quantify levels of Estimated Loss and Economic Capital should the underlying hypothesis (both discretional and historic) occur.
The MPS Group, also in relation to the provisions of the Second Pillar of Basel 2, is also engaged in the continuous evolution of the methods and models in order to assess the impacts on the credit portfolio of stress conditions, obtained both through sensitivity analysis to individual risk factors and through scenario analysis.
The chart below indicates the distribution of the loan quality of MPSCS Bank’s loan portfolio (excluding positions in financial assets). The graphic representation shows that 44% of the exposures at risk are granted to high and good quality customers. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking institutions, not included in AIRB model. For such counterparties, a managerial credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

QUALITY DISTRIBUTION OF THE PERFORMING LOAN PORTFOLIO
MPS Capital Services – 31 December 2010

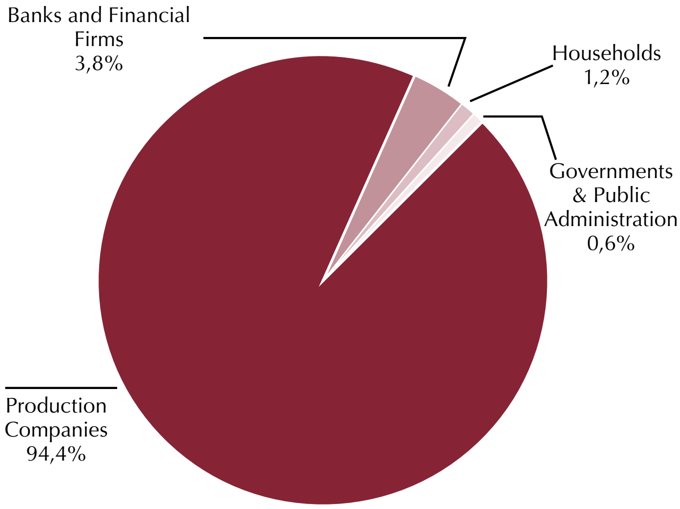


The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate and Retail portfolios (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). Note that the incidence of exposures with high and good quality as of 31 December 2010 is about 25% of total exposures.

QUALITY DISTRIBUTION OF THE PERFORMING LOAN PORTFOLIO
MPS Capital Services - 31 December 2010



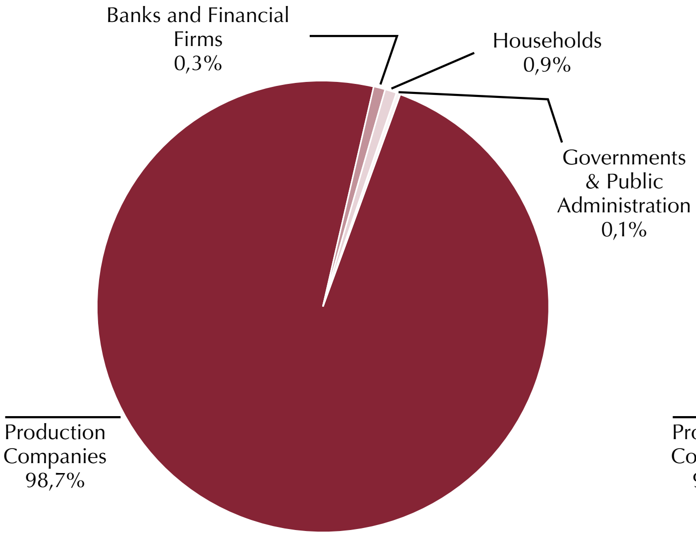
RISK EXPOSURE
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2010



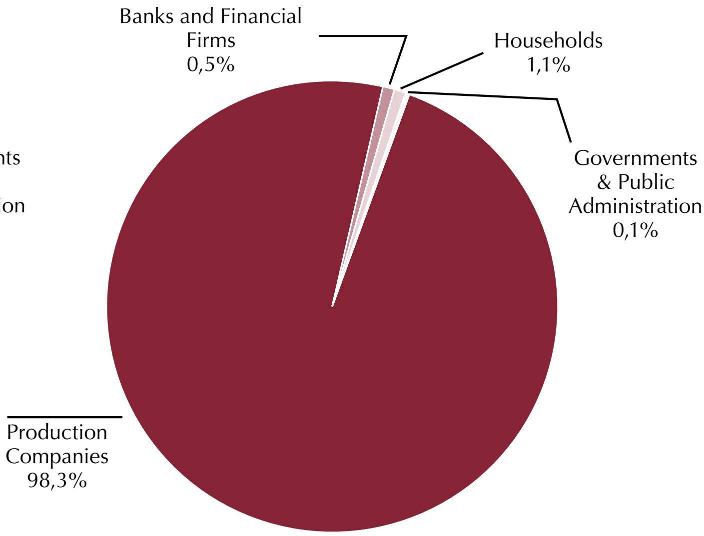
From the analysis by macro segment of loan customers, on the data obtained at the end of 2010, it emerges that the exposures at risk of MPSCS are mainly directed at "Production Companies" customers (94.4% on total disbursements) and "Banks and Financial Firms" (3.8%). The remaining portion is subdivided among "Households", accounting for 1.2%, and "Governments and Public Administration", amounting to 0.6%.

In terms of risk measurements, it is apparent that the "Production Companies" customer segment absorbs 98.7% of Expected Loss and 98.3% of Economic Capital. The "Households" segment attains is respectively at 0.9% for Expected Loss and 1.1% for Economic Capital.

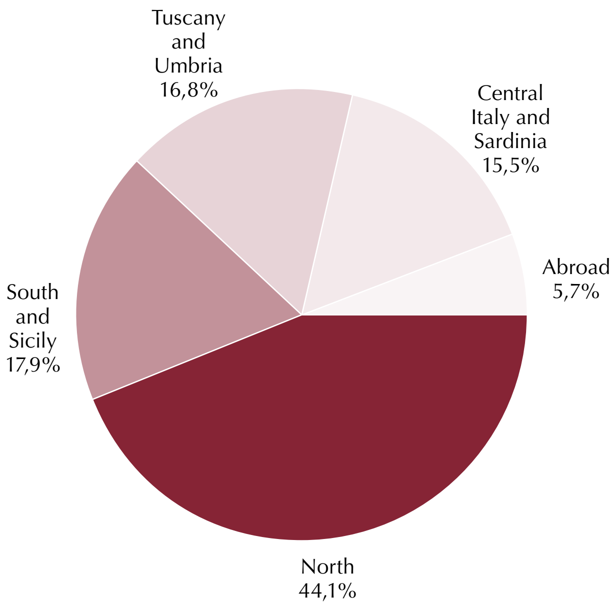
EXPECTED LOSS
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2010



ECONOMIC CAPITAL
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2010



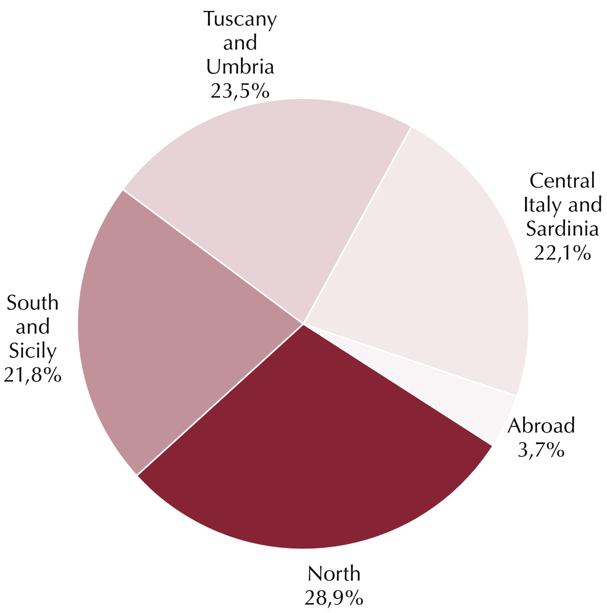
RISK EXPOSURE
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2010



The analysis of the geographic distribution of MPSCS customers shows that risk exposures are mainly concentrated in regions of the North (44.1%); next are exposures in the South and Sicily (17.9%), in Tuscany and Umbria (16.8%), in the Centre and Sardinia (15.5%) and Abroad (5.7%).

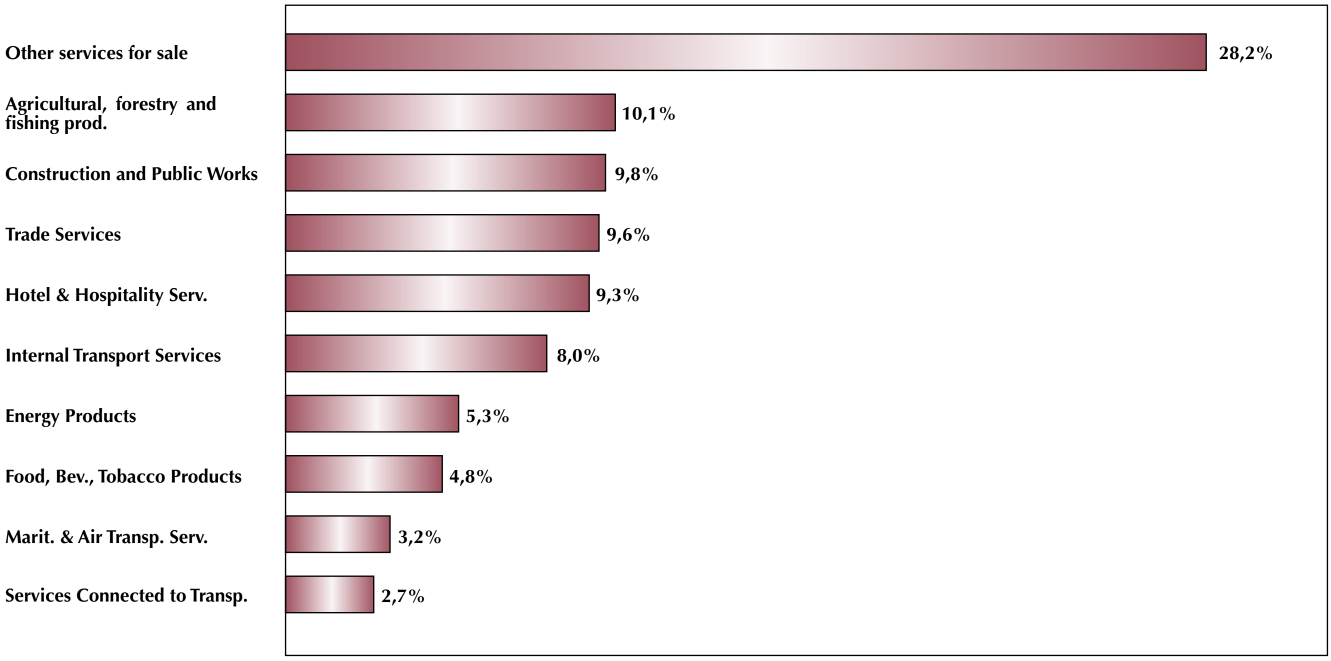
Total risk measurements (Expected Loss + Economic Capital) are best explained in the composition of the loans more heavily present in the North (28.9%). They are followed by Tuscany and Umbria (23.5%), Central Italy and Sardinia (22.1%), South and Sicily (21.8%), while the remaining balance is the contribution to the risk measurements by customers abroad (3.7%).

% RISK MEASUREMENTS
(Expected loss + Economic Capital)
MPS CAPITAL SERVICES - 31 December 2010



Lastly, the analysis of the exposures of the leading 10 sectors by economic activities in accordance with the Bank of Italy classification – which represent 90% of total loans to Corporate customers – shows that the greatest absorptions of the risk measurements are mainly attributable to the following sectors: "Other services for sale" (28.2%), "Agricultural, forestry and fishing products" (10.1%) and "Construction and Public Works" (9.8%) which together represent 48.1% of total risk measurements. They are followed by "Trade Services", "Hotel and Hospitality Services", "Internal Transport Services", which together represent 26.9% of the total Expected Loss and Economic Capital.

RISK MEASUREMENTS (EXPECTED LOSS + ECONOMIC CAPITAL)
Situation as at 31 December 2010



SECTION 2 - MARKET RISK

MARKET RISKS RELATING TO THE SUPERVISORY TRADING PORTFOLIO

2.1 INTEREST RATE RISK AND PRICE - SUPERVISORY TRADING PORTFOLIO

The Supervisory trading portfolio (*Portafoglio di Negoziazione di Vigilanza*, PNV) of the MPS Group - trading book – comprises the set of Supervisory trading portfolios managed by the Parent Company (BMPS), by MPS Capital Services (MPSCS) and for the remaining portion by BiverBanca and by the Irish subsidiary Monte Paschi Ireland. The managerial approach adopted by the Group provides for all market risks to be centralised with BMPS and MPSCS. The concentration and protection against risks by MPSCS also includes operations in intermediate derivatives in favour of the customers of the BMPS Group.
The market risks of the Bank's trading book (like those of the Parent Company and of the subsidiaries that are relevant as autonomous market risk taking centres) are monitored for management purposes in terms of Value-at-Risk (VaR). The Group Finance Committee is tasked with directing and coordinating the overall process for the management of the proprietary finance of the entire Group, ensuring consistency between the management actions of the different business units.
The Trading Portfolio of the MPS Group is subject to daily monitoring and reporting by the Parent Company's Risk Management Department, on the basis of proprietary systems. The operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Department itself, in line with the leading international best practices. Solely for signalling purposes, on the subject of market risks the Group employs the standardised methodology.
The operating limits on trading activities, resolved by the Board of Directors of the Bank according to the indications of the Parent Company's Board of Directors, are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios and monthly and annual Stop Loss. In particular, the trading book's credit risk, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings by type of guarantor and rating classes.
The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors. Periodically, the daily management reporting flow on market risks is forwarded to the Risk Committee, to the Chairman and to the Board of Directors of the Parent Company within the Risk Management Report, the instrument through which the Top Management and the governing bodies are informed about the MPS Group's overall risk profile. This information procedure is also replicated in MPSCS.
The macro-types of risk factors considered within the Internal Markets Risks Model are IR, EQ, FX, CS, as illustrated below:

- IR: interest rates on all the relevant curves and related volatility
- EQ: equity prices, indexes and baskets and related volatility
- FX: exchange rates and related volatility
- CS: credit spread levels

The VaR (or diversified VaR, or Net VaR), is calculated and separated daily for internal management purposes, also with respect to other analysis dimensions:

- organization/operations of the Portfolios
- by Financial Instruments
- by Risk Family

It is also possible to assess the VaR in relation to each combination of these dimensions so as to be able to facilitate very detailed analyses of the phenomena which affect the portfolios.

With reference in particular to the risk factors, the following are identified: the Interest Rate VaR (IR VaR), the Equity VaR (EQ VaR), the Forex VaR (FX VaR) and the Credit Spread VaR (CS VaR). The algebraic sum of these components produces the "Gross VaR" (or non-diversified VaR) which compared with the diversified VaR makes it possible to quantify the benefit of diversification between risk factors deriving from holding portfolios allocated on asset classes and risk factors that are not perfectly correlated. This information too can be analysed along all the aforesaid dimensions.

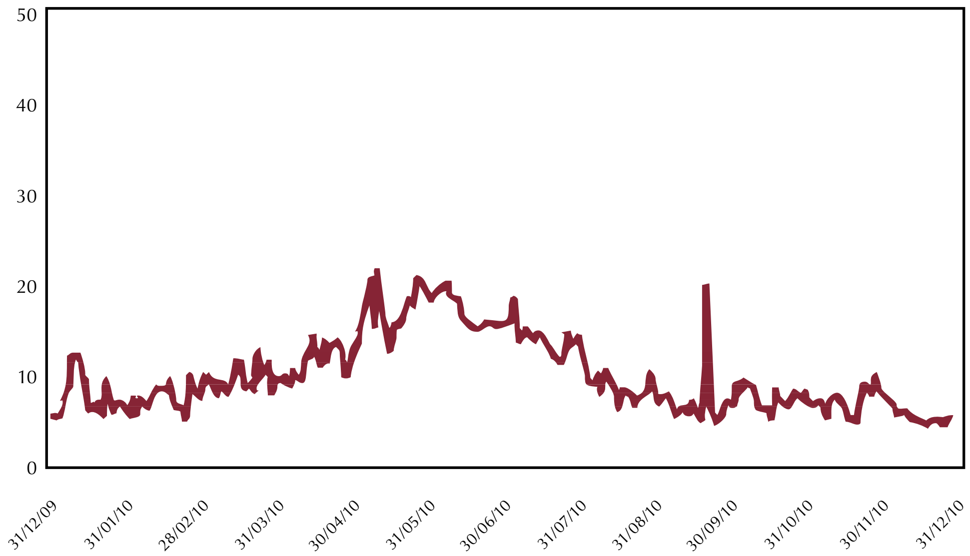
The model enables to produce diversified VaR metrics for the entire MPS Group, in order to be able to appreciate in an integrated manner all the diversification effects that can be generated among the various banks, by virtue of the joint specific positioning implemented by the different business units.

Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments. Stress tests enable to assess the ability of MPSCS to absorb sizable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital. Stress tests are computed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what historically was realised in the identified stress period. Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

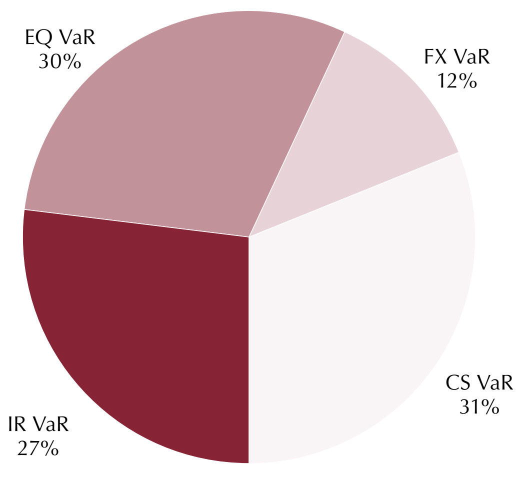
***

In 2010, the market risks of the MPSCS Supervisory Trading Portfolio, in terms of average VaR, were € 12.10 million. As of 31 December 2010, the Bank's VaR is € 7.41 million. Of note is the increase in the second quarter VaR caused by the high volatility of credit spreads, with particular reference to Italian sovereign debt, connected with the crisis in the Hellenic Republic. In the second half, the VaR remained below the 2010 average. The September peak was due to directional trading activities on the interest rate derivatives segment (interest rate future options), and it was subsequently reabsorbed.

MPS CAPITAL SERVICES: SUPERVISORY TRADING PORTFOLIO
VaR 99% 1 day in EUR/mln



MPS Capital Services
Supervisory Trading Portfolio
VaR Breakdown by Risk Factor 31.12.2010



In terms of VaR composition by risk factors, as of 31 December 2010 the MPSCS portfolio is mainly absorbed by the credit spread risk factor (CS VaR, 31%). This is followed by the Equity risk factor (EQ VaR, 30%), the interest rate risk factor (IR VaR, 27%), the exchange rate risk factor (FX VaR, 12%).

MPS Capital Services
VaR PNV 99% 1 day in EUR/mln

	Var	Data
End of period	7,41	31/12/2010
Minimum	6,42	28/12/2010
Maximum	23,55	12/05/2010
Average	12,10	

During 2010, the Bank's VaR fluctuated in a range from the minimum value of € 6.42 million, recorded on 28 December, to the maximum of € 23.55 million of 12 May. The average VaR was € 12.10 million. The absolute figure for the end of 2010 was € 7.41 million.

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

The Bank manages its own portfolio that assumes trading positions on rates and on credit. Trading activities are carried out by the Global Markets Division.

The risk exposure in the Interest Rate segment mainly derives from the activities and from the role performed by the Bank in structuring activities, hedging of the issuers and trading of structured products, both as market maker of the structured securities issued (including covered warrants) and other bond-related securities, listed on different organized markets or trading systems. Furthermore, the Bank operates via the Government Bond Desk, in the primary Government securities market, as specialist, as well as on the secondary European Government securities markets as Superprimary. In general, interest rate positions are assumed both by the acquisition or sale of bonds, and by the construction of medium-long term structural portfolios comprising linear instruments such as interest swap, basis swap, futures and the management of volatility products (plain and exotic), such as cap & floor, swap options, options on interest rate futures.

The management of the rate risk follows a logic of minimising the overall risk the trading portfolio is exposed to: in this sense, the hedging of the risks deriving from the afore-mentioned activities takes place by means of operational macro-hedge, or using instruments highly correlated with the specific underlying elements. These hedging instruments can be traded on regulated or non-regulated markets and are chosen on the basis of the opportunities offered by the market.

No qualitative changes occurred in terms of operations with respect to the previous year. The Bank's role can be considered a combination between that of market maker supporting the MPS Group and, residually, that of operator on its own behalf. The activity is carried out exclusively on its own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.

A.2 Price Risk

The price risk exposure relates to the activities of the Equity, Foreign Exchange & Commodity Derivatives desk which focuses its operations on both plain vanilla products such as futures, options on indexes and single stock, listed and over the counter products, and operations on exotic products linked, in particular, to structured finance issues intended for the customers of the MPS Group and third party networks.

The activity is carried out solely on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and yearly Stop Loss.

B. INTEREST RATE RISK AND PRICE RISK MANAGEMENT PROCESSES AND GAUGING METHODS

With regard to the market risk management process pertaining to management and the methods for gauging the interest rate risk and the price risk, reference should be made to the matters already described in section 2 "Market risks", sub–section 2.1, "Interest rate risk and price risk - supervisory trading portfolio".

QUANTITATIVE INFORMATION

Supervisory trading portfolio - internal models and other methods for sensitivity analysis

The rate and price risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis.

Interest Rate Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The simulated interest rate scenarios are:

- parallel shift of +100bp on all the interest rate curves
- parallel shift of -100bp on all the interest rate curves
- parallel shift of +1% of all the volatility surfaces of all the interest rate curves

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "Financial assets held for trading" and "Financial liabilities held for trading"; market value changes are recorded directly in the income statement. The overall effect of the scenario analyses is presented below.

MPS Capital Services Trading Portfolio

€/millions

Risk Family	Scenario	Total Effect
Interest Rate	+100bp on all curves	- 31,67
Interest Rate	- 100bp on all curves	95,85
Interest Rate	+1% Interest Rate volatility	- 0,41

The asymmetry between the +100bp and -100bp scenarios is due to portfolios with non linear positions on interest rate, mainly options on futures and, to a lesser extent, cap & floor.

Price Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The simulated price scenarios are:

- +1% of each equity, commodity, index, basket price;
- -1% of each equity, commodity, index, basket price;
- +1% of all the volatility surfaces of all the equity and commodity risk factors.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as “Financial assets held for trading” and “Financial liabilities held for trading” The overall effect of the scenario analyses is presented below.

Portafoglio di negoziazione MPS Capital Services

€/millions

Risk Family	Scenario	Total Effect
Equity	+1% Equity prices (prices, indexes, basket)	1,18
Equity	-1% % Equity prices (prices, indexes, basket)	- 0,99
Equity	+1% Equity volatility	- 0,29

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

Interest Rate Risk

In accordance with the best international practices, the banking book identifies all the commercial operations of the bank associated with the transformation of the financial statement asset and liability maturities. The definition of the perimeter of the Banking Book (aligned with that of the Supervisory Banking Book) and the process for centralising the ALM operations are contained in the resolution of the Parent Company's Board of Directors, approved in September 2007 and updated in October 2009, to upgrade the overall framework according to the changed structure of the company, and to change the approach consistently with the setup outlined by the supervisory regulations (Bank of Italy Circular no. 263). The resolution pertains to the centralisation of the Asset & Liability Management in the Parent Company's Cash and Capital Management Department and the definition and monitoring of the operating limits in vide of the interest rate risk of the MPS Group's banking book.

The operating and strategic choices of the banking book, adopted by the Finance Committee and monitored by the Parent Company's Risks Committee, are based first of all on exposure to the interest rate risk for a change in the economic value of the assets and liabilities of the banking book, applying a parallel shift of 25bp, 100bp and 200bp, the latter in accordance with the provisions of the "second pillar" of Basel 2.

The ALM model of the MPS Group, incorporates in the measurements of the exchange rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk). The prepayment rates of the loans and in particular of the residential mortgage loans have potentially become more unstable due to a series of concurrent risks such as for example the greater volatility of the rates curve due to the recent crisis.

The MPS Group has adopted a system for governing and managing the rate risk which, in accordance with the provisions of the Supervisory Authority, employs:

- a quantitative model, on the basis of which the exposure of the MPS Group and of its individual companies (MPSCS among them) to the interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at continuously verifying compliance with the operating limits assigned to the Group as a whole and to individual business units;
- risk control and management processes, aimed at carrying out adequate initiatives to optimise the risk profile and to activate any necessary corrective actions.

Within the aforesaid system, the Parent Company BMPS centralises the following responsibilities:

- definition of the policies for managing the Group's banking book and controlling the related interest rate risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter;
- governing the Group's short, medium and long term interest rate risk, both overall and in terms of each individual company, through the centralised operating management.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the interest rate risk.

The Companies of the MPS Group included in the application perimeter, and MPSCS among them, are responsible for complying with the policies and the interest rate risk limits defined by the Parent Company and with the capital requirements set by the cognisant Supervisory Authorities.

Within the defined model, the Parent Company's Cash and Capital Management Department is responsible for the operating management of the exchange and liquidity risk of the Group as a whole. Specifically, within the Department, the Centralised Cash Management Service handles the short-term rate risk and liquidity risk of the MPS Group. In particular, the Group Balance Sheet Management Service handles the structural rate risk and maturity transformation (structural liquidity) for the Group. The Department also monitors and manages hedges in accordance with accounting policies, joint protection for the formation of the internal rates of the "network" (BMPS and other Group companies) for the Euro and the currency for all the concerned transactions with due dates beyond the short-term, proposing to the Finance Committee the economic conditions for MPS Group companies to access the fund. It also handles the Group's funding requirements, proposing new bond issues, and centrally manages the administrative compliance related to the Group's bond issues.

The MPS Group, including MPSCS, handles the interest rate risk by portfolio. Hedging derivatives are stipulated within the Group with MPSCS, which in turn handles the overall exposure to the market by masses. This approach therefore does not allow to maintain an unequivocal relationship between the derivative stipulated between each individual company in the group and the derivative stipulated with the market. Such management can be faithfully represented by adoption of the Fair Value Option (introduced by the new international accounting principles – IAS 39), designating a group of financial assets or liabilities managed at fair value with impact on the income statement. This approach is adopted by the Group for the financial liability subject to fair value hedging for homogeneous portfolios. The Fair Value Option used pertains to the accounting mismatch between an item evaluated at fair value and one evaluated with other accounting criteria (e.g. amortised cost).

Price Risk

The gauging of the price risk on the MPSCS Banking Book is carried out on equity positions held for mainly strategic or institutional/instrumental purposes. The relevant portfolio for these purposes is mainly constituted by equity investments, alternative funds (hedge funds), by shares classified as "Financial assets available for sale" and, to a residual extent, by derivatives.

The equity investment portfolio of MPSCS comprises about twenty equity investments in companies outside the Group[2], or rather in companies not consolidated by the Parent Company either line-by-line or proportionally, and about 75% of its value is concentrated on five investments.

Activity on the Units in collective investment undertakings is carried out exclusively by direct purchase of the funds/sicav and without using derivative contracts.

2 Excluding the equity investment in MSP Venture, which is consolidated by the Parent Company.

QUANTITATIVE INFORMATION

1. Banking book – internal models and other methods for sensitivity analysis

Interest Rate Risk

The sensitivity of MPSCS at the end of 2010 presents a risk exposure profile due to a rise in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to about -€ 42 million (+€ 48 million for a shift of -100bp).

Price Risk

The instrument used for gauging the price risk for the equity investment portfolio is the Value-at-Risk (VaR), which represents the loss which the portfolio in question, valued at fair value, could undergo over the duration of a quarter of a year (holding period), considering a confidence interval of 99%. The VaR model used (different from the one used for the Trading Portfolio) is parametric and it is based on the traditional approach of the variance-co-variance model. To estimate the volatility of the prices, times series of the market returns are used for listed companies and time series of sector indexes are used for unlisted companies. The portfolio taken into consideration by the analysis comprises all the equity investments held by the Bank in companies outside the MPS Group, or rather in companies not consolidated either line-by-line or proportionally.

The VaR of the equity investment portfolio (99%, holding period of 1 quarter) amounts at year end to around 21% of the portfolio's fair value, with a concentration of the risk on the five most significant equity investments.

The Parent Company's Risk Management Department – which develops and maintains the internal gauging system – periodically reports on the size of the risks on the equity investment portfolio and their evolution over time. It also manages the internal measurement system also with reference to the alternative funds component and, for the purposes of determining the Economic Capital, it uses a measurement derived from the Supervisory approach.

A scenario analysis is provided below; it contemplates all equity investments and hedge funds.

MPS Capital Services Banking Book

€/millions

Risk Family	Scenario	Total Effect
Equity	+1% Equity prices (prices, indexes, basket)	0,59
Equity	-1% % Equity prices (prices, indexes, basket)	- 0,59
Equity	+1% Equity volatility	0,00

2.3 EXCHANGE RISK

QUALITATIVE INFORMATION

A General aspects, management procedures and gauging methods for exchange risk. Exchange rate hedging activities.

A.1 Supervisory trading portfolio

The exposure to exchange rate risk is essentially of a limited extent and mainly derives from the role performed by the Bank in i) trading activities on structured products, and the related hedging carried out, which due to the features involved lead to exposure on non-Euro currencies; ii) market maker activities for derivatives made for the purpose of hedging the MPS Group's corporate customers. Operations are in fact concentrated mainly on the cross of the main G7 currencies. The activity is essentially based on trading and on the aggregate management of risks with a short-term view and with substantially balance of the risks originated from commercial transactions. As a risk mitigation strategy, the Bank carries out funding in the same currency as the assets, through disbursements from the Parent Company (when necessary) or through the synthetic transformation of funding in Euro. The main financial instruments used in this segment are spot forwards, options, futures. The risks are gauged and monitored, as in the other segments, via sensitivities and VaR, consequently reference should be made to the matters already described previously. Handling of this risk takes place by aggregating all the risk factors indicated above by means of use of the Risk Management system of the Murex application. The activity is carried out mainly by the Global Markets Division, through its own desks that manage their own exposure individually within the delegated limits and in any case in view of currency risk minimisation.

A.2 Banking book

With regard to this type of portfolio, the exchange risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be perfectly balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any exchange rate risk. In fact, as of the end of this interim report the Bank had an essentially balanced foreign exchange position for the banking book.

QUANTITATIVE INFORMATION

1. Internal models and other sensitivity analysis methods

The exchange risk is monitored in terms of VaR and analysis scenarios (for the methodology, please refer to the paragraph "The model for the management of market risks pertaining to the trading portfolio").

The simulated scenarios on exchange rates are:

- +1% of all the exchange rates against EUR
- -1% of all the exchange rates against EUR
- +1% of all the volatility surface areas of all the exchange rates

The effect on the operating income and on the income for the year was estimated considering only the positions classified as "Financial assets held for trading" and "Financial liabilities held for trading", for which market value changes are recorded directly in the income statement. The effect on shareholders' equity instead is estimated with reference to all the other position. The total effect is reflected by the algebraic sum of the two components. A summary of the scenario analysis follows.

MPS Capital Services

€/millions

Risk Family	Scenario	Effect on operating Income and income for the year	Effect on Shareholders' equity	Total effect
Forex	+1% Exchange rates against EUR	0,60	0,00	0,60
Forex	-1% Exchange rates against EUR	- 0,46	0,00	- 0,46
Forex	+1% Forex volatility	0,17	0,00	0,17

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Supervisory trading portfolio: period-end and average notional values

Underlying assets / Type of derivatives	*31/12/2010*		*31/12/2009*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**274,082,929**	**189,962,501**	**363,305,790**	**150,431,204**
a) options	95,222,856	40,827,781	97,308,533	144,428,103
b) swaps	172,010,073	145,066,912	265,997,257	
c) forward	6,850,000			
d) futures		4,067,808		6,003,101
e) others				
2. Equity securities and stock indexes	**22,683,370**	**7,078,965**	**22,543,263**	**4,407,814**
a) options	22,683,370	6,858,137	22,468,143	4,211,739
b) swaps			75,120	
c) forward				
d) futures		220,828		196,075
e) others				
3. Currency and gold	**4,892,686**		**3,759,875**	
a) options	2,279,041		1,540,175	
b) swaps	1,529,461		1,688,485	
c) forward	1,084,184		531,215	
d) futures				
e) others				
4. Goods				
5. Other underlying	**398,499**	**175,674**	**320,810**	**277,218**
Total	**302,057,484**	**197,217,140**	**389,929,738**	**155,116,236**
Average values	**XXXXX**	**XXXXXX**	**XXXXX**	**XXXXXX**

Note:
for the sake of complete disclosure, we inform that:
- *transactions to be received and delivered (regular way) are excluded;*
- *complex contracts such as collar, strangle, straddle, etc. are represented breaking the instruments down into the elementary options.*

A.2 Banking book: period-end and average notional values

A.2.1 Hedging

Underlying assets / Type of derivatives	31/12/2010		31/12/2009	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**37,500**			
a) options				
b) swaps	37,500			
c) forward				
d) futures				
e) others				
2. Equity securities and stock indexes				
a) options				
b) swaps				
c) forward				
d) futures				
e) others				
3. Currency and gold				
a) options				
b) swaps				
c) forward				
d) futures				
e) others				
4. Goods				
5. Other underlying				
Total	**37,500**			
Average values	XXXXX	XXXXXX	XXXXXX	XXXXXX

A.2.2 Other derivatives

No agreements were extant on 31 December 2010 and 31 December 2009.

A.3 Financial derivatives: positive gross fair value - breakdown by product

Portfolio / Type of derivative	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**6,917,728**	**3,610,685**
a) options	1,243,171	135,756
b) interest rate swap	5,546,206	3,472,561
c) cross currency swap	99,773	
d) equity swap	16,132	
e) forward	12,446	
f) futures		2,368
g) others		
2. Banking book - hedging	**330**	
a) options		
b) interest rate swap	330	
c) cross currency swap		
d) equity swap		
e) forward		
f) futures		
g) others		
3. Banking book - other derivatives		
a) options		
b) interest rate swap		
c) cross currency swap		
d) equity swap		
e) forward		
f) futures		
g) others		
Total 31 December 2010	**6,918,058**	**3,610,685**
Total 31 December 2009	**8,948,640**	**217,244**

A.4 Financial derivatives: negative gross fair value - breakdown by product

Portfolio / Type of derivative	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**7,229,138**	**3,334,938**
a) options	1,647,659	137,131
b) interest rate swap	5,444,797	3,195,066
c) cross currency swap	109,271	
d) equity swap	15,849	
e) forward	11,562	
f) futures		2,741
g) others		
2. Banking book - hedging		
a) options		
b) interest rate swap		
c) cross currency swap		
d) equity swap		
e) forward		
f) futures		
g) others		
3. Banking book - other derivatives		
a) options		
b) interest rate swap		
c) cross currency swap		
d) equity swap		
e) forward		
f) futures		
g) others		
Total 31 December 2010	**7,229,138**	**3,334,938**
Total 31 December 2009	**9,379,611**	**264,748**

A.5 OTC financial derivatives - Supervisory trading portfolio: notional values, positive and negative gross fair values by counterparty - agreements not included in offset agreements

Agreements not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other operators*
1. Debt securities and interest rates							
- notional value			36,000	5,000		4,475,873	
- positive fair value			1,089	336		112,002	
- negative fair value						21,286	
- future exposure				25		25,953	
2. Equity securities and stock indexes							
- notional value			6,640				
- positive fair value			232				
- negative fair value			6,445				
- future exposure			398				
3. Currency and gold							
- notional value			5,396			115,479	
- Positive fair value			32			4,446	
- Negative fair value						1	
- Future exposure			55			996	
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - Supervisory trading portfolio: notional values, positive and negative gross fair values by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other operators*
1. Debt securities and interest rates							
- notional value			252,031,620	15,924,468	1,609,968		
- positive fair value			5,469,476	603,237	180,669		
- negative fair value			5,714,072	631,735	3,688		
2. Equity securities and stock indexes							
- notional value			15,631,470	4,062,291	2,982,968		
- positive fair value			238,572	96,763	25,671		
- negative fair value			298,250	146,560	210,860		
3. Currency and gold							
- notional value			4,348,526	423,285			
- positive fair value			157,108	4,475			
- negative fair value			153,294	7,665			
4. Other values							
- notional value			301,237	97,263			
- positive fair value			23,026	591			
- negative fair value			34,830	452			

A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - agreements not included in offset agreements

No agreements were extant on 31 December 2010.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other operators*
1. Debt securities and interest rates							
- notional value			37,500				
- positive fair value			330				
- negative fair value							
2. Equity securities and stock indexes							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other values							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying elements / Residual life	*Up to 1 year*	*Over 1 year and up to 5 years*	*Over 5 years*	*Total*
A. Supervisory trading portfolio	**75,157,971**	**144,526,812**	**82,372,701**	**302,057,484**
A1 Financial derivatives on debt securities and interest rates	64,303,077	130,380,633	80,003,492	**274,687,202**
A2 Financial derivatives on equity securities and stock indexes	8,163,334	13,018,892	1,831,882	**23,014,108**
A3 Financial derivatives on exchange rates and gold	2,571,405	1,120,864	537,327	**4,229,596**
A4 Financial derivatives on other values	120,155	6,423		**126,578**
B. Banking book		**37,500**		**37,500**
B1 Financial derivatives on debt securities and interest rates		37,500		**37,500**
B2 Financial derivatives on equity securities and stock indexes				
B3 Financial derivatives on exchange rates and gold				
B4 Financial derivatives on other values				
Total 31 December 2010	**75,157,971**	**144,564,312**	**82,372,701**	**302,094,984**
Total 31 December 2009	**73,645,210**	**219,700,367**	**96,587,162**	**389,932,739**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Bank, like the MPS Group, is not currently provided with EPE models, either for internal management purposes or for signalling purposes.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: period-end and average notional values

Transaction categories	*Supervisory trading book*		*Banking book*	
	On one item	*On several items (basket)*	*On one item*	*On several items (basket)*
1. Protection purchases	**8,723,870**	**18,270,216**		
a) credit default products	8,723,870	18,270,216		
b) credit spread products				
c) total rate of return swap				
d) other				
Total 31 December 2010	**8,723,870**	**18,270,216**		
Average values 31/12/2010	**XXXXX**	**XXXXX**		
Total 31 December 2009	**3,635,364**	**8,776,763**		
2. Protection sale	**8,309,560**	**17,813,270**		
a) credit default products	8,309,560	17,813,270		
b) credit spread products				
c) total rate of return swap				
d) other				
Total 31 December 2010	**8,309,560**	**17,813,270**		
Average values 31/12/2010	**XXXXX**	**XXXXX**		
Total 31 December 2009	**3,341,930**	**8,311,242**		

B.2 OTC credit derivatives: positive gross fair value - breakdown by product

Portfolio / Type of derivative	*31/12/2010*
A. Supervisory trading portfolio	1,029,254
a) credit default products	*1,029,254*
b) credit spread products	
c) total rate of return swap	
d) other	
B. Banking book	
a) credit default products	
b) credit spread products	
c) total rate of return swap	
d) other	
Total 31 December 2010	**1,029,254**
Total 31 December 2009	**366,989**

B.3 OTC credit derivatives: negative gross fair value - breakdown by product

Portfolio / Type of derivative	31/12/2010
A. Supervisory trading portfolio	1,046,572
a) credit default products	1,046,572
b) credit spread products	
c) total rate of return swap	
d) other	
B. Banking book	
a) credit default products	
b) credit spread products	
c) total rate of return swap	
d) other	
Total 31 December 2010	**1,046,572**
Total 31 December 2009	**385,146**

B.4 OTC credit derivatives: (positive and negative) fair values by counterparty - agreements not included in offset agreements

All OTC derivative contracts are included in offset agreements.

B.5 OTC credit derivatives: (positive and negative) fair values by counterparty - agreements included in offset agreementsw

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non financial companies*	*Other operators*
Supervisory trading							
1. Protection purchase							
- notional value			21,741,509	4,679,112	573,465		
- positive fair value			600,223	162,805	74,273		
- negative fair value			159,960	44,844	-		
- future exposure							
2. Protection sale							
- notional value			20,482,257	5,067,109	573,465		
- positive fair value			147,408	44,544			
- negative fair value			627,637	137,327	76,804		
- future exposure							
Banking book							
1. Protection purchase							
- notional value							
- positive fair value							
- negative fair value							
2. Protection sale							
- notional value							
- positive fair value							
- negative fair value							

B.6 Residual life of credit derivative contracts: notional values

Underlying elements / Residual life	*Up to 1 year*	*Between 1 and 5 years*	*Over 5 years*	***Total***
A. Supervisory trading portfolio	**2,413,784**	**43,916,228**	**6,786,905**	**53,116,917**
A.1 Credit derivatives with "qualified reference obligation"	1,545,082	33,987,079	5,876,147	41,408,308
A.2 Credit derivatives with "unqualified reference obligation"	868,702	9,929,149	910,758	11,708,609
B. Banking book				
B.1 Credit derivatives with "qualified reference obligation"				
B.2 Credit derivatives with "unqualified reference obligation"				
Total 31 December 2010	**2,413,784**	**43,916,228**	**6,786,905**	**53,116,917**
Total 31 December 2009	**679,200**	**20,427,203**	**2,958,897**	**24,065,300**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

B.7 credit derivatives: counterparty risk/financial risk – Internal models

The Bank, like the MPS Group, is not currently provided with EPE models, either for internal management purposes or for signalling purposes.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparties

	Governments and Central Banks	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other operators*
1. Bilateral agreements financial derivatives							
- Positive fair value							
- Negative fair value							
- Future exposure							
- Net counterparty risk							
2. Bilateral agreements credit derivatives							
- Positive fair value							
- Negative fair value							
- Future exposure							
- Net counterparty risk							
3. “Cross product” agreements							
- Positive fair value			533,236	107,673			
- Negative fair value			885,135	163,840	10,739		
- Future exposure			2,315,704	402,033	138,301		
- Net counterparty risk			2,509,080	442,953	138,301		

The item “net counterparty risk” indicates the algebraic balance between the positive fair value increased by the future exposure and the current value of the collateral received.

SECTION 3 - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. Generals aspects, management procedures and gauging methods for liquidity risk

The MPS Group has adopted a system for governing and managing the liquidity risk which, in accordance with the provisions of the Supervisory Authority, pursues the following goals:
- to assure the solvency of the Group and of all its subsidiaries (including MPSCS), both under normal business conditions and under crisis conditions;
- to optimise funding cost in relation to current and prospective market conditions;
- to adopt and maintain risk mitigation instruments.

Within the aforesaid system, the Parent Company centralises the following responsibilities:
- definition of the policies for managing the Group's liquidity and controlling the related risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter, with MPSCS among them;
- governing the Group's short, medium and long term liquidity position, both overall and in terms of each individual company, through the centralised operating management.
- governing and managing the liquidity risk, both short and medium-long term, assuring their solvency as lender of last resort of all subsidiaries.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the liquidity risk, both in conditions of normal business and in conditions of stress and/or liquidity crisis, formalising the "Liquidity Policy" and the "Liquidity Contingency Plan" of the MPS Group.
The Bank, which is included in the scope of application because its liquidity risk is deemed significant for the MPS Group, is responsible for complying with the policies and liquidity limits defined by the Parent Company and with the capital requirements imposed by competent Supervisory Authorities.
The monitoring of the overall structural liquidity profile is carried out on the basis of the quantification of the imbalances, by settlement date, in the cash flows maturing. The optional items have representative models consistent with those used for the exchange rate risk.
Planning of the funding policies at Group level (Funding Plan) is co-ordinated and directed by the Cash and Capital Management Department in collaboration with the Planning Department, which:
- presents the plan of measures on the financial markets for the approval of the Finance Committee, measures useful for achieving the objectives set by the business plan and the capital management requirements;
- co-ordinates access to the capital markets, long and short-term, national and international, for all the Group banks, as well as access to refinancing transactions with the Central European Bank and the centralized management of the compulsory reserves;
- develops forecasts of the future liquidity situation, simulating different market scenarios.

QUANTITATIVE INFORMATION

1 Breakdown by contractual residual maturity of financial assets and liabilities – denominated in EUR

Items / Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**4,972,857**	**2,993,272**	**2,065,783**	**4,117,907**	**3,671,453**	**2,605,681**	**2,086,959**	**4,698,490**	**6,617,477**	**4,453**
A.1 Government securities		792,135	718,887	1,314,793	1,044,465	250,373	54,698			
A.2 Other debt securities	80,999	108,347	258,236	265,248	2,080,854	353,901	307,339	82,521	3,559	3,088
A.3 Listed collective investmentundertakings	74,101								1,673	
A.4 Loans	4,817,757	2,092,790	1,088,660	2,537,866	546,134	2,001,407	1,724,922	4,615,969	6,612,245	1,365
- Banks	1,584,399	1,003,010	524,645	1,191,313	154,181	777,027	555,450	84,298	6,608	
- customers	3,233,358	1,089,780	564,015	1,346,553	391,953	1,224,380	1,169,472	4,531,671	6,605,637	1,365
Cash liabilities	**7,761,979**	**4,116,690**	**2,813,041**	**3,640,258**	**945,778**	**1,313,732**	**1,331,939**	**7,332,452**	**3,808,697**	**0**
B.1 Current accounts and deposits	3,454	2,000,000	2,000,000	515,000	150,000	5,430	32,907	203,112	157,104	0
- Banks	342	2,000,000	2,000,000	515,000	150,000	5,430	32,907	203,112	157,104	
- customers	3,112									
B.2 Debt securities						10,000	26,077	243,077		
B.3 Other liabilities	7,758,525	2,116,690	813,041	3,125,258	795,778	1,298,301	1,272,955	6,886,263	3,651,593	

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in EUR

Items / Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	136,485	936,153	8	272,913	83,998	615,412	205,720	1,347,910	345,184	
- short positions	130,410	922,769		67,623	207,050	601,559	320,008	1,396,543	1,083,608	
C.2 Financial derivatives without exchange of capital										
- long positions	300,384	65,178	77,558	243,240	935,614	943,037	2,140,800	6,942,845	4,529,523	
- short positions	130,535	61,111	77,389	152,364	844,399	1,020,404	2,141,899	6,823,620	4,510,299	
C.3 Deposits and loans to be received										
- long positions			2,000,000							
- short positions			2,000,000							
C.4 Irrevocable commitments to grant finance										
- posizioni lunghe	33,076			200,000	222,530	518,607	373,442	17,892,206	3,357,152	22,894
- short positions	1,584,381			200,000	217,500	505,000	328,500	17,364,003	2,397,629	22,894
C.5 Financial guarantees given										25,689

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in USD

	Items / Maturities	*On demand*	*From over 1 day to 7 days*	*From over 7 days to 15 days*	*From over 15 days to 1 month*	*From over 1 month to 3 months*	*From over 3 months to 6 months*	*From over 6 months to 1 year*	*From over 1 year to 5 years*	*Over 5 years*	*Unspecified duration*
Cash assets		**186,730**	**192**	**374**	**4,659**	**38,581**	**21,050**	**62,575**	**118,621**	**141,457**	
A.1	Government securities		2			751					
A.2	Other debt securities	1	50	374	251	33,898	8,138	11,348			
A.3	Listed collective investment undertakings	8,415									
A.4	Loans	178,314	140		4,408	3,932	12,912	51,227	118,621	141,457	
	- Banks	*103,711*			*3,628*	*1,572*					
	- customers	*74,603*	*140*		*780*	*2,360*	*12,912*	*51,227*	*118,621*	*141,457*	
Cash liabilities		**55,736**		**140**	**25,889**	**147,487**	**155,764**	**2,286**		**335**	
B.1	Current accounts and deposits	55,736		140	25,889	147,487	155,764	2,286			
	- Banks	*55,736*		*140*	*25,889*	*147,487*	*155,764*	*2,286*			
	- customers										
B.2	Debt securities										
B.3	Other liabilities									335	

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in USD

	Items / Maturities	*On demand*	*From over 1 day to 7 days*	*From over 7 days to 15 days*	*From over 15 days to 1 month*	*From over 1 month to 3 months*	*From over 3 months to 6 months*	*From over 6 months to 1 year*	*From over 1 year to 5 years*	*Over 5 years*	*Unspecified duration*
Off-balance sheet transactions											
C.1	Financial derivatives with exchange of capital										
	- long positions	39,084	10,343	5,586	1,201,509	697,948	94,768	187,176	292,519	96	
	- short positions	39,084	9,841	9,179	1,175,168	621,485	102,553	176,983	255,045		
C.2	Financial derivatives without exchange of capital										
	- long positions	5,332	3,752	701	10,439	23,707	59,542	82,488	218,580	79,704	
	- short positions	2,647	3,116	588	8,819	23,859	37,810	93,722	246,890	98,636	
C.3	Deposits and loans to be received										
	- long positions										
	- short positions										
C.4	Irrevocable commitments to grant finance										
	- long positions						3,784	44,663	4,355,592	1,026,871	
	- short positions	120,711						41,162	4,331,728	937,310	
C.5	Financial guarantees given										

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in JPY

Items / Maturities		*On demand*	*From over 1 day to 7 days*	*From over 7 days to 15 days*	*From over 15 days to 1 month*	*From over 1 month to 3 months*	*From over 3 months to 6 months*	*From over 6 months to 1 year*	*From over 1 year to 5 years*	*Over 5 years*	*Unspecified duration*
Cash assets		**20**				**29**	**3**	**29**			
A.1	Government securities										
A.2	Other debt securities						3				
A.3	Listed collective investment undertakings										
A.4	Loans	20				29		29			
	- Banks	*20*									
	- customers					*29*		*29*			
Cash liabilities		**46,692**				**58**					
B.1	Current accounts and deposits	46,692				58					
	- Banks	*46,692*				*58*					
	- customers										
B.2	Debt securities										
B.3	Other liabilities										

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in JPY

Items / Maturities		*On demand*	*From over 1 day to 7 days*	*From over 7 days to 15 days*	*From over 15 days to 1 month*	*From over 1 month to 3 months*	*From over 3 months to 6 months*	*From over 6 months to 1 year*	*From over 1 year to 5 years*	*Over 5 years*	*Unspecified duration*
Off-balance sheet transactionso											
C.1	Financial derivatives with exchange of capital										
	- long positions			14,146		87,706	42,253	280,257	147,032	38	
	- short positions		38	2,053		41,726	34,148	103,973	231,042		
C.2	Financial derivatives without exchange of capital										
	- long positions		490	2		2,579	5,628	6,705	6,524		
	- short positions	1,550	90	639	6	1,834	5,011	6,335	6,807		
C.3	Deposits and loans to be received										
	- long positions										
	- short positions										
C.4	Irrevocable commitments to grant finance										
	- long positions										
	- short positions										
C.5	Financial guarantees given										

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in other currencies

Items / Maturities		On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets		**21,820**	**694**		**452**	**5,295**	**4,804**	**463**	**5,581**	**16,321**	**0**
A.1	Government securities										
A.2	Other debt securities		665		452	5,282	4,393	3			
A.3	Listed collective investment undertakings										
A.4	Loans	21,820	29			13	411	460	5,581	16,321	0
	- banks	*19,048*									
	- customers	*2,772*	*29*			*13*	*411*	*460*	*5,581*	*16,321*	
Cash liabilities		**105,880**	**121**		**3,779**	**133**	**18,519**		**31**	**20**	
B.1	Current accounts and deposits	105,880	121		3,779	133	18,519				
	- banks	*105,880*	*121*		*3,779*	*133*	*18,519*				
	- customers										
B.2	Debt securities										
B.3	Other liabilities								31	20	

1 Breakdown by contractual residual maturity of financial assets and liabilities - denominated in other currencies

Items / Maturities		On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Off-balance sheet transactions											
C.1	Financial derivatives with exchange of capital										
	- long positions	17	4,271	2,866	254,766	507,198	25,520	55,937	120,970	7,591	
	- short positions	17	3,789		265,964	475,051	9,378	49,820	122,617	7,568	
C.2	Financial derivatives without exchange of capital										
	- long positions		3		591	2,695	6,148	2,572	11,451	9,392	
	- short positions		4	322	52	601	4,598	2,710	10,766	9,766	
C.3	Deposits and loans to be received										
	- long positions		92								
	- short positions		92								
C.4	Irrevocable commitments to grant finance										
	- long positions										
	- short positions										
C.5	Financial guarantees given										

SECTION 4 - OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, management procedures and gauging methods for operational risks

By means of administrative measures dated 12 June 2008, the MPS Group was authorized by the Bank of Italy to use internal models for determining the capital requirements to cover credit and operational risks.
The adoption of the advanced model (AMA) establishes an organizational and cultural revolution within banks, which by way of necessity must:
- endow themselves with an internal organization which defines the roles of the bodies and the corporate departments involved in the operating risks management process;
- endow themselves with a control department for the gathering and storage of data, the calculation of the requirement, the assessment of the risk profile and the reporting;
- check on the quality of the management system and the adequacy of the legislative prescriptions an on-going basis;
- delegate the internal auditing body to make periodic checks on the Operating Risks management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For such purposes, the MPS Group has endowed itself with an integrated system for the management of the operating risk, an internal framework built on a governance model which sees all the companies belonging to the scope of application of the AMA model involved, also MPSCS. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business unit.
The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardised manner (information or data), both qualitative and quantitative (mixed LDA -Scenario Model).
The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historic figures on internal and external loss (provided by the DIPO Consortium – Italian Database of Operating Losses).
The qualitative component instead is focused on the valuation of the risk profile of each unit and is based on the identification of relevant scenarios. In this context, the involvement of the companies in the AMA scope, including MPSCS, takes place through the identification of the processes and risks to be assessed, the assessment of the risks by the individuals responsible for the process, the identification of possible mitigation plans, the sharing during scenario roundtables with the central divisions of the priority and technical-economic feasibility of the mitigation measures. This is followed by the monitoring of the implementation of the planned measures and compliance with targets and deadlines.
The Framework identifies the operating risk control function in the Operational Risk Management (ORM) Division (within the Parent Company's Risk Management office). This department, besides calculating the capital requirement for covering the operating risks by means of the use of various components of the model (internal data, external data, context and control factors, qualitative analysis) supports the Top Management's decision making process with a view to creating value by retaining, mitigating and transferring the detected risks and it also collects the internal loss data and it identifies the risks to be assessed in qualitative analyses.
The ORM has also set up a reporting system that provides timely information about operational risks to the Top Management, which translates the strategic principles of the management system into specific management policies. Reports are regularly submitted to the Risks Committee.
With regard to MPSCS, adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in fact a progressive reduction in the Bank's operational risk.

QUANTITATIVE INFORMATION

The risk classes identified by Basel 2 are as follows:
Internal fraud: losses due to unauthorised activities, fraud, misappropriation of funds or violation of laws, regulations or company directives which involve at least one internal resource of the bank.

External fraud: losses due to fraud, misappropriation or violation of laws by parties outside the bank;

Employment relationships and Safety in the workplace: losses deriving from acts not compliant with laws or agreements regarding employment, health and safety in the workplace, from payment of compensation for personal injury and episodes of discrimination or failure to apply equal opportunity conditions.

Customers, products and operating procedures: losses deriving from breaches relating to professional obligations vis-à-vis customers or from the nature or features of the product or service provided.

Damages to tangible assets: losses deriving from external events, such as natural catastrophes, acts of terrorism and vandalism.

Interruptions in operations, malfunctions or unavailability of systems: losses due to interruptions to operations, malfunctions or unavailability of systems.

Execution, delivery and handling of the process: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

In general, nearly all events recorded by MPSCS are included in the class "Process execution, delivery and management" for which the decreasing trend already observed in 2009 was confirmed. In the first half of 2010, there was a malfunction in an IT system, which led to a miscalculation of the price of an option. Measures to prevent a repetition of the event were promptly started and completed.

Part F
Information on Equity

SECTION 1 - THE BANK'S CAPITAL

A. QUALITATIVE INFORMATION

The Bank's capital is made up of all those elements which do not fall under the definition of assets or liabilities according to the gauging and quantification methods established by the IAS.
Its management concerns all the policies and decisions necessary for defining the extent of the capital, so as to ensure that the capital and ratios of MPSCS consistent with the risk profile adopted and fulfil the supervisory requirements.
The Bank is subject to the capital adequacy requirements established by the Basel Committee according to the rules defined by the Bank of Italy (see Circular no. 155, XII update; Circular no. 263 of 27 December 207 and subsequent updates). Based on these rules, at individual level the ratio between the capital and the risk weighted assets must be at least 8% (including the 25% reduction[3]): compliance with this requirement is checked each quarter by the Bank of Italy.
Among the various objectives defined in the management of the Bank's capital, oriented by prudential supervision provisions, there is the maintenance of adequate capitalisation levels for the assumption of typical investment banking risks, which may – inter alia – entail temporary absorptions of regulatory capital as a result of placement operations carried out on primary markets or for the concentration requirement on certain issuers or groups of companies.
Checking of the observance of the capital ratios and the consequent adequacy of the capital is dynamic over time and in relation to the objectives fixed in the business plan, revised annually according to economic-financial scenarios. The first check takes place in the process for assigning the budget targets and related risks (credit, market, operating), assigning the individual risk centres the average absorbed capital on the basis of the outstanding risks, gauged according to the VaR approach; these risks are met with the period end book balance of the capital (excluding profit). Capital adequacy compliance is obtained by several means, such as the pay-out policy, the definition of strategic financial transactions (share capital increases, subordinated bonds, etc.) and the handling of the loan policy in relation to the risky nature of the counterparty, including the introduction of techniques for the mitigation of the credit risk (netting and gradual centralisation of operations in OTC derivatives towards central counterparties).
During the year, activities are systematically performed to monitor the observance of the supervisory ratios intervening where necessary, with appropriate policy and control action on the capital aggregates. A last control phase is launched when steps are taken to carry out extraordinary transactions (acquisitions and subscription for placements with guarantees), where the impact on the ratios is estimated and any necessary action is planned to comply with the regulatory restrictions of the Supervisory Authorities.

3 The Bank applies a 25% reduction to the overall capital requirement, in line with the provisions set forth by the aforementioned Bank of Italy circulars and with the directions of the Parent Company BMPS, thus meeting the expected overall consolidated requirement.

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2010*	*31/12/2009*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	567,925	544,790
- profit	321,595	298,460
a) legal	32,131	29,640
b) required by the Articles of Association	25,451	22,960
c) treasury shares (of the Parent Company)	-	26
d) other	264,013	245,834
- other	246,330	246,330
4. Equity instruments		
4. (Treasury shares)		
5. Valuation reserves	(2,680)	(3,591)
- financial assets available for sale	(2,680)	(3,591)
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- non-current assets held for sale		
- actuarial income (losses) on definite benefit plans		
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (loss) for the year	82,420	49,814
Total	**1,152,189**	**1,095,537**

B.2 Valuation reserves relating to financial assets available for sale: breakdown

Assets / Balances	*31/12/2010*		*31/12/2009*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities		4,650	5	8,002
2. Equity securities	637	255	2,124	255
3. Units in collective investment undertakings	173		125	
4. Loans				
Total	**810**	**4,905**	**2,254**	**8,257**

B.3 Valuation reserves relating to financial assets available for sale: changes in the year

		Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*
1.	**Opening balances**	**(7,997)**	**1,869**	**125**	
2.	**Positive changes**	**3,701**	**120**	**47**	
2.1	Fair value increases	1,599	120	47	
2.2	Transfer to income statement of negative reserves	2,102			
	- due to impairment				
	- due to conversion	2,102			
2.3	Other changes				
3.	**Negative changes**	**354**	**1,607**		
3.1	Fair value increases	349	377		
3.2	Transfer to income statement of positive reserves		1,230		
	- due to conversion	5	1,230		
3.3	Other changes				
4.	**Closing balances**	**(4,650)**	**382**	**172**	

SECTION 2 - SUPERVISORY CAPITAL AND RATIOS

2.1 SUPERVISORY CAPITAL

A. QUALITATIVE INFORMATION

1. Tier I capital

The paid-in capital, reserves and profit for the period allocated to reserves, represent the primary quality capital elements. The total of these elements net of intangible fixed assets, of the negative reserve on securities available for sale and of the other elements to be deducted (including the excess of the estimated losses with respect to total value adjustments, reported from 31 December 2010 onwards before the tax effect) represents the Tier I capital. No hybrid capitalisation instrument was issued.
The BMPS Group opted to apply the prudential filter that neutralises the effects of assessments on the supervisory capital, for the securities issued by the central Administrations of European Union Countries included in the portfolio of "Financial assets available for sale – AFS". This approach, defined a "symmetrical" approach, is applicable to the calculation of the supervisory capital from 30 June 2010 onwards. The Bank did not benefit from this neutralisation, because the AFS portfolio contains only corporate securities.

Items / Balances	*31/12/2010*	*31/12/2009*
Positive elements		
Share capital	276,435	276,435
Share premium reserve	228,089	228,089
Reserves	567,925	544,790
Profit for the period	52,338	23,062
Prudent filters: increases in Tier I capital		
Total positive elements of Tier I capital	**1,124,787**	**1,072,376**
Negative elements		
Other intangible fixed assets		(3)
Prudent filters: deductions from Tier I capital		
Negative reserves on securities available for sale		
- equity securities and units in collective investment undertakings		(255)
- debt securities	(3,147)	(5,416)
Total negative elements of Tier I capital	**(3,147)**	**(5,674)**
Positive value gross of elements to be deducted	**1,121,640**	**1,066,702**
Total elements to be deducted from Tier I capital	**(123,849)**	**(87,187)**
Net positive value	**997,791**	**979,515**

2. Tier II capital

The Tier II capital includes the valuation reserves and the subordinated liabilities.

Items / Balances	*31/12/2010*	*31/12/2009*
Positive elements		
Valuation reserves	0	0
- property, plant and equipment:		
- special revaluation laws		
- property, plant and equipment used in the business		
Positive reserves on securities available for sale	466	2,080
- equity securities and units in collective investment undertakings	466	2,077
- debt securities		3
Subordinated liabilities	128,000	154,000
Prudent filters: increases in Tier II capital		**0**
Total positive elements of Tier II capital	**128,466**	**156,080**
Negative elements		
Prudent filters: deductions from Tier II capital	**(233)**	**(1,041)**
Non-calculable portion of the asset valuation reserve of property, plant and equipment used in the business		
Non-calculable portion of the reserve from valuation of securities available for sale	(233)	(1,041)
- equity securities and units in collective investment undertakings	(233)	(1,039)
- debt securities		(2)
Total negative elements of Tier II capital	**(233)**	**(1,041)**
Total		
Positive value	**128,233**	**155,039**
Excess with respect to Tier I capital		
Positive value permitted gross of elements to be deducted	**128,233**	**155,039**
Total elements to be deducted from Tier II capital	**(123,849)**	**(87,187)**
Net positive value	**4,384**	**67,852**

For the main characteristics of the subordinated liabilities, please see the explanatory notes – part B – Liabilities, section 3 “Outstanding securities”.

3. Tier III capital

Items / Balances	*31/12/2010*	*31/12/2009*
Positive elements		
Subordinated loans issued	150,000	150,000
Total positive elements	**150,000**	**150,000**

For the main characteristics of the subordinated liabilities, please see the explanatory notes – part B – Liabilities, section 3 "Outstanding securities".

B. QUANTITATIVE INFORMATION

	31/12/2010	31/12/2009
A. Tier I capital before application of prudential filters	**1,124,787**	**1,072,373**
B. Tier I capital prudential filters:	(3,147)	(5,671)
B.1 Positive IAS/IFRS prudential filters (+)		
B.2 Negative IAS/IFRS prudential filters (-)	(3,147)	(5,671)
C. Tier I capital inclusive of elements to be deducted (A+B)	**1,121,640**	**1,066,702**
D. Elements to be deducted from Tier I capital	(123,849)	(87,187)
E. Total Tier I capital (C-D)	**997,791**	**979,515**
F. Tier II capital before application of prudential filters	**128,466**	**156,080**
G. Tier II capital prudential filters:	(233)	(1,041)
G.1 Positive IAS/IFRS prudential filters		
G.2 Negative IAS/IFRS prudential filters	(233)	(1,041)
H. Tier II capital inclusive of elements to be deducted (F+G)	**128,233**	**155,039**
I. Elements to be deducted from Tier II capital	(123,849)	(87,187)
Law Total Tier II capital (H-I)	**4,384**	**67,852**
M. Elements to be deducted from Tier I and Tier II capital		
N. **Supervisory capital (E+L-M)**	**1,002,175**	**1,047,367**
O. Tier III capital	150,000	150,000
P. Supervisory capital including Tier III capital (N+O)	**1,152,175**	**1,197,367**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The Bank determines its Supervisory Capital on the basis of the effects of the application of the IAS/IFRS international accounting standards and of the supervisory rules issued by the Bank of Italy.
As shown in the table on the composition of the Supervisory Capital (see previous point 2.1 of section 2 part F of the explanatory notes) and on its coefficients (see following paragraph "B. Quantitative information"), as of 31 December 2010 the Bank had:

- a ratio between Tier I capital and risk weighted assets of 9.13%, 6.85% before the 25% prescribed reduction (as of 31 December 2009, they were respectively 8.27% and 6.20%);
- a ratio between Supervisory Capital, inclusive of Tier III, and risk weighted assets of 10.55%, 7.91% before the 25% prescribed reduction (as of 31 December 2009, they were respectively 10.11% and 7.58%).

In particular, Tier I capital amounts to € 997.79 million, up by € 18.27 million from the value as of 31 December 2009 (€ 979.52 million). The increase was generated mainly by the following events:

- partial capitalisation of the profit for 2010, i.e. € 52.34 million;
- reduction of negative reserves for positions classified under item "Financial assets available for sale" for € 2.53 million;
- increase in expected losses relative to the consolidated value in the 2009 financial statements, i.e. € 33.56 million (the total increase amounted to € 67.12 million, almost entirely represented by the related tax effect; in this regard, in accordance with regulatory provisions, from 31 December 2010 onwards the excess losses expected relative to total value adjustments must be calculated before the tax effect);
- growth in the "share interests in credit and financial entities above, equal to, or below 10% of the capital of the investee", which led to a smaller amount to be deducted, both from Tier I and Tier II capital, by about € 3.10 million.

Tier II capital decreased by € 63.47 million, from a total of € 67.85 million recorded as at 31 December 2009 to a final total of € 4.38 million as of 31 December 2010, which can be briefly justified below:

- reimbursement of nominal € 26 million of subordinated bonds (in accordance with the issuing regulations);
- reduction in positive reserves for financial assets available for sale, which can be calculated as € 0.8 million;
- increase in expected losses relative to the consolidated value in the 2009 financial statements, i.e. € 33.56 million (please refer to the indications provided in the previous page);
- growth in the "share interests in credit and financial entities above, equal to, or below 10% of the capital of the investee", which led to a smaller amount to be deducted, both from Tier I and Tier II capital, by about € 3.10 million.

Tier III capital, unchanged from the previous year, is represented by the Tier III subordinated loan of € 150 million (issued in the last month of 2009), entirely calculable for market risk hedging purposes.
As of 31 December 2010, Risk Weighted Assets or RWA amount to € 10,924 million, versus € 11,840 million as of 31 December 2009. Several factors influenced these capital absorption dynamics; among them, the main ones are:

i) change in the method for calculating generic risk on debt securities (from the method based on the maturity of debt instrument, used until the notice referred to September 2010, the shift was made to the duration method; both are regulated standard methods);

ii) pursuit of a policy for the containment of regulatory risks in line with what was consolidated overall as at 31 December 2009, achieved by adopting measures to boost the efficiency of the systems underlying supervisory notices and measures for the rationalisation of the feeding and booking processes;

iii) the application of the 85% floor on Basel 2 capital requirements, versus 90% enforced as at 31 December 2009.

The Bank monitors its capital adequacy within an extensive operational and strategic management process defined by the Parent Company BMPS. This process, extended throughout the MPS Group (to which MPSCS belongs), tends to pursue two different goals: the first one, implementing a punctual or current monitoring of the evolution of capital; the second one, programming the capital position in a prospective view, consistently with the bank's processes and activities characterised by forward looking elements.
The MPS Group, according to indications provided by the Parent Company, adopts different and, in some cases, parallel methods of processing and analysing capital adequacy. For this purpose, it uses prudential reporting rules for the use of the same analysis for management purposes with regard to the various processes for calculating and forecasting the supervisory capital and the capital absorptions, duly taking into account, for all operational and strategic decisions, the current and prospective capital ratio targets the Group intends to reach (also consistently with the authorisation received from the Supervisory Body Bank of Italy to use advanced internal models both on Credit risk - AIRB and on operational risk – AMA).
Additionally, also in compliance with the supervisory rules, the MPS Group determines its capital adequacy on the basis of methodologies applied to obtain the various calculations contained in the consolidated ICAAP Report aimed, consistently with the Second Pillar discipline, both to determine the total internal capital in view of a set of higher risks than those of the First Pillar, and to identify the total capital, with Available Financial Resources (AFR) logic. In this context, and taking into account the transverse and pervasive nature of this process with reference both to the Parent Group's functions and to the subsidiaries, with MPSCS among them, the MPS Group has adopted a specific internal directive for ICAAP and additional internal guidelines for the self-assessment of the processes for managing risks deemed material and significant, whose output contributes to the final assessment of capital adequacy.
The additional method for tracking capital adequacy, activated by the Parent Company for the whole Group, consists of the capital targeting and capital planning activity, which is determined on the basis of the Risk Appetite and Capital Allocation process that the MPS Group has been using for several years.
From the organisational viewpoint, the Group model assigns the Capital Adequacy function - within the Planning Division – the role of producing and making consistent all the activities listed above. In particular, the Capital Adequacy Service performs the analyses and produces the reports pertaining to the Capital Allocation process, and is also responsible both for the entire ICAAP and "regular" stress testing process, and for capital planning. In 2010, the Capital Adequacy function coordinated capital adequacy analyses in view of the various planned strategic and operational initiatives, it developed and made operational a capital optimisation programme, with the goal of pursuing the "improvement in the risk/return trade-off" (through the Risk-Efficient Business Model); lastly, it refined ICAAP processes.

B. QUANTITATIVE INFORMATION

Categories/Balances	*Unweighted amounts*		*Weighted amounts/ requirements*	
	31/12/2010	*31/12/2009*	*31/12/2010*	*31/12/2009*
A. RISK ASSETS				
A.1 Credit and counterparty risk	**22,476,239**	**23,782,747**	**9,226,126**	**9,914,268**
1. Standardized method	11,517,312	13,161,461	5,113,874	5,645,711
2. Methods based on internal ratings	10,947,258	10,602,535	4,051,073	4,218,496
2.1 Basic				
2.2 Advanced	10,947,258	10,602,535	4,051,073	4,218,496
3. Securitisations	11,669	18,751	61,179	50,061
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**738,090**	**793,142**
B.2 Market risks			**391,613**	**433,382**
1. Standard method			388,583	433,382
2. Internal models				
3. Concentration risk			3,030	
B.3 Operating risk			**35,508**	**35,051**
1. Basic method				
2. Standardized method				
3. Advanced method			35,508	35,051
B.4 Other prudent requirements				**-**
B.5 Other calculation elements			**(291,303)**	**(314,355)**
B.6 Total prudential requirements			**873,908**	**947,220**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			**10,923,850**	**11,840,250**
C.2 Tier I capital/Risk-weighted assets (Tier 1 capital ratio)			**9.13**	**8.27**
C.3 Supervisory capital including TIER3/Risk-weighted assets (Total capital ratio)			**10.55**	**10.11**

Item B.5 “Other calculation elements” includes the 25% reduction in the requirements because MPSCS belongs to the BMPS Banking Group, i.e. € 291,303 thousand (€ 315,740 thousand for 2009; the item also included the amount of € 1,385 thousand as an addition for the floor).
The amount of the risk weighted assets per item C.1 is determined as the product of the total prudential requirements (item B.6) and 12.5 (inverse of the minimum mandatory coefficient of 8%).
Not considering the 25% reduction of the requirements, the total capital ratio at 31 December 2010 is 7.91% (at 31 December 2009, it was 7.58%).
Starting from the notice of 31 December 2010, the Bank changed the method used to calculate generic risk on debt securities: from the method based on “maturity”, the shift was made to the method based on “duration”. The latter is a standard alternative method provided in Circular 263 issued by the Supervisory Body in 2006 (and subsequent updates).

Part G
Business Combinations

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2010, no business combination transactions were carried out regarding companies or business segments.

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No significant transactions were carried out after the end of 2010.

SECTION 3 – RETROSPECTIVE CORRECTIONS

No correction to report.

Part H
Transactions with related parties

In accordance with IAS 24, "key management personnel" include the following persons: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the compensation of executives with strategic responsibilities

	31/12/2010	*31/12/2009*
Short-term benefits	2,747	2,889
Benefits after the termination of the employment relationship		
Other long-term benefits		
Indemnity for the termination of the employment relationship		
Share-based payments		31
Other remuneration		
Total	**2,747**	**2,920**

2. Information on transactions with related parties

2.a Transactions with shareholders

Items / Balances	*Parent Company*	*Joint Parent Companies/Bodies which exercise considerable influence*	*Incidence*
Total financial assets	2,689,469		5.40%
Total financial liabilities	7,852,131		16.15%
Total interest income	1,884		0.34%
Total interest expense	43,175		15.21%
Guarantees given	271,927		
Guarantees received			

2.b Transactions with executives with strategic responsibilities and other related parties

Items / Balances	*Executives with strategic responsibilities*	*Other related parties*	*Incidence*
Total financial assets	422	95,395	
Total financial liabilities			
Guarantees received	394	71,204	

2.c Transactions with other companies forming part of the Banking Group

Items / Balances	*31/12/2010*	*31/12/2009*
Total financial assets	224,007	224,971
Total financial liabilities	10,876,226	10,717,464
Total interest income	1	12
Total interest expense	157,206	271,023
Guarantees given		-
Guarantees received	14,928	-

2.d Fees paid to the independent auditing firm and the bodies belonging to its network
(pursuant to Article 149 duodecies of CONSOB Resolution no.15915 of 3 May 2010)

Type of services	*Party providing service*	*Subsidiary company*	*Fees*
Accounts auditing	Reconta Ernst & Young		369
Certification services	Reconta Ernst & Young		2
Periodic assessments	Reconta Ernst & Young		56
Total			**427**

Note:
the afore-mentioned amounts are gross of VAT and expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

2.1 Corporate Name: **BANCA MONTE DEI PASCHI DI SIENA S.p.A.**

2.2 Headquarters: Piazza Salimbeni, 3 - Siena, Italy

Other details: Share capital € 4,502,410,157.20 fully paid-in
Siena Companies' Register No. 9782/11728
Banking Register No. 325 Code No. 1030.6
Register of Banking Groups Code No. 1030.6
Member of the Interbank Guarantee Fund

FINANCIAL STATEMENTS OF THE PARENT COMPANY BANCA MONTE DEI PASCHI DI SIENA AS OF 31 DECEMBER 2009

Balance sheet

Assets	198,620,912	Liabilities	182,030,985
		Shareholders' equity	16,589,927
Total assets	**198,620,912**	**Total liabilities**	**198,620,912**

Income Statement

Profit /loss on current operations	159,564
Income taxes for the year	5,940
Profit (Loss) on discontinued operations	-
Profit for the period	**165,504**

Part I
Share-based Payments

QUALITATIVE INFORMATION

The Bank has not entered into any transactions with share-based payments representing its own capital or that of another entity belonging to the MPS Group, either in the year under review or in previous periods, being transactions in which the Bank itself purchases or receives goods or services, with the exception of allocations to employees (stock granting).

STOCK GRANTING

One of the points qualifying the Supplementary In-house Employment Agreement dated 11 December 2009 for the Professional Divisions and Middle Management, was the provision that a portion of the "company bonus", linked to levels of attainment of the budget targets, would be disbursed by means of the stock granting instrument, via the bonus allocation of ordinary BMPS S.p.A. shares.

The aim of the instrument is to motivate the employees to pursue corporate targets, increasing the climate of participation.

The liability corresponding to the value of the shares allocated to the employees is booked to the income statement in the period it accrues, under personnel expenses. With reference to 2010, the total cost provided for by the company was estimated at € 948 thousand.

Part L
Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the explanatory notes to its consolidated financial statements as of 31 December 2010.

ATTACHMENTS TO THE EXPLANATORY NOTES

Reclassifications made for better comparability to the Statements as of 31/12/2009

Attachment No. 1

Items		Amounts in thousands of Euro	Notes
BALANCE SHEET - ASSETS			
60.	Due from banks	(2,316,614)	(A)
70.	Loans to customers	2,316,614	(A)

Note:
(a) Transfer from "Due from Banks" to "Loans to customers": this is the collateral cash paid to Prima SGR, through their supporting bank JPMorgan.

PENSION FUND OF
MPS Capital Services
Banca per le Imprese S.p.A.

STATEMENT OF ACCOUNT
AS OF 31 DECEMBER 2010

Pension Fund of MPS Capital Services Banca per le Imprese S.p.A.

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2010
(amounts in euros)

The "MPS Capital Services Banca per le Imprese S.p.A. Pension Fund", enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.
The "Fund" is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

– the "defined benefit" segment of the "Fund" contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
– the "defined contribution" segment of the "Fund" contains separate and independent assets. This segment, which does not have an independent legal status, contains:
  - contributions payable by the Bank and the fund Members;
  - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment. The assets and liabilities referring to the operations of the segment are recorded in the related items of the Bank's balance sheet, despite maintaining separate asset autonomy with respect to the Bank;
  - the economic results deriving from the financial management of the assets, carried out by parties qualified to perform collective management of savings.

The assets, liabilities, costs, revenues and commitments referring to the segment's operations are not recorded in the Bank's financial statements.
The "Fund" is managed by the Bank's Board of Directors, which avails itself of advisory opinions and the support of a Supervisory Committee; the management of the positions of the members and any other activities, necessary or useful for the "Fund", are carried out by a Manager appointed by the Bank's Board of Directors.
In 2010, in order to assure complete disclosure to adherents and in the management of the activities, the Board of Directors approved and published the Information Note. The purpose of this document is to inform potential recipients about the characteristics of each pension form, in order to facilitate awareness for the decision to adhere.

A) "DEFINED BENEFIT" SEGMENT

The value of the Actuarial reserve as of 31 December 2010 was € 6,157,977 and it is recorded under liability item 120a in the Bank's balance sheet.
It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 44 members, all retired, of which 21 men and 15 women receiving a direct pension, along with 8 women receiving an indirect and survivor's pension.
The periodic benefits disbursed in 2010 amounted to € 605,760.09.
During the year, it was necessary to make provisions for € 54,819.09 so as to adjust the actuarial reserve to the estimate produced by the actuary.
No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) "DEFINED CONTRIBUTION" SEGMENT

The total of the net assets as of 31 December 2010 amounted to € 27,337,119.
During 2010, the Bank paid over the contributions payable by the Company to the "Fund", along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by said employees in accordance with the Regulations and in compliance with the law.
The segment disbursed capital to retired employees who made requests, as per Articles 12, 16, 17 of the Fund Regulations, for a total amount of € 1,002,523. The disbursements by way of advances on the total position accrued, concerned 16 requests for a total of € 439,571 in 2010.
Furthermore during 2010, 4 positions transferred from other pension funds were acquired for a total amount of € 53,856.
A total of 559 persons are enrolled in the segment of the "Fund" as of 31 December 2010, of which 550 are active and 9 are no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with the provisions of Article 8, section 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.
The features of the investment lines are as follows:

Description	*Line* ***C001*** *GPM 386133*	*Line* ***C002*** *GPM 386134*	*Line* ***C003*** *GPM 386135*	*Line* ***C004*** *GPM 386164*	*Line* ***C005*** *GPM 386072*	*Line* ***C006*** *GPM 386163*	*Guaranteed line*
Time Horizon (years)	7-10	10-20	20-30	5	5		Collective policy
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Stock component	27%	48%	65%	7%	14%		

With regard to the management policies of the GPM of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for financial year 2010 are as follows.
The monetary component of the portfolio was characterised by an overweight positioning in terms of financial duration relative to the reference index and by the absence of spread products. Additionally, the decision was made to concentrate the investment in securities issued by the Republic of Italy at fixed and floating rate; in particular, the latter were negatively affected by the sovereign debt crisis in the Euro area.
The bond component of the portfolio was characterised by a substantially neutral positioning in terms of financial duration relative to the reference index, whilst still maintaining an overweight position in Italian securities (used as "surrogate" of the "peripheral" countries, as no investments in securities issued by Greece, Ireland, Portugal and Spain were ever held) with respect to the so-called "central" countries (Germany and France).

The stock component was characterised by the allocation of ETF and funds with limited deviation from the corresponding benchmarks for the passive part, which aims to replicate the reference index, and funds for the active part, which aims to outperform the reference index. In the second half, the stock investment was particularly rewarding because it was distinguished by the presence of particularly active funds, positioned on the cyclical part of the economy and on commodities.

The general performance of 2010 follows in the wake of the equally positive performance of 2009 and it enabled fully to recover the losses undergone in 2008 as a result of the global crisis:

Average composite annual return for 2008/2010:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
2.366%	**0.838%**	**0.011%**	**2.225%**	**2.206%**	**n.a.**	**2.758%**

N. B. the C006 sector was activated only in 2009

In the medium-term analysis, all sectors show a positive return, lower in the line with a heavier stock component, because of market stresses in 2007 and (especially) in 2008

Average composite annual return for 2006/2010:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
2.310%	**1.723%**	**1.461%**	**2.409%**	**2.301%**	**n.a.**	**n.a.**

N. B. the C006 sector was activated only in 2009, the Guaranteed line in 2007

The values of the individual portions of the different lines during the year are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31/12/2009	**1.110**	**1.168**	**1.217**	**1.039**	**1.067**	**1.018**	(1)
31/03/2010	**1.141**	**1.211**	**1.274**	**1.052**	**1.086**	**1.019**	(1)
30/06/2010	**1.132**	**1.186**	**1.240**	**1.049**	**1.080**	**1.014**	(1)
30/09/2010	**1.163**	**1.226**	**1.287**	**1.060**	**1.096**	**1.016**	(1)
31/12/2010	**1.161**	**1.254**	**1.342**	**1.055**	**1.092**	**1.012**	(1)

(1) the insurance policy provides for the management of individual positions

The percent return calculated on the average amount of each individual Line was as follows:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
4.5803%	**7.3635%**	**10.4060%**	**1.3794%**	**2.2800%**	**-0.5166%**	**2.6695%**

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes.
The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in euros.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2010, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the charges and income

The charges and income have been recorded on an accruals basis, irrespective of the date of collection or payment.
Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.
The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

"DEFINED CONTRIBUTION" BENEFITS SEGMENT

STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2010

(amounts in euros)

BALANCE SHEET

Assets

	31/12/2010	31/12/2009
Deposits	456,848	445,395
Assets entrusted under management	27,067,493	22,872,955
Collective policy (guaranteed line)	56,009	26,587
Sundry receivables (*)	2,859	-
Total assets	**27,583,209**	**23,344,937**

Liabilities

	31/12/2010	31/12/2009
Tax liabilities	163,535	29,143
Sundry payables (**)	82,555	44,474
Total liabilities	**246,090**	**73,617**

Assets destined for benefits

	31/12/2010	31/12/2009
Fund endowment	25,603,981	20,282,478
Result of financial operations	1,733,138	2,988,842
Total assets destined for benefits	**27,337,119**	**23,271,320**

(*) Sundry receivables refer to a transfer from another fund, yet to be completed (the transferor fund wired the position to be transferred to the wrong account; as at 31 December, the transfer to the correct account had not been completed).
(**) Sundry payables pertain to IRPEF to be paid no later than 16 January 2011 for advances disbursed in December, added to the amount to be transferred per the sundry receivables.

INCOME STATEMENT

Welfare operations

	31/12/2010	31/12/2009
Endowments at start of year	23,271,320	17,072,194
Contributions paid by employees	553,756	528,543
Contributions paid by the company	897,731	851,293
Portions of employee severance indemnity conferred	2,269,413	2,105,506
Transfer from other pension funds	53,856	249,760
Transfer to other pension funds and redemptions	(1,002,523)	(100,576)
Disbursement of advances	(439,572)	(424,242)
Result of welfare operations	**25,603,981**	**20,282,478**

Financial operations

	31/12/2010	31/12/2009
Income/ losses on assets entrusted under asset management	1,883,956	3,052,362
Interest income	795	5,500
Other income	29,142	1,381
Interest expense	-	-
Fee expense for asset management	(16,765)	(11,500)
Substitute tax	(163,533)	(29,143)
Other charges	(457)	(29,758)
Result of financial operations	**1,733,138**	**2,988,842**

STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2010
BREAKDOWN BY INVESTMENT LINE
(amounts in euros)

BALANCE SHEET

Assets

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Deposits	82,269	155,046	131,290	30,107	22,264	35,872	-
Assets entrusted under management	5,434,422	8,966,909	9,645,691	987,904	1,226,111	806,456	-
Collective policy	-	-	-	-	-	-	56,009
Tax credits	-	-	-	-	-	-	
Sundry receivables	-	-	-	2,859	-	-	
Total assets	**5,516,691**	**9,121,955**	**9,776,981**	**1,020,870**	**1,248,375**	**842,328**	**56,009**

Liabilities

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Tax liabilities	28,350	61,264	68,983	1,541	3,270	-	127
Sundry payables	-	63,814	16,297	-	-	2,444	-
Total liabilities	**28,350**	**125,078**	**85,280**	**1,541**	**3,270**	**2,444**	**127**

Assets destined for benefits

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Fund endowment	5,258,966	8,396,388	8,824,616	1,006,861	1,218,645	843,649	54,856
Result of financial operations	229,375	600,489	867,085	12,468	26,460	(3,765)	1,026
Total assets destined for benefits	**5,488,341**	**8,996,877**	**9,691,701**	**1,019,329**	**1,245,105**	**839,884**	**55,882**

INCOME STATEMENT

Welfare operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Endowments at start of year	4,983,649	7,521,376	7,803,486	1,025,819	1,268,011	642,504	26,475
Contributions paid by employee	101,756	166,443	165,379	41,292	25,466	53,419	
Contributions paid by the company	179,712	268,635	296,690	55,852	37,740	59,102	
Portions of employee severance indemnity conferred	411,367	683,438	782,336	128,798	95,159	139,933	28,381
Transfer from other pension funds	10,596	36,112		7,148			
Transfers and redemptions	(139,004)	(340,944)	(96,656)	(286,486)	(139,433)		
Disbursement of advances	(19,463)	(189,395)	(138,489)	(63,625)	(2,991)	(25,609)	
Switches between lines	(269,647)	250,722	11,870	98,063	(65,308)	(25,700)	
Result of welfare operations	**5,258,966**	**8,396,387**	**8,824,616**	**1,006,861**	**1,218,644**	**843,649**	**54,856**

Financial operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C010*	*Line C015*
Income/ losses on assets entrusted under asset management	260,688	659,862	920,506	14,484	30,381	(3,117)	1,152
Interest income	140	293	247	40	31	44	
Other income		7,382	21,760				
Interest expense							
Fee expense for asset management	(3,026)	(5,706)	(6,369)	(440)	(607)	(617)	
Substitute tax	(28,350)	(61,263)	(68,983)	(1,541)	(3,270)		(126)
Other charges	(77)	(79)	(76)	(75)	(75)	(75)	
Result of financial operations	**229,375**	**600,489**	**867,085**	**12,468**	**26,460**	**(3,765)**	**1,026**

RESOLUTIONS OF THE SHAREHOLDERS' MEETING

The ordinary Shareholders' Meeting convened and held at first call on 22 April 2011, passed the following resolutions:

AGENDA ITEM 1

Presentation of the Financial Statements for the year 2010, accompanied by the Directors' Report, by the Independent Auditor's Report and by the Report of the Board of Statutory Auditors.

- Approval of the 2010 Financial Statements, comprising the balance sheet, the income statement, the statement of overall profitability, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Explanatory Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to allocate the profit for 2010 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2010

- to ordinary reserves (1/20)	EUR	4.121.008,25
- to reserves per Article 26 of the Articles of Association (1/20)	EUR	4.121.008,25
- to extraordinary reserves	EUR	44.095.928,13
- payables to shareholders (as dividend to be distributed)	EUR	30.082.220,33
PROFIT FOR 2010	EUR	82.420.164,96

AGENDA ITEM 2
Appointment of the members of the Board of Directors.

AGENDA ITEM 3
Setting the compensation for the Board of Directors.

- Discussion of the second and third agenda items, i.e. renewal of the Governing Body and determination of its members' compensation, was postponed to an upcoming ordinary meeting of the Company's Shareholders.

AGENDA ITEM 4
Appointment of the independent auditor and determination of its compensation.

- the audit firm KPMG S.p.A. with its registered office in Milan, Via Vittor Pisani 25, Tax Code 00709600159 shall be appointed as independent auditor for the years 2011-2019 according to the conditions set out in the proposal formulated by the firm on 4 March 2011.proposta dalla stessa formulata in data 04/03/2011.

AGENDA ITEM 5

Dispositions pursuant to Articles 2359-bis and 2357 of the Italian Civil Code and Article 132 of Legislative Decree 58/98; purchase of shares of the parent company Banca Monte Dei Paschi di Siena S.p.A.

- the Board of Directors, for a maximum time interval of 18 months from the day after the Shareholders' Meeting, shall proceed with the purchase of shares of Banca Monte dei Paschi di Siena S.p.A. up to a maximum number of 4,000,000 (four million) shares of common stock, in compliance with the current brokerage procedures of the stock market and exclusively on the market managed by Borsa Italiana S.p.A.

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