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

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2011

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

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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 +39 055-2498.1 - Fax +39 055-240826 Website www.mpscapitalservices.it
Global Markets	**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
Market Supervisory Structures	**Milan** - Via Dante, 14 Telephone +39 02-88891922/30 (Electronic Channels) Telephone +39 02-88891924/40/21 (Financial Institutions Italy and Abroad)
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 Santa Maria Segreta, 5/b Telephone +39 02-88233210 - Fax +39 02-88233233
	Padua - c/o Banca Antonveneta - Piazzetta Turati, 17 Telephone +39 049-6991659 - Fax +39 049-6992195
	Mantua - c/o Banca Monte dei Paschi di Siena - North East Area Head Office Via Vittorio Emanuele II°, 30 Telephone +39 0376-313563
	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
	Naples - c/o Banca Monte dei Paschi di Siena Piazza Municipio - Ang. Via Medina - 1st Floor Telephone +39 081-7341052 - Fax +39 081-7341067
	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 Piazza della Repubblica, 32/38 Telephone +39 095-7348321 - Fax +39 095-7348300

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairman	Aldighiero FINI
Vice-Chairman	Paolo CAPELLI
Vice-Chairman	Fabio CECCHERINI
Managing Director	Antonio MARINO
Director	Graziano BATTISTI
Director	Gabriele BENI
Director	Turiddo CAMPAINI
Director	Federico FEDERICI
Director	Angelo MARTINELLI
Director	Pierandrea SEMERARO
Director	Cataldo STAFFIERI
Director	Claudio VIGNI

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

KPMG S.p.A.

Rating

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

LONG-TERM DEBT RATING:	**Baa2**
SHORT-TERM DEBT RATING:	**P-2**
FINANCIAL STRENGTH RATING:	**D+**

In the course of 2011, the long-term debt rating was downgraded by two notches, from A3 to the current Baa2. This revision is closely linked to the downgrade that involved the Parent Company Banca Monte dei Paschi di Siena. Moody's outlook on all ratings is currently stable.

Shareholding Structure

As of 31 December 2011, 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 data available, some of which have not changed since the third quarter of 2011, in 2011 there was a slowdown in GDP trends in the main economic areas: +1.7% in the US, +1.4% in the Euro area, -1.2% in Japan, +9.2% in China.
The year **2011** was characterised by an intensification of the **sovereign debt crisis in the Euro area.** After Greece and Ireland, the crisis extended to Portugal and then to Italy and Spain as well, causing concerns regarding the stability of the entire Euro area. In November 2011, the rate on the 10-year Italian government bond rose to over 7% and that of two-year bonds was close to 8%. In the same month, the Italy-Germany ten-year spread arrived at over 500 bp and the Spanish at over 460 bp (see Fig. 1).

Fig.1 - ITALY AND SPAIN 10-YEAR SPREAD

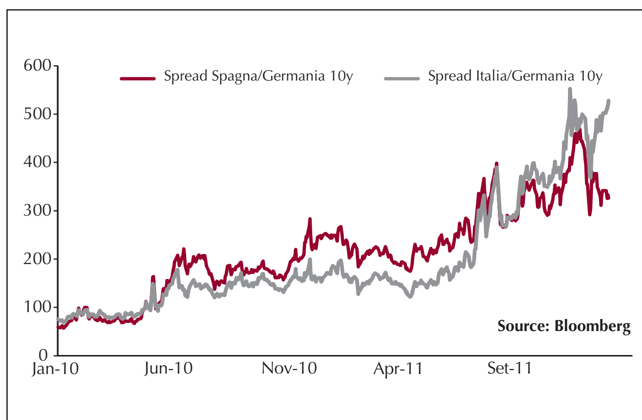
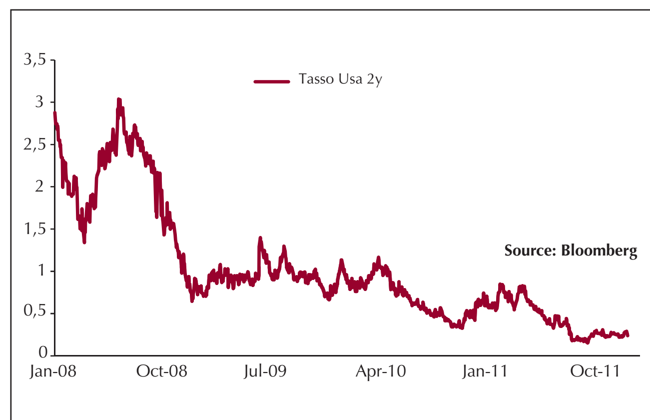


Fig. 2 - US 2-YEAR RATE



A retrospective analysis of the evolution of the 2011 Euro area crisis shows both the implementation of additional bailouts for some countries as well as various meetings of top officials to try to prepare protection mechanisms. In the first case, the reference is to, for example, Portugal, which in May 2011 received a three-year bailout of €78 billion, as well as Greece, for which an agreement was reached in October 2011 which contemplates a second bailout of €100 billion as well as an additional €30 billion from the member states to support the involvement of private parties in the debt swap plan. European leaders held numerous meetings to try to find a solution to the crisis. Amongst the most important were: i) Council of Europe of 21 July 2011, during which one of the main decisions made was to grant additional powers to the EFSF fund and to the future ESM, including the possibility to recapitalise financial institutions through loans to individual governments, in addition to the possibility of acquiring government bonds on the secondary market as well; ii) Council of Europe of 8/9 December 2011, during which an advanced draft fiscal compact was formalised, which sets forth the inclusion in primary legislation (constitutional or domestic) of a balanced budget rule together with automatic mechanisms to adjust public accounts. The following was also decided by the same Council: 1) bringing forward to July 2012 the entry into force of the permanent protection mechanism for the countries, called ESM; 2) recognition of a larger role of the IMF, which should increase its funding up to €150 billion through bilateral loans from the Euro area countries and an additional contribution from EU and non EU countries; 3) the inclusion of standard collective action clauses in the issue of new government bonds issued by Euro area countries and maturing in over one year, after the ESM begins operating. On the political front, three Euro area countries ushered in new governments in the last months of the year: Greece, Italy and Spain. As regards the government, governments implemented numerous manoeuvres aimed at cutting expenses and increasing income.

In the United States, despite the second quantitative easing plan (called QE2) implemented by the Federal Reserve and completed in June, the real estate sector and labour market did not show signs of structural recovery. The Federal Reserve confirmed the benchmark interest rate at 0-0.25%, committing to maintain it at low levels until at least halfway through 2013, implementing the $400 billion Operation Twist in September 2011 (sale of short-term government bonds and purchase of long-term bonds). Furthermore, Bernanke noted that he was willing to implement additional appropriate financial measures if needed. Despite the downgrade by Standard & Poor's of the US debt rating at the beginning of August 2011, the crisis in the Euro area contributed to the allocation of American government rates at historically very limited levels (see Fig.2), as well as a strong increase in demand on the primary market.

In the Euro area, in the first part of 2011, the ECB increased the benchmark interest rate to 1.5% to combat the strong inflation uptick. In November and December, the ECB then made two cuts of 25 bp each, bringing the benchmark rate to an all-time low of 1% (see Fig.3). The ECB manoeuvres were however especially focused on unconventional measures, including: i) the introduction of two three-year refinancing transactions, of which the first occurred on 21 December 2011 for €489 billion; ii) the expansion of the range of collateral accepted; iii) halving of the required reserve rate beginning from 18 January 2012. Furthermore, the financing difficulties which emerged on the money market in dollars, led to the implementation of 3-month loan transactions in dollars at a spread that was half of the previous spreads (OIS + 50 bp), through currency swap agreements between the main global central banks.

In terms of currency, there was a dichotomic trend within the currency market in 2011 (see Fig.4). The first part, in which tensions in the Euro area had not yet fully emerged, involved a decisive appreciation of the main currencies, of both developed and emerging countries, in relation to the dollar. In the second part, the end of the QE2 (June 2011) coincided with a trend reversal. The worsening of macro data at the global level, together with the accentuation of the crisis in the Euro area, led to a drop in the single currency, which at the end of the year closed at below 1.30 compared to the dollar. Tensions on the financial markets caused a notable depreciation compared to the dollar of the main emerging currencies, in particular the Indian rupee, although the impact was lower for the commodity currencies (currencies of countries which are net exporters of commodities). In this climate of a strong risk aversion, investors focused their attention on searching for a refuge currency. The Swiss franc was surely the main beneficiary, so much so that that country's Central Bank carried out an extraordinary intervention: in September 2011, in fact, a floor of 1.20 compared to the euro was set, and at the same time that bank was committed to purchasing unlimited quantities of euros. Together with the franc, the US dollar and the yen were the main beneficiaries of those waves of purchasing.

Fig. 3 - ECB/FED INTEREST RATES

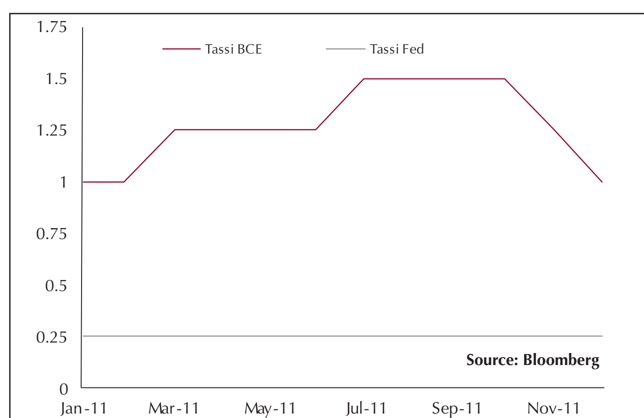
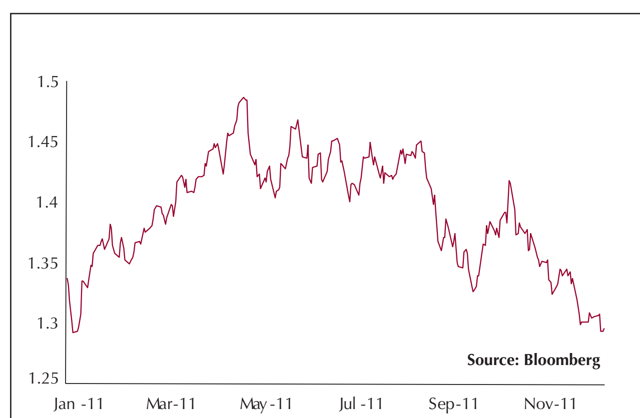


Fig. 4 - EURO/DOLLAR CROSS-RATE TREND



With respect to the emerging economies, 2011 was characterised in the first part of the year by tight monetary policies aimed at stopping inflation, therefore stimulating carry trade transactions, with emerging countries receiving some of the investments; while in the second part of the year, with the intensification of economic tensions, investors' propensity towards risk increasingly weakened and at the same time the focus of emerging countries shifted more towards growth. As a result, there was a slackening in the monetary policies of the central banks of the main emerging countries, including Brazil. The rescaling of growth together with the inversion of monetary policies were at the basis of the capital outflows from the emerging area, which led to a depreciation in the respective local currencies.

In China, the authorities adopted restrictive measures in 2011 with three interest rate increases and six increases in the required reserve rate for banks, in an attempt to stop inflation. Furthermore, strong restrictions were applied in the real estate sector to stem the increase in housing prices. Only in the last part of the year, due to the slowdown in inflation which decreased the authorities' concerns, were the monetary measures more accommodating, including a cut to the required reserve rate in November - for the first time since 2008 - in an attempt to support growth, which was slowing down.
In 2011, the EMBI+ spread index changed from 241 at the start of the year to about 377 at the end of December 2011.

As regards commodities, the performance measured through the Standard & Poor's GSCI Excess Return index showed an increase of 4.8% in 2011, with varied performance in the different sectors in the last part of the year (see Fig.5). The energy and precious metals sector closed on the increase, while industrial metals and agricultural products decreased heavily. Many commodities recorded new records in the first four months of 2011, after which there was a downward trend in the wake of the end of QE2. Gold, which reached an all-time high at around 1.920 dollars per ounce, and oil, which at the end of the year increased together with the geo-political tensions in the Middle East (Iran), proved to be exceptions.

With reference to the stock markets, 2011 closed with a notable drop in the Stoxx600, due to tensions linked to the Euro area debt crisis (- 11.3%). There were also strong drops for emerging markets, with the relative MSCI EM index (expressed in USD) down 20.4%. In the US, the S&P500 closed practically unchanged, while the Dow Jones 30 closed with an increase of 5.5%.

With respect to volatility on the stock indices, trends in the first part of the year were low on average, with a peak in March after the earthquake in Japan. Volatility then increased significantly during the summer, at the most difficult moment for the Euro area crisis, to then decrease slightly at the end of the year. In the second part of 2011, both the Vix and the Vdax came out above the average levels of the first half (see Fig.6).

Fig. 5 - S&P GSCI EXCESS RETURN INDEX (SECTORS)

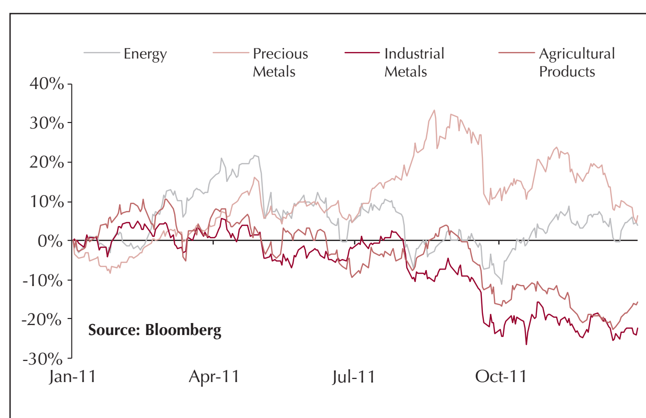
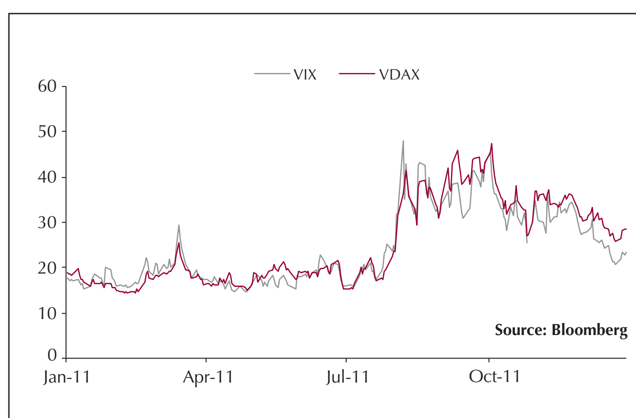


Fig. 6 - VIX VS. VDAX



Significant Aspects of Operations

The "Business Units" (hereafter BU), unchanged with respect to last year and 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

As regards the **"Ordinary Finance"** BU, there were fewer stipulations than those forecast in the budget (-15.6%), while in terms of disbursements, the Bank supported the reference sectors and surpassed the budget estimate targets (+4.6%).

(amounts in millions of Euros)

Ordinary Finance	*Final value as at 31/12/2011*	*Budget as at 31/12/2010*	*Percent deviation*
Stipulated transactions	885.9	1,050.0	- 15.6%
Issued loans	1,098.8	1,050.0	4.6%

In the segment of Low Interest Financing, the Bank was strongly committed in 2011 as the "managing party" on behalf of the Ministry for Economic Development and the Ministry of Education, University and Scientific Research (specifically, issues of loans 488 post reform, loans and final reports 488, as well as FIT, FAR and Master Plan operations). Particularly, in the last quarter the Bank:

- finished the preliminary assessments of the applications for the "REACH" tender, for the disposal of hazardous waste, and the "Convergence Regions" tender (Campania, Puglia, Calabria and Sicily). It involves over one hundred research projects promoted in the industrial sector, which can benefit from facilitations in the form of loans and financial subsidies (FIT);
- assessments were launched aimed at formalising and disbursements for the "PON Research and Competitiveness 2007/2013 - Industrial Research Projects" tender. This involves twenty-eight projects carried out in partnership between the industrial sector and the academic world (Universities and Public Research Organisations);
- economic and financial assessments were initiated for the following projects:
  - "FIT Start-up Tender" and "European FAR Tenders": involving twenty projects for a value of over €20 million;
  - "FAR-PON Districts and Laboratories Tender": twelve projects for an investment amount estimated at over €116 million;
- as regards Law 488, activities continued (and are now in an advanced phase) to define the procedures to be observed when drawing up the final "liquidation deed", and to regularly continue the lending pursuant to the reformed Law 488.

Overall, in the course of 2011, the Bank's Assessments Committee made 332 decisions (of which 112 were in the fourth quarter) relative to low-interest projects referring to reports, initial assessments, re-assessments and final reports.
Finally, the Bank has been tasked with accompanying the definition of Ministry for Economic Development facilitations in contract form for five significantly sized research projects (overall approximately €250 million) submitted by companies which chose the Bank as the "managing party".

As in previous years, the activities of the "**Corporate Finance**" BU were affected by difficulties in the international and domestic macroeconomic scenario, which generated, *inter alia*, a strong reduction in companies' risk appetite and development plans.
Given the BU's reference product type (Project Financing, Acquisition and Object Finance), the most evident impact of this decrease was seen in stipulations (-11.9% out of the budget), while for disbursements, due to existing projects,

the drop from the budget's commercial targets was limited to 5.6%.

(amounts in millions of Euros)

Ordinary Finance	*Final value as at 31/12/2011*	*Budget as at 31/12/2010*	*Percent deviation*
Stipulated transactions	924.9	1,050.0	-11.9%
Issued loans	990.7	1,050.0	-5.6%

In 2011, Project Financing continued consolidated work in the infrastructures and utilities as well as the real estate and shipping finance sectors. In more detail:

- infrastructures: after an initial phase of activities which enabled the formalisation of a pool transaction aimed at the construction of sections aligned with the municipal stretch of the A14 (Roma East area), the extraordinary maintenance of viaducts damaged in the 2009 earthquake as well as the modernisation of tunnels, in 2011 there was a general stagnation of investments. At the same time, the Bank analysed various initiatives which could generate interesting developments in the future.
- real estate**:** this sector has not surpassed the critical phase either. Despite this, in the last part of the year, in a pool with four other banks and in the role of MLA and Agent Bank, the Bank formalised a loan intended to expand an important outlet located in the Tuscany Region.
- shipping finance**:** three loan transactions for shipowner groups were carried out in 2011 for the acquisition of cargo ships (for liquids and dry goods) as well as a ship for transport and assistance to oil platforms.

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 financial crisis.
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; its portfolio includes approximately 190 project, real estate, shipping and acquisition financing positions, corresponding to over €3.7 billion in commitments. The Bank holds the time-consuming role of agent bank and of sole lender for one hundred of the aforementioned positions.
The Principal Investments sector (chiefly Advisory M&A) formalised three transactions in the course of 2011 to support companies working in the water, energy and renewable energies sectors.
The Private Equity activity, supporting small and medium enterprises with strong growth potential, is carried out mainly through the MPSCS associated company, MPVENTURE SGR (formerly MPS Venture SGR). The company manages six closed-end mutual funds reserved for professional investors, for a total subscribed amount of €360 million.
Finally, the activity linked to the renewable energy sector also deserves a special mention. The Bank has traditionally worked in this area since its founding, through the merger of the two former banks MPS Merchant and MPS Bancaverde. The main transactions aggregated by sector are listed below:

- photovoltaic: €226 million in cash credit facilities (base loan and VAT); €78 million in unsecured credit facilities; €35 million in facilities resolved on a cash basis and unsecured)
- wind: €38 million in cash credit facilities (base loan and VAT)
- hydroelectric: €15 million in cash credit facilities (base loan and VAT)

As regards activities carried out by the "**Global Markets**" BU, there was extremely erratic performance of market variables in 2011. Against a first half in which the progressive stabilisation of financial variables seemed to prevail, accompanied by a limited improvement in the real economy, the rapid deterioration of the latter in subsequent months and the perception that the liquidity crisis was transforming into a solvency crisis caused a great readjustment in

investors' "appetite" for risk. The presence of procyclical phenomena (downgrading, growth in borrowing costs, worsening of economic variables) pushed some sovereign states and the banking sector into a crisis spiral in terms of faith and funding difficulties. In the last month of the year, the delayed but inevitable acknowledgement of political decision-makers and the accommodating action of the Central Bank interrupted this degenerative trend and caused an exceptional recovery of market levels.
In this environment, in the first part of the year the "Global Markets" BU took advantage of the opportunities offered both in terms of risk management and of promotion of sales actions, although the results were not as good as desired. Despite the fact that during the semester there was a reduction in risk levels compared to the strategic targets indicated, portfolios were in any case vulnerable to the fluctuating market performance of the summer months, moreover accompanied by a decisive worsening in liquidity conditions. As a result, the BU arranged to change objective, privileging the containment of the highest potential loss instead of the usual maximisation of the economic result for the portion of capital attributed.

In 2011, the **"Investment Banking"** BU carried out its activities through its Debt Capital Market, Equity Capital Market, Corporate Advisory & Origination offices and the Syndication Desk, joined during the year by Securitisation and Principal Finance (previously within the Corporate Finance Division).
The first half, so before the sovereign debt crisis heavily hit Euro area countries with the resulting worsening of credit market conditions, the BU's work was characterised by intense operations on the primary, stock and bond market in which the Bank carried out a particularly significant role.
Specifically, with respect to the stock market, during 2011 it participated as the Joint Global Coordinator and Joint Bookrunner in the approximately €2.15 billion capital increase of the Parent Company Banca Monte dei Paschi di Siena. It was also part of the guarantee consortia supporting the share capital increases of Intesa Sanpaolo, Banco Popolare and Piraeus Bank, as the Co-Lead Manager. It was the Co-Manager for the Commerzbank capital increase and obtained the role of Co-Bookrunner for the Falck Renewables capital increase. Regarding IPOs, the BU was the co-bookrunner for the institutional offer and the Joint Lead Manager for the retail offer for the Salvatore Ferragamo listing.
In the bond market, in 2011 MPSCS was the joint lead manager and joint bookrunner in the only main transaction generated by an Italian investment grade corporation during the year, that is, the Terna S.p.A. senior 10-year issue, for a total issued amount of €1.25 billion. With regard to the specific role assigned it within the BMPS Group, the Bank also coordinated the placement relative to the Public Subscription Offer by Eni S.p.A. of a six-year bond in two tranches, one at a flat rate and the other at a floating rate, intended for the general public in Italy. The Bank was also the joint lead manager and joint bookrunner in the BTPei 15-year issue (the syndicated inflation-linked Pluriennial Treasury Bond of the Republic of Italy). The transaction was launched for a total of €3 billion and is the only syndicated transaction of the year by the Republic of Italy.
The support that the Investment Banking division provided to the Parent Company BMPS as the Issuer was also particularly significant. In fact, the Bank held the role of joint lead manager and joint bookrunner in a series of transactions issued by the Parent Company, including the most significant in terms of volume, the two covered bonds for a total of €2.25 billion and the senior unsecured 2.5-year issue with a size of €1.75 billion. Two securitisation transactions were also completed: the first on a portfolio of loans generated by lease agreements issued by MPS Leasing and Factoring for an amount of approximately €2.3 billion and the second on a portfolio of mortgage loans issued by the Bank totalling approximately €3 billion. Those transactions permitted the "creation" of AAA rated securities to be used to increase the BMPS Group's counterbalancing capacity by approximately €2.3 billion.
The Bank was also the originator for the Parent Company's retail bond issues on the BancoPosta network for approximately €1.3 billion, maturing in 6 years, in addition to the mandate obtained for Banca Monte dei Paschi as issuer, for which MPSCS negotiated the terms with the Placement agent (BancoPosta) and coordinated work aimed at amending and supplementing the offer documentation.
In the course of 2011, the "Investment Banking" BU also carried out the role of Co-Lead Manager in seven syndicated

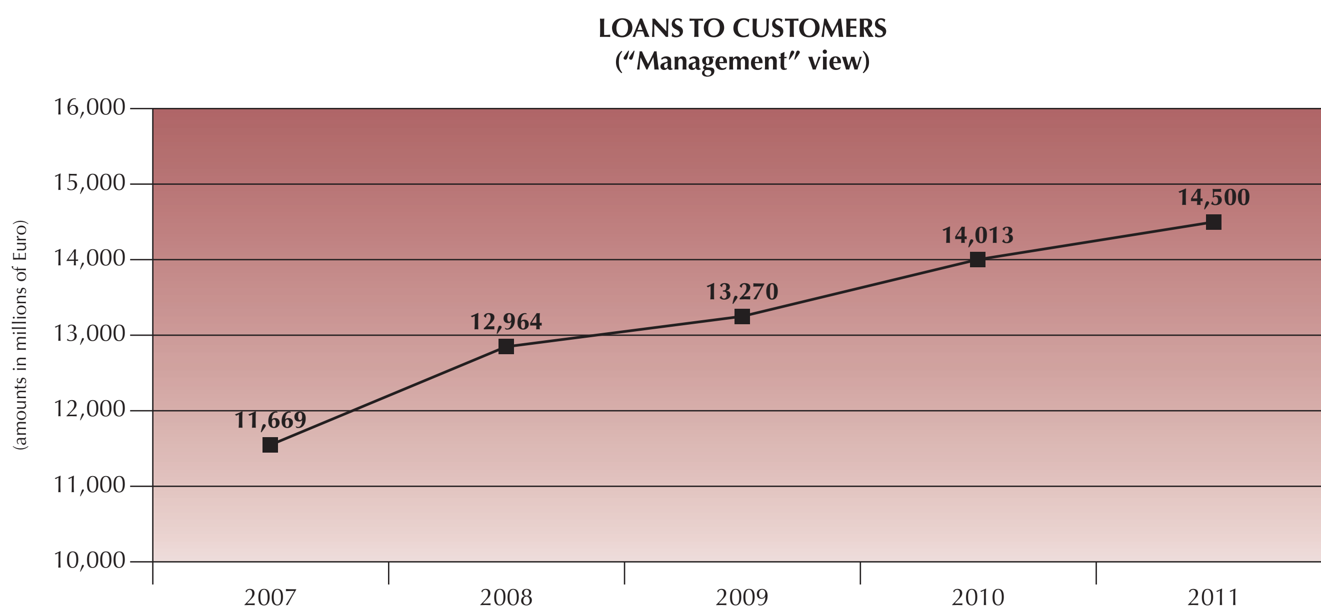
bond issues totalling over €18 billion: four EFSF issues, one Banca delle Marche senior issue, one HSBC lower tier two subordinated bond and a Morgan Stanley senior issue. Finally, regarding advisory activities, it supported the company Risanamento S.p.A. in relation to the issue of the mandatory convertible bond, convertible into newly issued ordinary " Risanamento S.p.A." shares maturing in 2014.

Credits aggregates

LOANS TO CUSTOMERS

Loans to customers, calculated according to management logic, as at 31 December 2011 amounted to €14,500 million, versus €14,013 million of the previous year (+3.48% on an annual basis).

LOANS TO CUSTOMERS
("Management" view)



Below is the reconciliation of the management data as at 31 December 2011 with the balance of the asset entry 70 "Loans to customers". The reconciliation amounts, shown in millions of EUR, derive from a different classification of the financial statement data with respect to the management disclosure:

Management amount	**14,500**
Fin. activity for dispute negotiation (1)	(8)
Operating receivables (2)	212
Prepaid expenses and accrued income (3)	50
Collateral credits (4)	675
Valuation reserve on receivables (5)	(1,089)
Financial statement amount	**14,340**

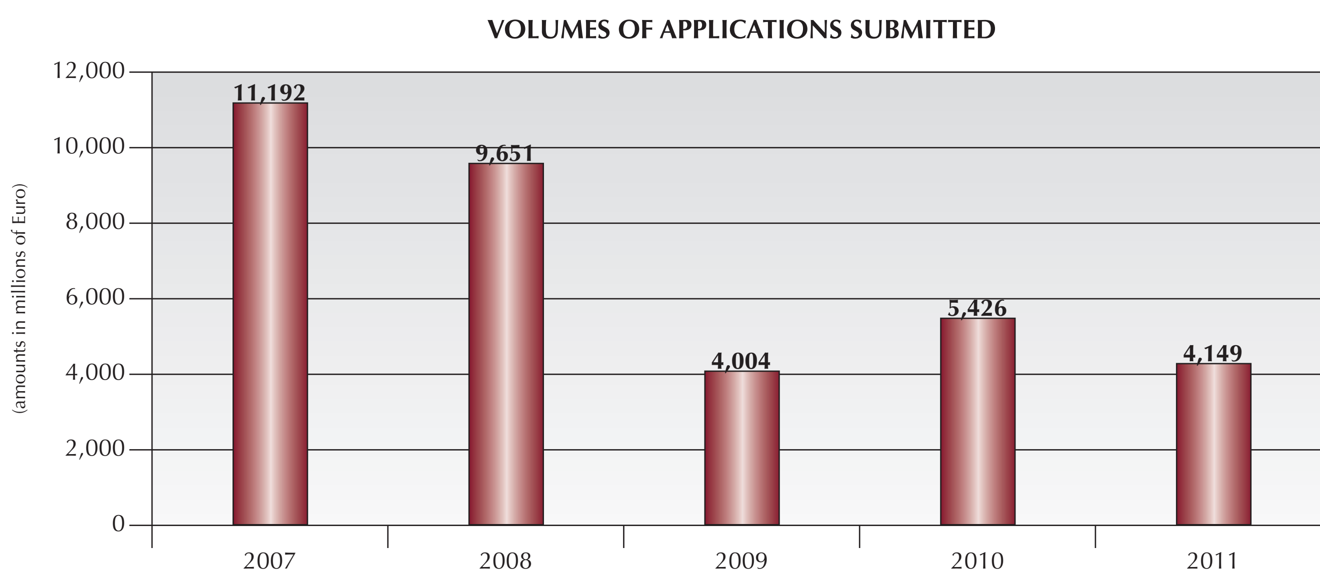
(1) receivables for unhonoured derivatives transferred to dispute;
(2) sundry receivables generated by "facilitated" activity excluded on a management basis from "loans";
(3) items classified on a management basis as "non-interest bearing receivables and payables";
(4) items for collateral not linked to financing activities and, on a management basis, linked to Global Market activity;
(5) valuation reserves for receivables classified from the management perspective amongst "other liabilities".

The table below analyses commercial flows for 2011.

APPLICATIONS FOR FINANCING SUBMITTED

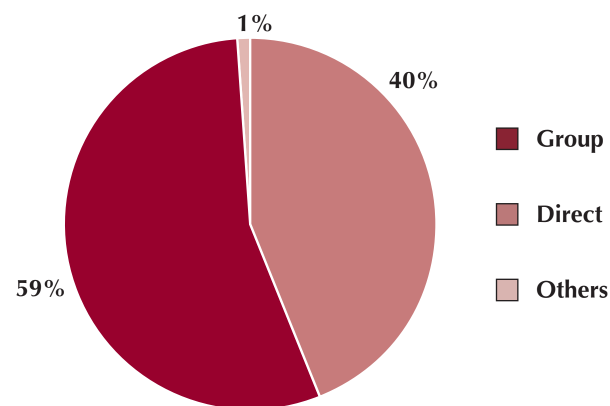
(amounts in millions of Euro)

	2011	*2010*	*Changes*	
			Absolute	*%*
Number	492	585	93	-15.9
Amount	4,149	5,426	- 1,277	-23.5



After the evident recovery which had characterised 2010 in terms of credit flows, the renewed accentuation of the economic crisis caused a new contraction in commercial flows. This phenomenon is not only clearly visible in terms of “requested credit” (- €1,277 million with respect to the financing applications of the previous year), but it is also evident in “substance” in all other credit processing “phases”. In fact, there were drops in the amount “authorised” (- €913 million, down by 24.7% compared to 2010) and in the amount “stipulated” (- €171 million, down 8.6% compared to the previous year’s result). On the other hand, the amount disbursed remained essentially unchanged compared to 2010 (+ €22 million, a slight increase of 1.1%).

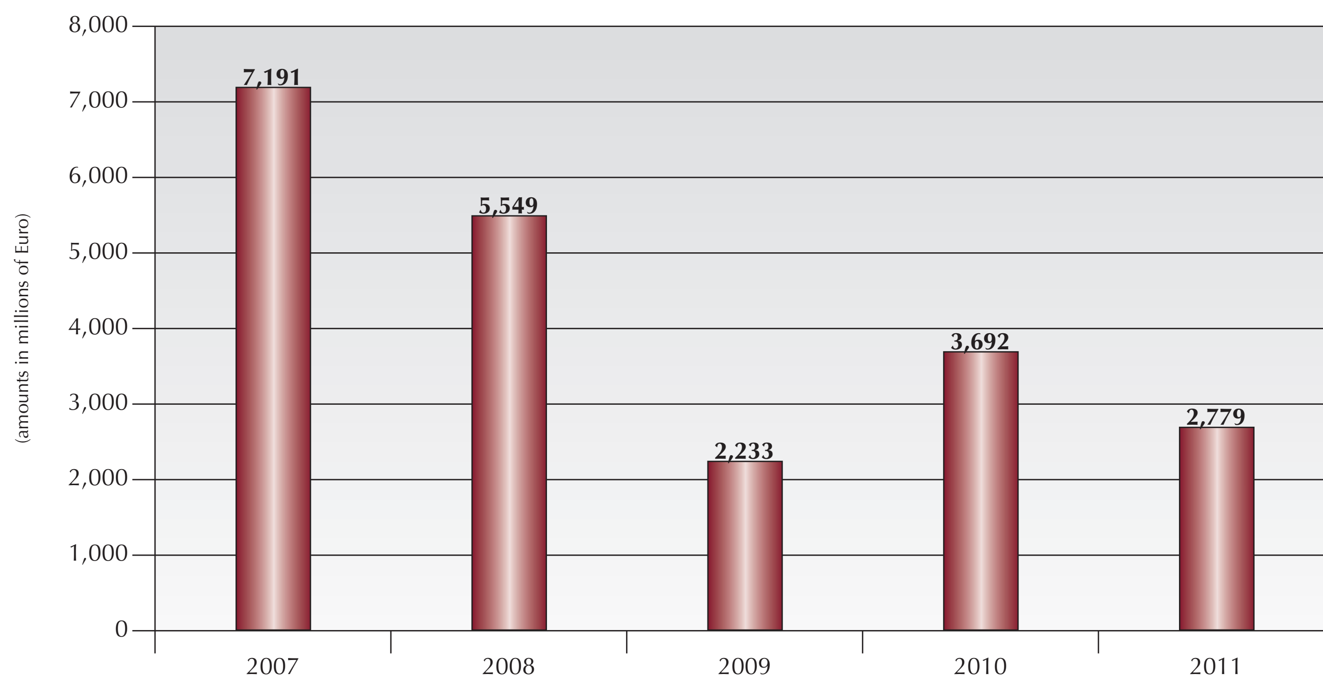
APPLICATIONS SUBMITTED IN 2011
Breakdown by Channel



LOANS GRANTED

(amounts in millions of Euro)

	2011	*2010*	*Changes*	
			Absolute	*%*
Number	363	404	-41	-10.1
Amount	2,779	3,692	-913	-24.7



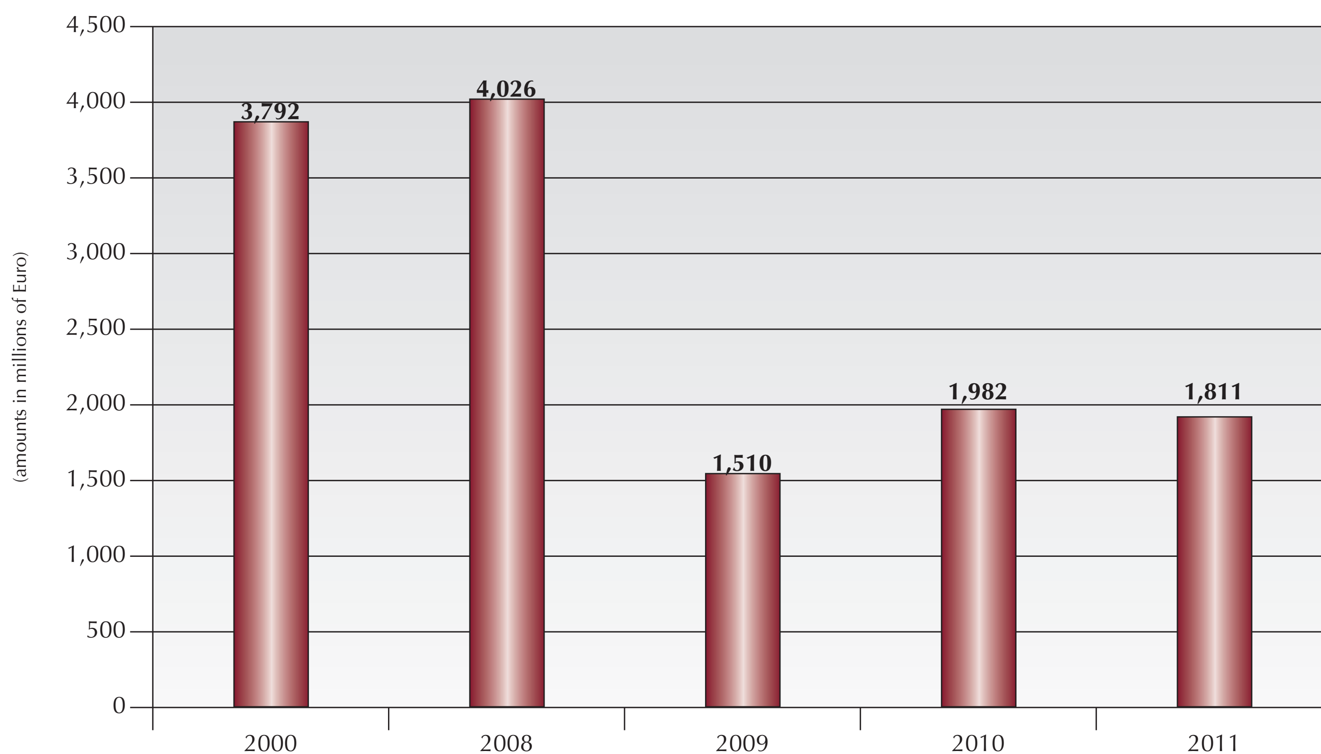
RATIO OF LOANS GRANTED TO APPLICATIONS FILED

	2011	*2010*	*2009*	*2008*	*2007*
Number	73.8%	69.1%	63.7%	66.2%	65.5%
Amount	67.0%	68.0%	55.8%	57.5%	64.3%

AGREEMENTS ENTERED INTO

(amounts in millions of Euro)

	2011	*2010*	*Changes*	
			Absolute	*%*
Number	404	349	55	15.8
Amount	1,811	1,982	-171	-8.6



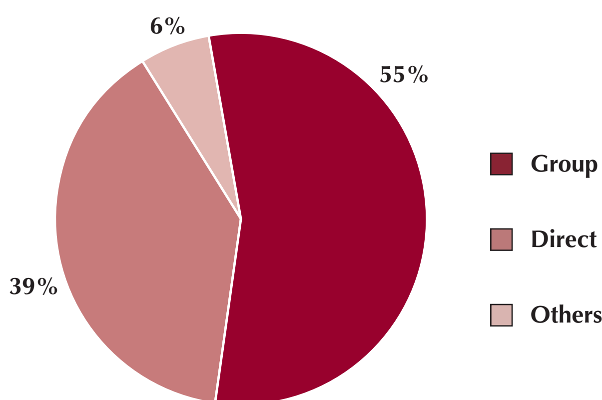
FINANCING DISBURSED

(amounts in millions of Euro)

	2011	*2010*	*Changes*	
			Absolute	*%*
Number	1,261	1,364	-103	-7.6
Amount	2,090	2,068	22	1.1

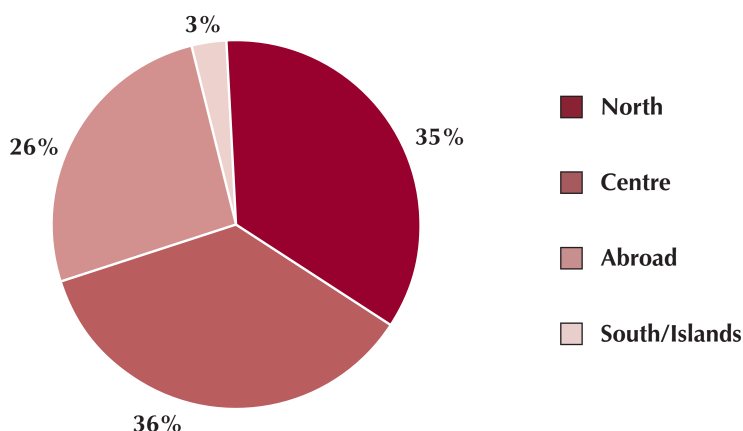
During the year, the Bank disbursed a total of just over €2 billion. In this respect, the number of "disbursements carried out" in any case remained high, as a result of the company policy, which has been consolidated over the years, to favour financing linked to future investments, to be made in compliance with precise production development plans. Therefore, financing is disbursed in several tranches, according to the "state of progress" of the works.

DISBURSED TRANSACTIONS 2011



With regard to the geographic distribution of the commercial flows, the policy of fully diversifying the portfolio continued; 36% was disbursed in Central Italy, whereas 35% was disbursed in the North and 26% in the South/Islands. Lastly, 3% pertains to operations with non-resident parties.

GEOGRAPHICAL BREAKDOWN OF DISBURSEMENTS IN 2011



IMPAIRED ASSETS

The tables below show the distribution of impaired assets as at 31 December 2011 by portfolio (amounts in thousands of Euro):

(amounts in millions of Euro)

Cash exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	3,088		-	3,088
Due from banks (**)	6,000	(6,000)	-	0
Loans to customers	3,784,004	(991,382)	(48,710)	2,743,912
Total	**3,793,092**	**(997,382)**	**(48,710)**	**2,747,000**

(*) Bonds issued by the Lehman Group written down in 2008 for €9,581 thousand.
(**) Bonds issued by Banca Popolare di Garanzia SCPA, written down in 2009.

(amounts in millions of Euro)

Off-balance sheet exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	12,654	(5,938)		6,716
Guarantees given (**)	19,879	(12,700)	(20)	7,159
Commitments to disburse funds and other commitments	70,562	-	-	70,562
Total	**103,095**	**(18,638)**	**(20)**	**84,437**

(*) Resulting from derivatives positions towards customers
(**) Performing exposures are subject to collective adjustments for a total of €3,910 thousand.

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

(amounts in millions of Euro)

Type of impaired assets	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Collective adjustments*	*Net exposure*
Non-performing	2,517,375	(696,916)	(170,971)	-	1,649,488
Watch-list	923,366	(99,875)	(15,927)	(31,920)	775,644
Restructured exposures	195,078	(12,748)	-	(8,960)	173,370
Exposures past due by over 180 days	157,273	(945)	-	(7,830)	148,498
Total (*)	**3,793,092**	**(810,484)**	**(186,898)**	**(48,710)**	**2,747,000**

(*) Performing loans are subject to analytical adjustments for default interest of €576 thousand and collective adjustment for €62,980 thousand. Analytical write-downs amounted to €991,958 thousand, while collective write-downs totalled €111,690 thousand.

The balance of impaired assets, net of value adjustments and discounting, stands at €2,747 million; the change compared to the amount as of 31 December 2010 (€2,355 million) is €392 million (+16.65%). Non-performing exposures deriving from loans to customers and financial assets held for trading increased from €1,401 million as of 31 December 2010 to €1,649 million as of 31 December 2011 (+20.56%). The average write-down of non-performing

loans stands at 34.52% (33.43% as at 31 December 2010); the Bank's portfolio mainly includes mortgage exposures. Gross and net non-performing loans account for 16.28% and 11.48%, respectively, of gross and net loans to customers (12.24% and 8.62% in 2010).

Watch-list loans increased from €667 million as of 31 December 2010 to €776 million as of 31 December 2011 (+16.34%). The average write-down of watch-list loans stands at 16.00% (15.32% as at 31 December 2010). Gross and net watch-list loans account for 5.98% and 5.41%, respectively, of gross and net loans to customers (4.59% and 4.11% in 2010).

Past due loans increased from €90 million as of 31 December 2010 to €148 million as of 31 December 2011 (+65.17%). The average write-down of past due loans stands at 5.58% (5.39% as at 31 December 2010). Gross and net past due loans account for 1.02% and 1.04%, respectively, of gross and net loans to customers (both 0.55% in 2010).

Restructured receivables decreased from €196 million as of 31 December 2010 to €173 million as of 31 December 2011 (-11.76%). The average write-down of restructured receivables stands at 11.13% (10.59% as at 31 December 2010). Gross and net restructured receivables account for 1.26% and 1.21%, respectively, of gross and net loans to customers (1.28% and 1.21% in 2010).

The figures shown above are naturally influenced by the unfavourable market situation which continues to involve almost all economic sectors, particularly in the year just closed, with resulting tensions in the financial management of companies, which often have difficulty respecting the repayment due dates for bank loans. Activities of controlling and monitoring positions by the offices in charge continued and, as much as possible, were reinforced, as were all initiatives aimed at containing doubtful loan risk, first and foremost rescheduling to market conditions, for positions deemed creditworthy from the perspective of both economic-financial rebalancing and the guarantees obtained: there are approximately 430 positions which benefitted from the dedicated ceiling of €600 million allocated for the 2011 financial year which was almost completely absorbed. That operating tool, which was particularly adapted to the characteristics of the past-due portfolio, is by now a full part of the Bank's regular operations, and works along with normal collection activities which, although carried out in increasingly marginal quantities, also through external accredited companies and professionals, also benefits from the contact centre activities, intended, as regards the most significant due dates and those characterised by previous episodes of payment delays, to facilitate the payment and management of any modest delays.

During the year, analytical value adjustments were recorded for €115.5 million; write-backs due to valuation amounted to €12.4 million, while those due to collection totalled €1.9 million. Discounting resulted in adjustments of €87.0 million, while the related write-backs and the interest totalled €67.5 million. Collective write-downs decreased by €2.5 million overall (net of €1.3 million of utilisations) reaching €112.5 million (including: €31.9 million to cover watch-list loans without doubtful outcome, €7.8 million for exposures past due by over 180 days, €9.0 million for restructured loans; €63.0 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 0.78% of loans to customers (0.70% as of 31 December 2010). Ascertained losses impacting the Income Statement for the year were €7.7 million.

For guarantees issued and commitments, a write-down of €16.6 million (€12.7 million of analytical adjustments and €3.9 million of portfolio adjustments) was recorded under "other liabilities", including €12.9 recognised during the current year.

Deposits

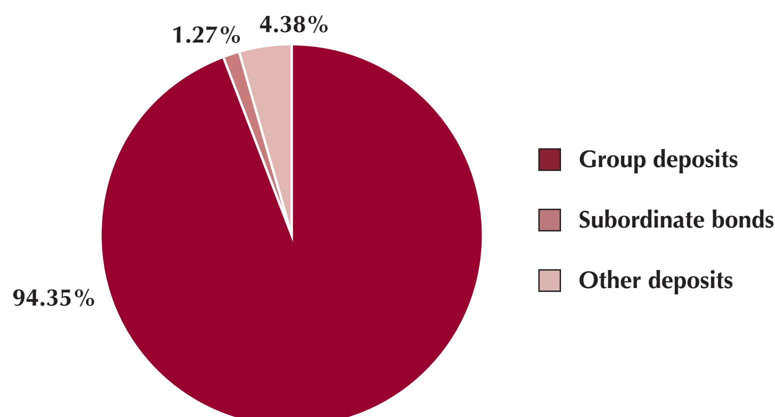
In the course of 2011, the financial requirement generated by lending was covered by medium and long term funding granted by MPS Ireland totalling net €1,045 million (equal to the balance between €2,900 million of new gross funding and early repayments totalling €1,855 million) and increasing the short-term funding stipulated with the Parent Company by €1,077 million and, for the remaining portion, activating EIB funds for €22.3 million.
At the end of the year, total amounts due to the Parent Company and its non-banking foreign subsidiary, MPS Ireland, totalled €18,196 million (€16,528 million at 31 December 2010), broken down as follows: €465 on demand (€209 at 31 December 2010), €5,734 short (€4,913 at 31 December 2010) and €11,997 medium - long term (€11,406 at 31 December 2010).
The table below shows the breakdown of deposits by type as of 31 December 2011, compared with the situation at the end of the previous year:

(amounts in millions of Euro)

	31/12/2011	*31/12/2010*
Loans of the Parent Company and its subsidiaries:		
- on demand and short term	6,199	5,122
- medium and long term	11,997	11,406
Bonds:		
- non-subordinate	-	-
- subordinate	244	279
Other payables to Banks and Customers	844	996
TOTAL	**19,284**	**17,803**

The table conventionally includes (for accurate matching with balance sheet items) also short-term deposits for €4,500 million (€4,905 million as at 31 December 2010), as supplementary deposits in addition to the typical assets of the Global Markets (see following paragraph "Main financial aggregates").

BREAKDOWN OF DEPOSITS AT 31/12/2011



Main Financial Aggregates

With regard to the activity of the Global Markets Division, the main dynamics that characterised the commercial volumes of 2011 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 €2.7 billion versus €3.4 billion in 2010, down 21%. The decrease in volumes is due to a drastic reduction in medium/long-term loans, linked to the deleveraging process and EBA requirements;
- the performance of institutional rate hedges, +71% compared to last year, is mainly due to extraordinary transactions (e.g., hedging of issues placed on the Bancoposta network) and operations regarding government bond options;
- volumes generated by foreign exchange hedges with corporate customers totalled approximately €1.9 billion, down 8% compared to 2010. A good part of the decrease is due to a very restrictive policy which caused an outflow from derivatives to treasury instruments (spot and forward);
- volumes of commodity hedges with corporate customers came out to around €840 million, up by 130% compared to 2010. The increase is linked to a strong activity of developing new customers interested in protecting themselves from commodity price fluctuations;
- the volumes traded on the secondary market of Bank, Corporate, Emerging, Supranational and ABS (Secondary Credit) securities, decreased by 10% from 2010. That decrease is due to both the worsening of the economic and financial framework, which led to lower portfolio turnover regarding characteristic customers, and to lower available liquidity for investments;
- "secondary government" performance, -12% compared to 2010 volumes, is the direct result of customers' need to trade on trading platforms, to guarantee transparency and best execution;
- volumes from placement with institutional investors and corporate customers of primary market securities totalled approximately €3.3 billion, with a significant decrease of 65% compared to 2010, due to the general contraction in the credit and Italian government bonds market.

(amounts in millions of Euro)

Product	2011 Volumes	2010 Volumes	Percent change
Customer desk rate hedging	2,717	3,420	-21%
Institutional rate hedging	4,129	2,410	71%
Exchange rate hedging	1,886	2,057	-8%
Commodity hedging	840	365	130%
Equity hedging	3	36	-92%
Secondary credit	4,437	4,949	-10%
Secondary government	7,931	9,037	-12%
Primary	3,359	9,546	-65%
Credit hedging		20	-100%
Ad hoc investments	11	124	-91%
TOTAL	**25,313**	**31,964**	**-21%**

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 2011, the amounts in securities held for trading in 2010 increased, by €1,009 million (+23.81%) in the "government securities" asset class, and by €259 million (+7.63%) in the "bonds" asset class. Those increases were refinanced mainly by repo transactions (including a triparty repo with EIB) which, given the beneficial conditions of both (face rate of the security versus financing rate) and the sizeable amounts maintained during the year, especially in the second half, once again confirmed a positive interest margin. Investments in stocks and in UCI units also increased, by 52.30% and 45.12%, respectively.

Trading portfolio	*31/12/2011*	*30/06/2011*	*31/12/2010*	*Changes from 12/2010*	
Sub-items - securities				*Absolute*	*%*
Government and public agency securities	5,249,452	4,593,533	4,239,985	1,009,467	23.81
Bonds and other debt securities	3,657,105	3,438,278	3,397,787	259,318	7.63
Equity securities - stocks	330,357	189,110	216,919	113,438	52.30
Equity securities - UCITS	119,746	142,911	82,515	37,231	45.12
Total securities	**9,356,660**	**8,363,832**	**7,937,206**	**1,419,454**	**17.88**

Trading portfolio	*31/12/2011*	*30/06/2011*	*31/12/2010*	*Changes from 12/2010*	
Sub-items - loans				*Absolute*	*%*
Repurchase agreements	9,622,662	9,036,483	8,883,594	739,068	8.32
Securities loan	16,101	25,332	10,183	5,918	58.12
Total loans	**9,638,763**	**9,061,815**	**8,893,777**	**744,986**	**8.38**

Trading portfolio	*31/12/2011*	*30/06/2011*	*31/12/2010*	*Changes from 12/2010*	
Sub-items - borrowings				*Absolute*	*%*
Repurchase agreements	(16,155,410)	(13,788,562)	(15,156,519)	(998,891)	6.59
Securities loan	(336,858)	(72,699)	(270,360)	(66,498)	24.60
Total borrowings	**(16,492,268)**	**(13,861,261)**	**(15,426,879)**	**(1,065,389)**	**6.91**
Net loans (borrowings)	**(6,853,505)**	**(4,799,446)**	**(6,533,102)**	**(320,403)**	**4.90**

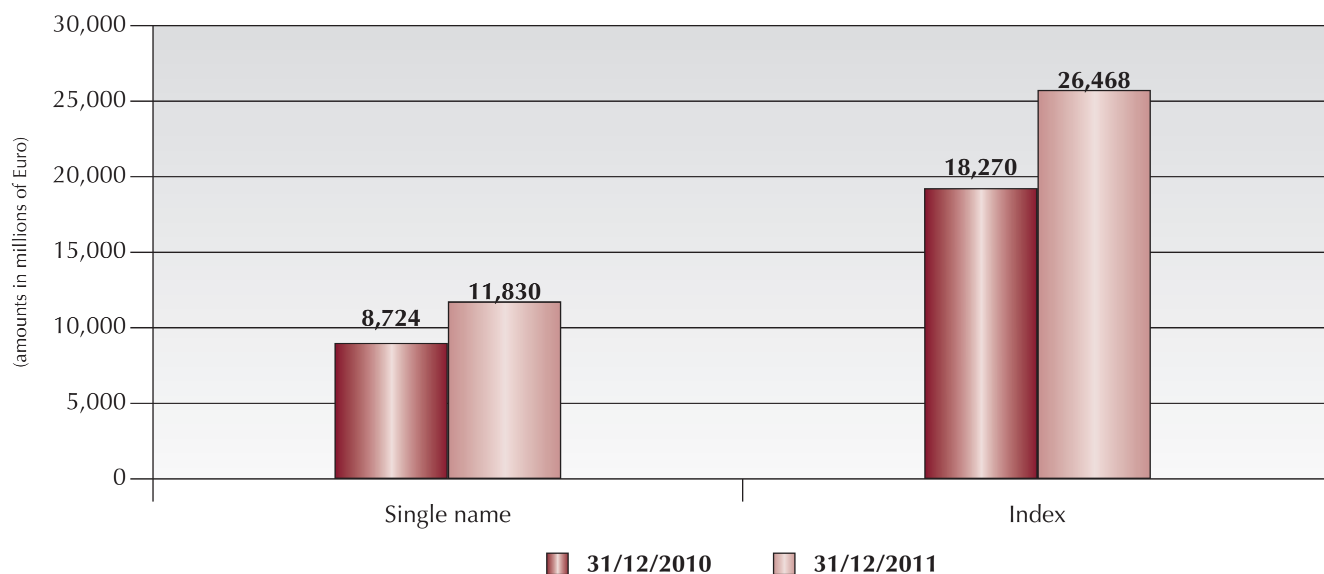
Overall, the management of deposits and loans addressed the intermediation in money market instruments and debt securities, as well as in deposits to the Parent Company (for the sake of complete disclosure, see also the previous paragraph, "Deposits").

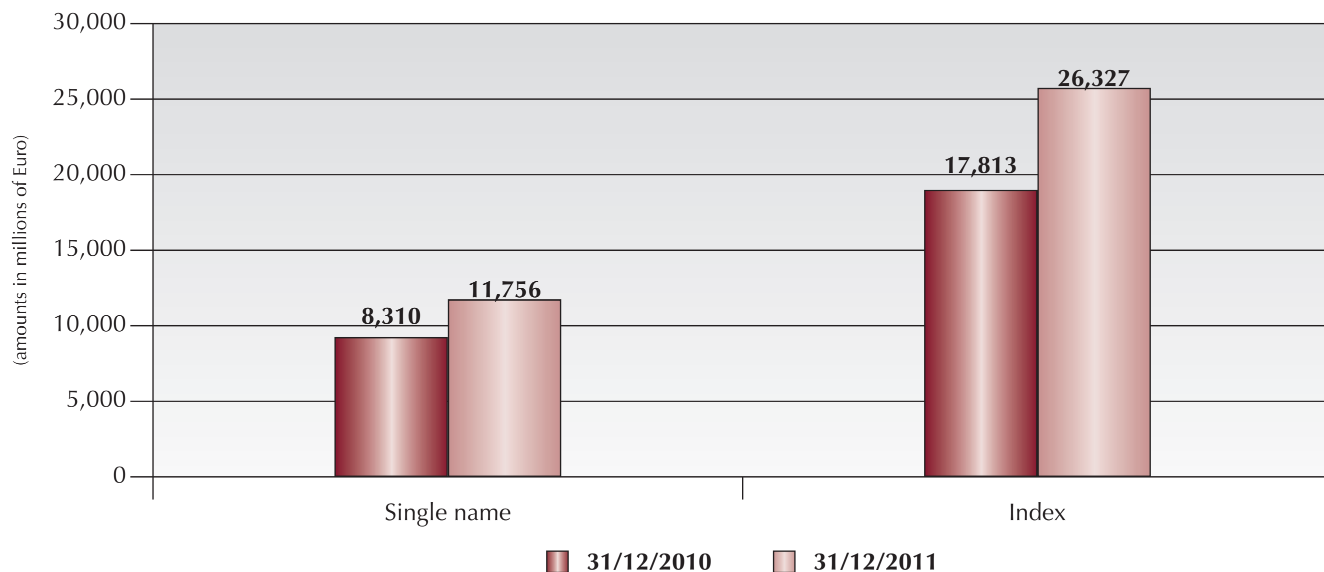
Longer-term investments made are classified among the receivables (as unlisted bonds for a total value of about €39 million) and among financial assets available for sale (such as: i) unlisted debt securities for a value of about €45 million and ii) stocks and UCITS units for a total amount of about €24 million). Regarding the latter portfolio, there were partial sales of some ABS positions (for additional details, please see section C of part E in the explanatory notes) and investments in corporate companies (please see the next paragraph "Equity investments" for additional details). 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.

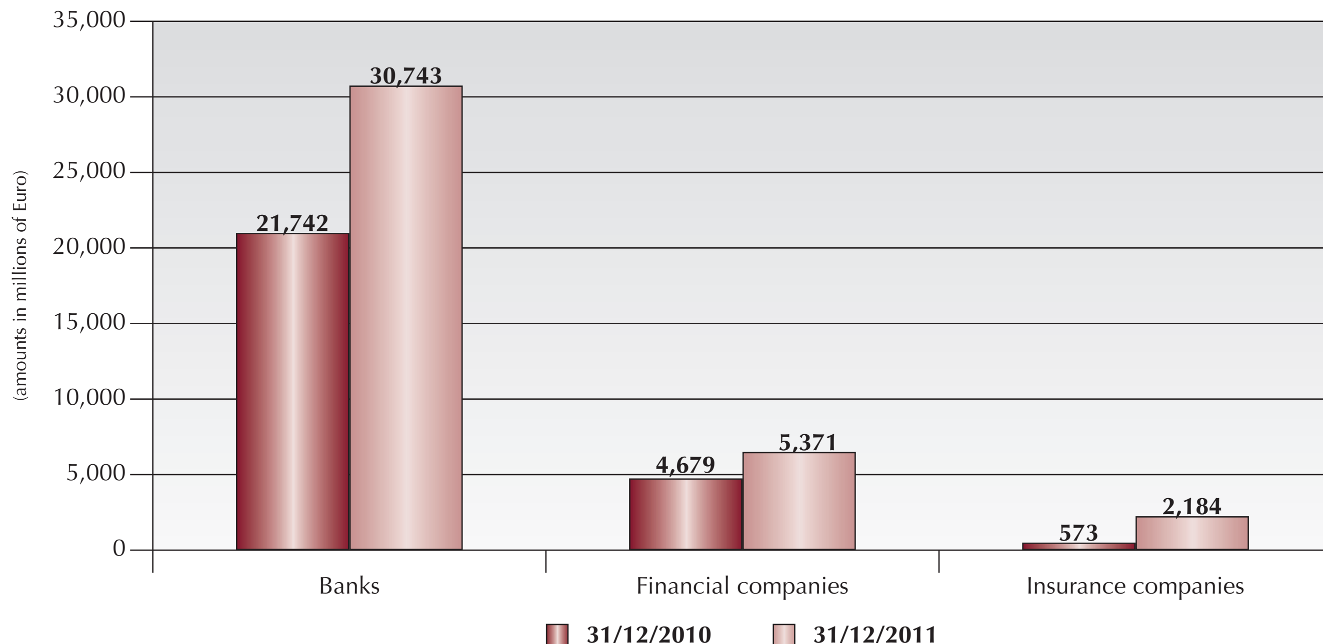
Examining the transactions with derivative instruments, opposite dynamics are noted in the brokered stocks with respect to those recorded at year-end.

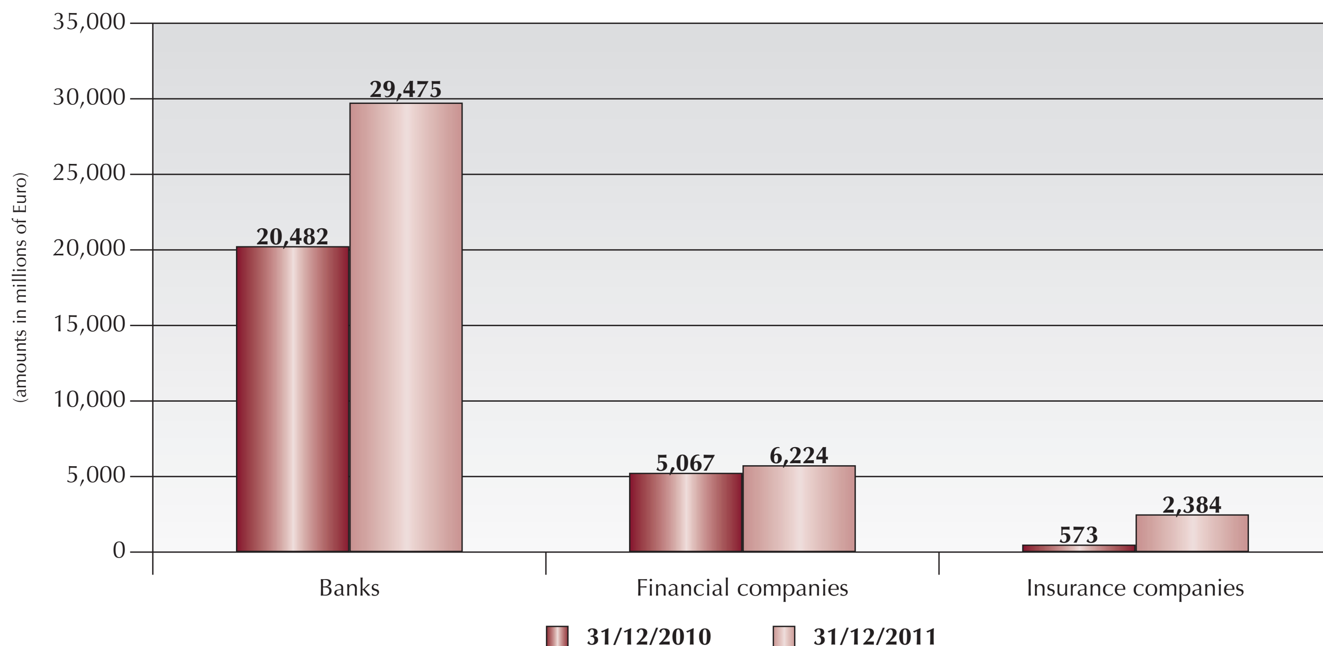
(nominal amounts in thousands of Euro)

Credit derivatives	*31/12/2011*	*30/06/2011*	*31/12/2010*	*Changes from 12/2009*	
				Absolute	*%*
Protection purchases	38,297,728	32,051,999	26,994,086	11,303,642	41.87
Protection sales	38,082,767	31,528,137	26,122,830	11,959,937	45.78






PROTECTION PURCHASES - BREAKDOWN BY COUNTERPARTY
(amounts in millions of Euro)
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
21,742
30,743
4,679
5,371
573
2,184
Banks
Financial companies
Insurance companies
31/12/2010
31/12/2011


PROTECTION SALES - BREAKDOWN BY COUNTERPARTY
(amounts in millions of Euro)
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
20,482
29,475
5,067
6,224
573
2,384
Banks
Financial companies
Insurance companies
31/12/2010
31/12/2011

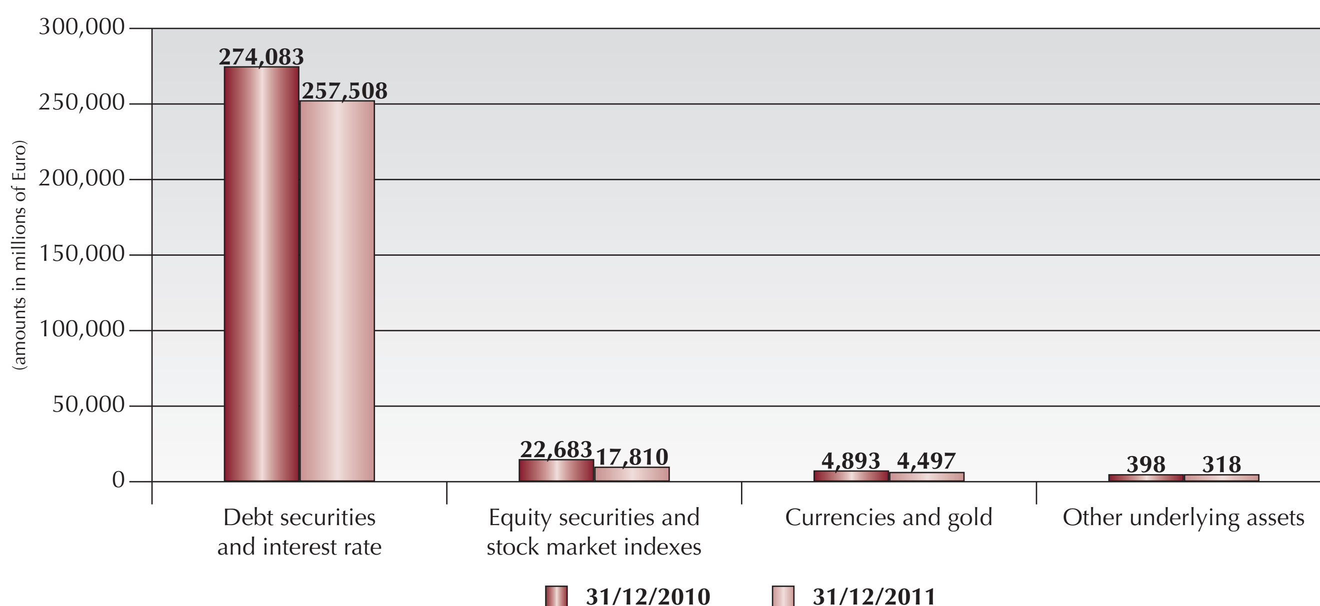
For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

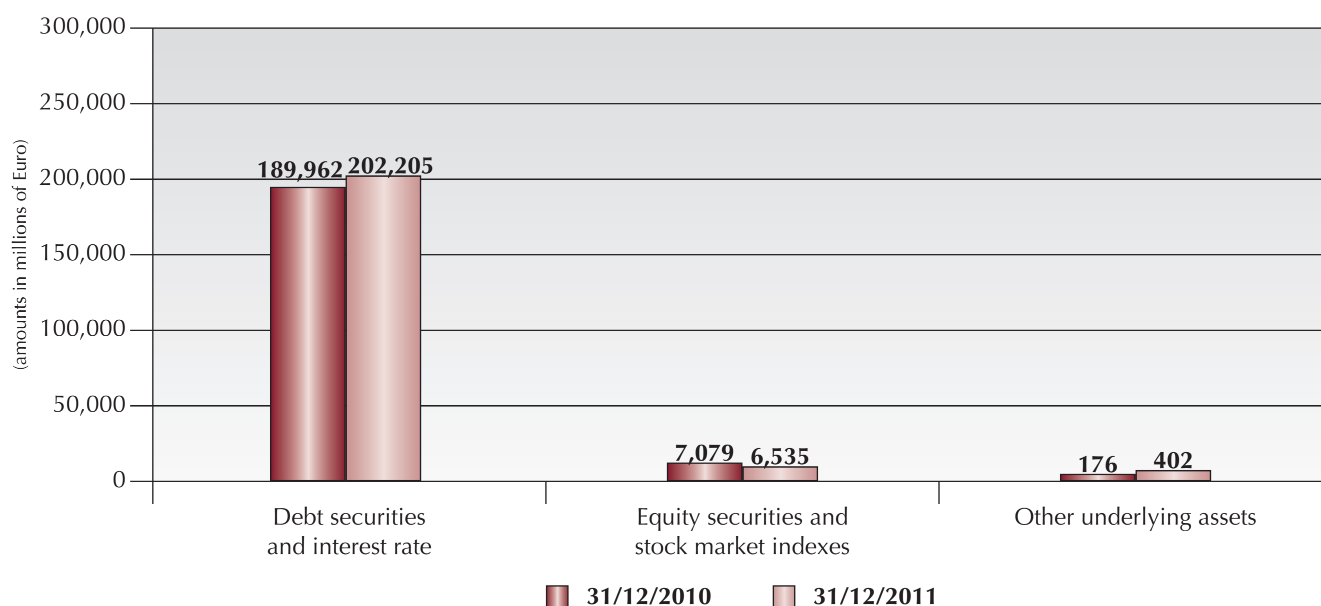
On the other hand, for the financial derivatives asset class, there was a slight overall contraction of 2.00% in nominal terms with respect to the previous year. In 2010, several OTC (plain vanilla) agreements were transferred from the "original" counterparties to the "Swapclear" clearing service, to mitigate the credit risks inherent in these instruments thanks to the marginalisation of all transferred positions, a policy which was also maintained in 2011. With respect to listed derivatives, there was a €2,081 million decrease in these positions.

(nominal amounts in thousands of Euro)

Financial derivatives	*31/12/2011*	*31/12/2010*	*Changes from 12/2010*	
			Absolute	*%*
Over the counter	280,133,655	302,057,484	(21,923,829)	(7.26)
Central counterparties	209,142,456	197,217,140	11,925,316	6.05
Total	**489,276,111**	**499,274,624**	**(9,998,513)**	**(2.00)**

OTC DERIVATIVE NOTIONAL VALUES - BREAKDOWN BY UNDERLYING ASSET

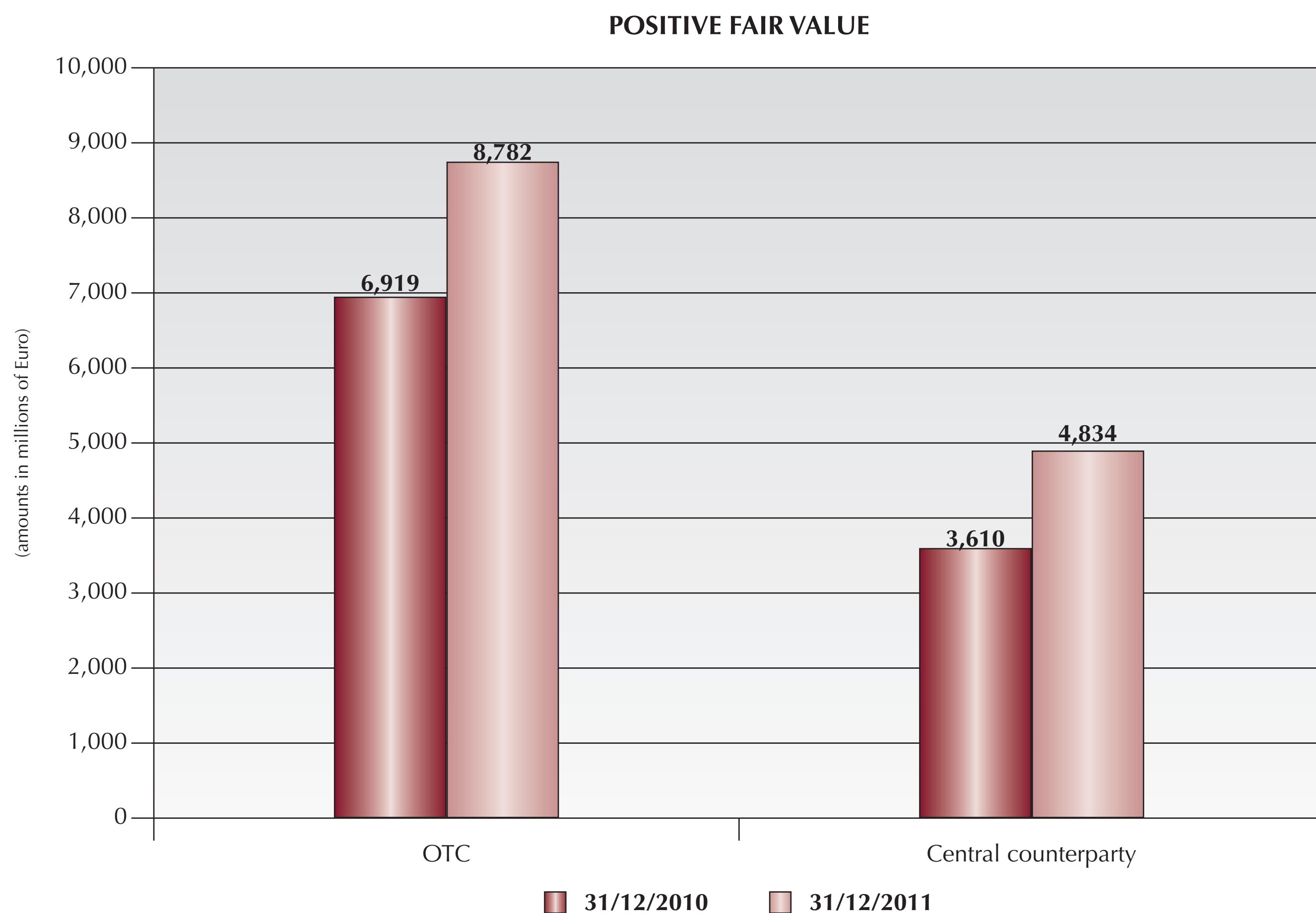


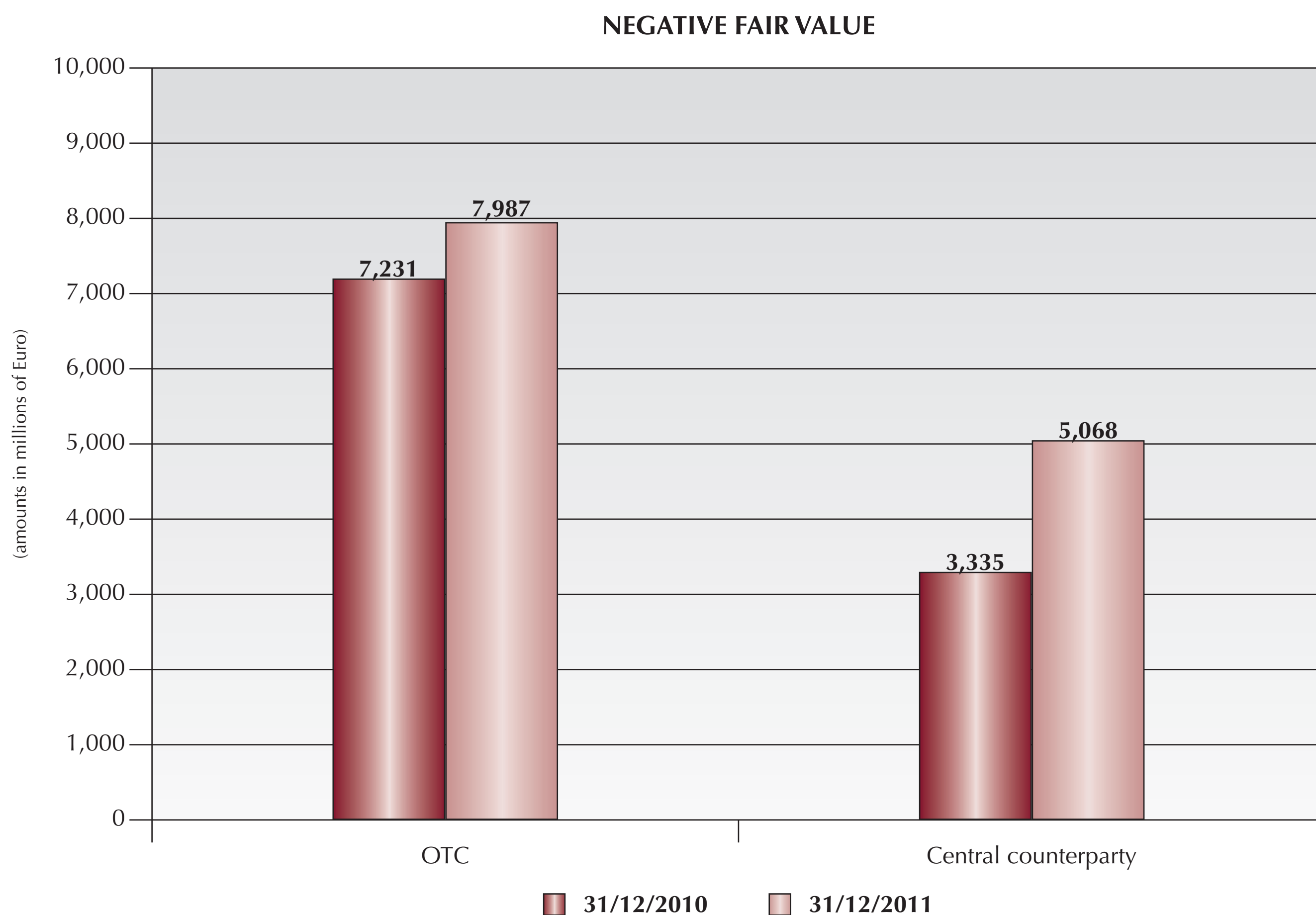


The overall evaluations as at 31 December 2011, compared with the values of the previous year, are shown below. Naturally, listed future style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded. It is clear that the Bank increased its operations in the second half of 2011, after a decrease in the first half which was accompanied by a contraction in valuations.

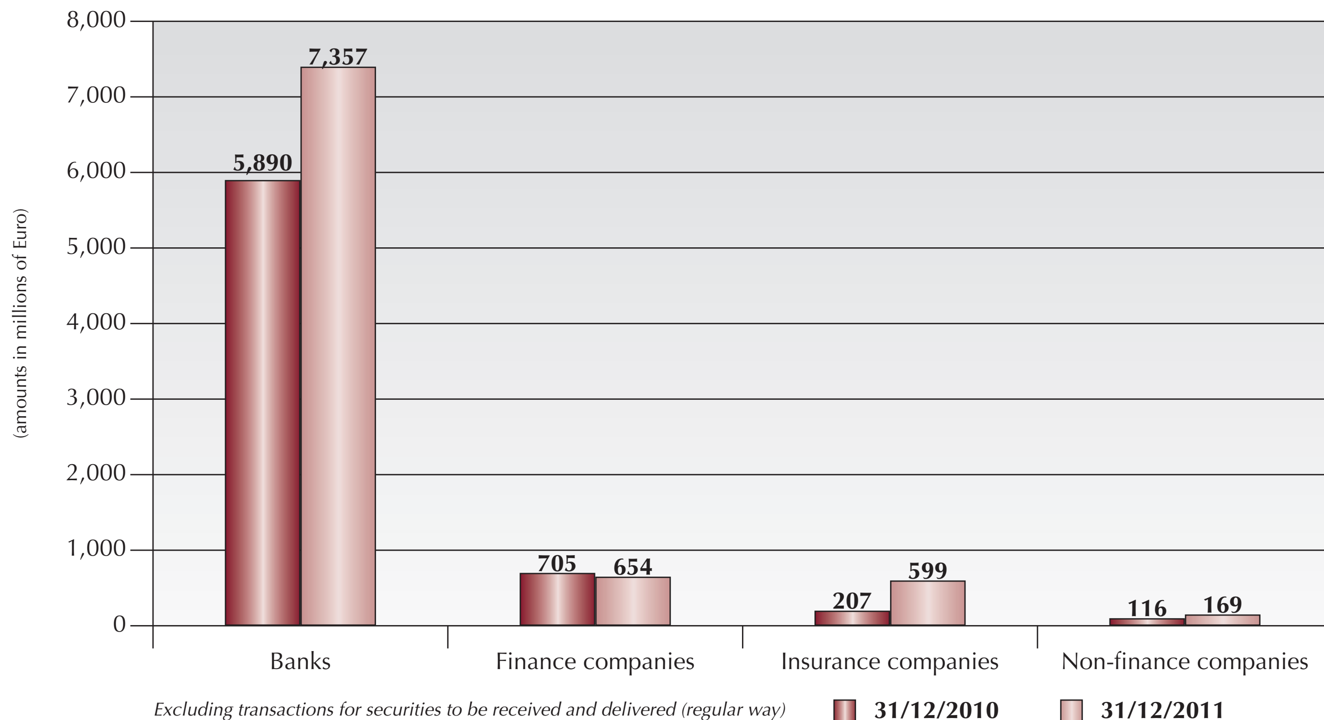
(amounts in millions of Euro)

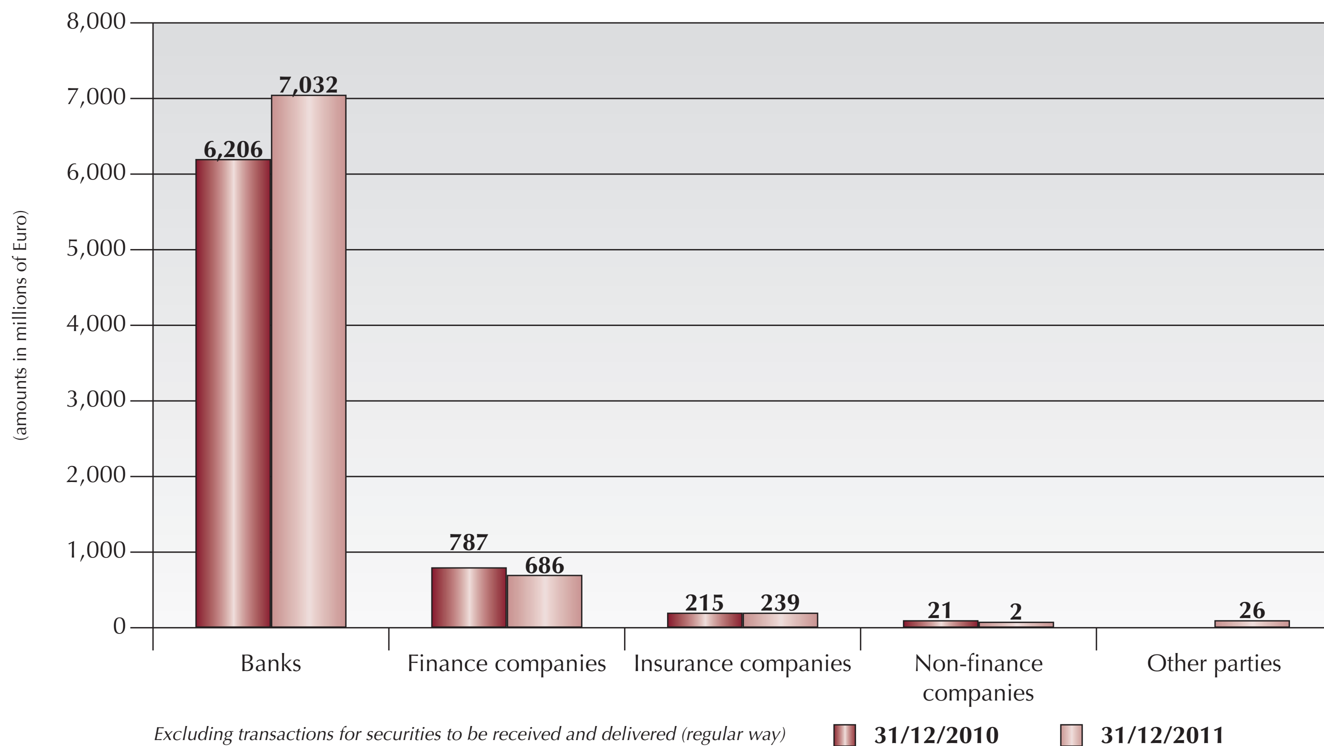
Financial derivatives	*31/12/2011*	*30/06/2011*	*31/12/2010*	*Changes from 12/2010*	
Valuation (fair value)				*Assolute*	*%*
Positive (of which Assets item 20	13,613,805	8,690,374	10,528,743	3,085,062	29.30
Negative (of which Liabilities item 40)	(13,053,708)	8,659,125	(10,564,076)	(2,489,632)	23.57


POSITIVE FAIR VALUE
(amounts in millions of Euro)
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
6,919
8,782
3,610
4,834
OTC
Central counterparty
31/12/2010
31/12/2011

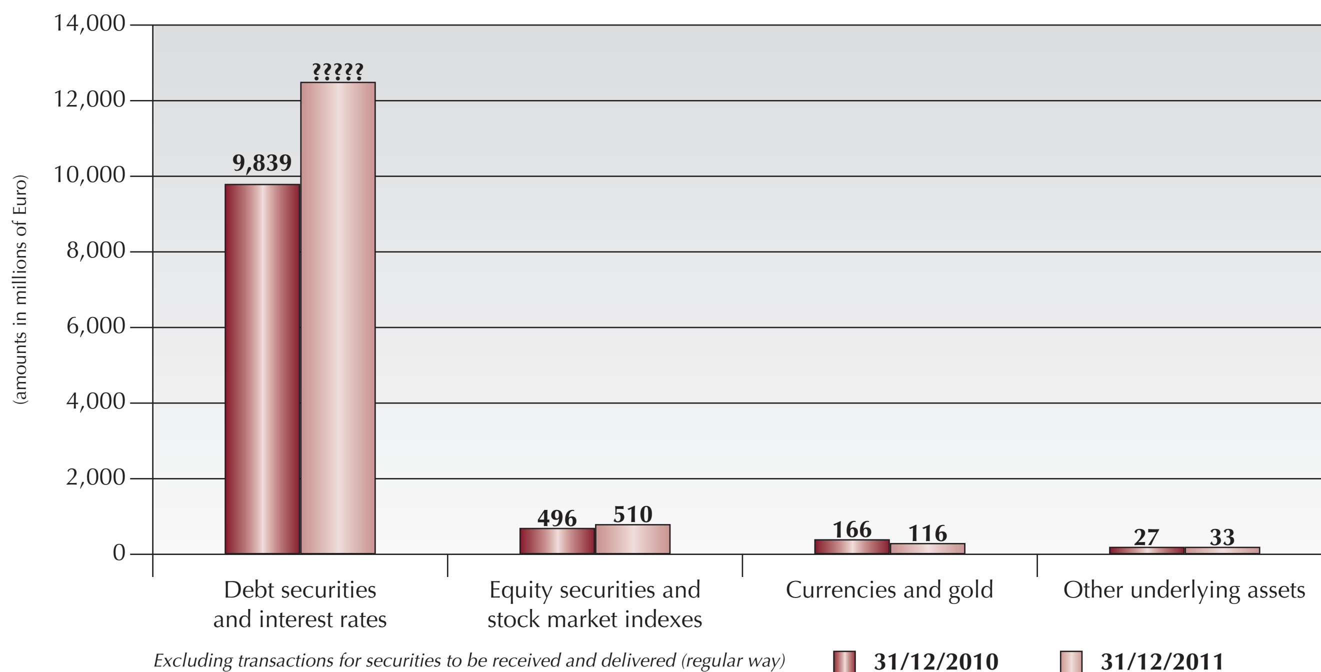


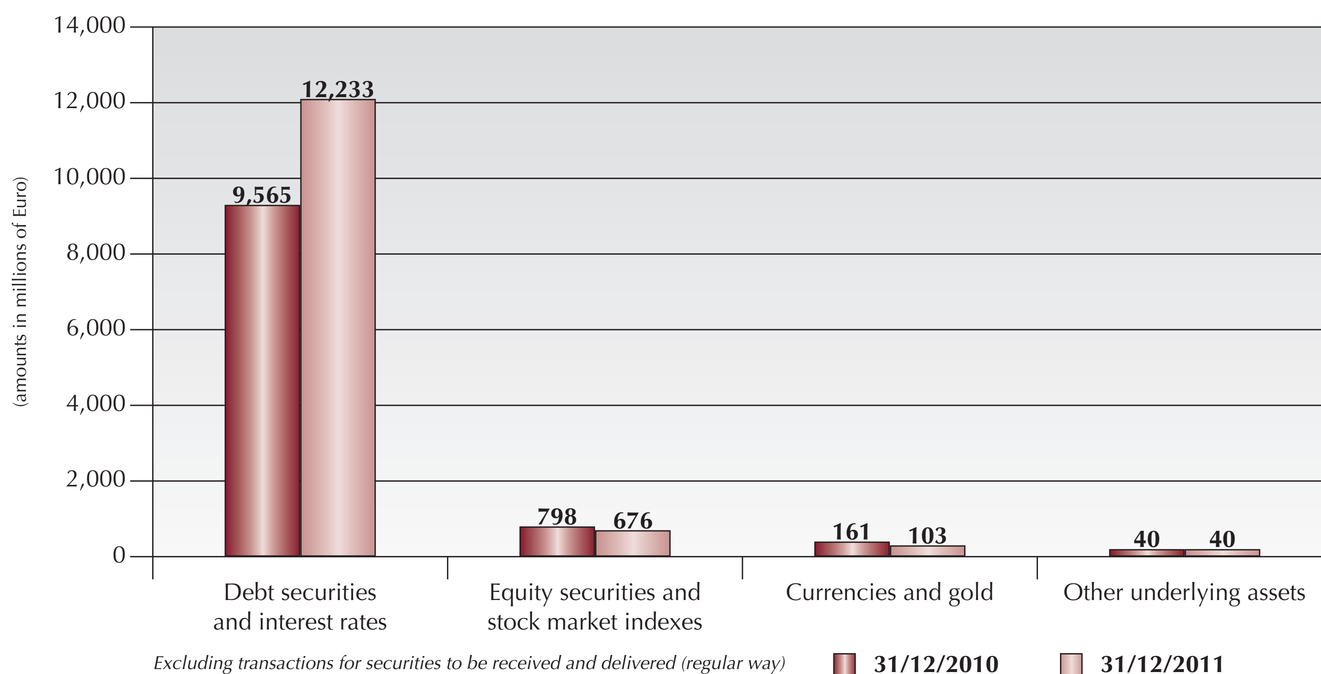
With respect to the "Central Counterparty" item, exposures in fair value terms to Swapclear as at 31 December amount to €4,695 million as positive fair value and €4,914 million as negative fair value.


POSITIVE FAIR VALUE - BREAKDOWN BY OTC COUNTERPARTY
(amounts in millions of Euro)
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
5,890
7,357
705
654
207
599
116
169
Banks
Finance companies
Insurance companies
Non-finance companies
Excluding transactions for securities to be received and delivered (regular way)
31/12/2010
31/12/2011


NEGATIVE FAIR VALUE - BREAKDOWN BY OTC COUNTERPARTY
(amounts in millions of Euro)
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
6,206
7,032
787
686
215
239
21
2
26
Banks
Finance companies
Insurance companies
Non-finance companies
Other parties
Excluding transactions for securities to be received and delivered (regular way)
31/12/2010
31/12/2011

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.





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 2011 with a net profit of €45.41 million, recognised according to the International Financial Reporting Accounting Standards (IAS-IFRS).

The following statement is drawn up with "management" criteria, which involved reclassifications compared to what is shown on an accounting basis for some items; specifically:

- the reclassified income statement item "Interest margin" is the result of the imbalance between item 10 "Interest and other income" and item 20 "Interest expense and similar charges". The management aggregate is shown net of changes totalling €0.2 million relative to interest, both income and payable, generated by positions disbursed in previous years and derived from the revision/restructuring of contractual conditions or transfer to dispute, for which it was decided to link it to the management item "other operating income/charges". Moreover, the economic effects of the valuation based on the amortised cost method of debt securities classified amongst loans & receivables were conventionally posted to "trading income" for approximately €1.02 million. Finally, the management reclassification also includes passive commissions for pool securities lending of €0.15 million, an amount which is shown under item 50 "Fee expense" in the financial statements. In summary, the overall reconciliation difference between the management and accounting value of the "Interest margin" amounts to €0.95 million.
- the reclassified income statement item "Total net fees from customers" is the result of the imbalance between items 40 "Fee income" and 50 "Fee expense". The management aggregate was shown net of the economic effect of fees equalling net €1.26 million, due to changes in contractual conditions in force; that amount was linked for management purposes to "Other operating income/charges". In addition to said adjustment is the already noted splitting of passive commissions for poo<l securities lending for €0.15 million, linked for management purposes to the "Interest margin". The difference between the management and accounting reclassification shows higher revenues of approximately €1.41 million.
- the reclassified income statement item "Other revenues from financial management" includes the values of financial statement items 70 "Dividends and similar income", 80 "Net income from trading activities", 90 "Net income from hedging activities" and 100 "Profit/loss from disposal or repurchase of financial assets available for sale", in addition to the profits and losses generated by equity investments which are instead shown under item 210 "Profit/losses from equity investments" (quantified as approximately €3.9 million). Furthermore, also from the management perspective, this item also includes trading income of €1.02 million, generated by the economic effect of valuation according to the amortised cost method of debt securities classified amongst loans & receivables.
- the management aggregate "Net value adjustments for impairment" perfectly coincides with the item in the financial statements.
- the reclassified income statement item "Operating costs" includes the values of financial statement item 150 "Administrative expenses", which includes both personnel expenses (item 150 a)) and other administrative expenses (item 150 b)). Regarding personnel expenses, the differences between the balance shown in the financial statements and the management figure are due to costs relative to past years generated by expenses which, although accrued in previous years, had a certain financial manifestation during the year under review; they amount to €0.5 million and in the management figures are included within the "Other operating income/charges" aggregate. As regards other administrative expenses, the differences between the accounting and management figures are basically due to not including costs relative to the collection of loans in dispute charged back to customers, amounting to €4.4 million, within the management figure. In conclusion, the overall difference between the "Operating costs" and "Administrative expenses" aggregates amounts to approximately €4.9 million less in costs.
- the aggregate "Net provisions for risks and charges" corresponds to and coincides with the values shown under the financial statement item 160 "Net provisions for risks and charges".
- the reclassified income statement item "Other operating income/charges" includes the financial statement item 190

"Other operating income/charges", which equals over €4.3 million (positive), and has an overall negative management value of -€1.2 million. This difference is due to the combined effect of the reclassifications described in the paragraphs above and below.
- the reclassified income statement item "Income taxes for the year on current operations" corresponds to financial statement item 260. The amount of €0.9 million is partially excluded therefrom, which is related to the calculation of lower taxes calculated for the purpose of the BMPS Group tax consolidation. That amount was added to the aggregate "Other operating income/charges", which resulted in showing management taxes totalling €42.8 million against the accounting figure of €41.8 million.

(amounts in millions of Euro)

IAS Income Statement	31/12/2011	21/12/2010	% Change 2011-2010
INTEREST MARGIN	**272,88**	**260,16**	**4.89%**
TOTAL FEES FROM CUSTOMERS	**43,68**	**39,55**	**10.46%**
OTHER REVENUES FROM FINANCIAL MANAGEMENT	**-10,64**	**29,67**	**-135.87%**
MARGIN FROM FINANCIAL & INS. MANAGEMENT	**305,92**	**329,38**	**-7.12%**
NET VALUE ADJUSTMENTS FOR IMPAIRMENT	-126,77	-122,92	3.13%
INCOME FROM FINANCIAL AND INS. MANAGEMENT	**179,15**	**206,46**	**-13.23%**
OPERATING COSTS	**-75,36**	**-77,80**	**-3.13%**
NET OPERATING PROFIT	**103,79**	**128,66**	**-19.33%**
Net provisions for risks and charges	-14,39	-9,21	56.28%
Other operating income/charges	-1,21	10,64	-111.37%
PROFIT (LOSS) BEFORE TAXES	**88,19**	**130,09**	**-32.21%**
Income taxes on current operations	-42,78	-47,67	-10.27%
- Tax Rate	*48.5%*	*36.7%*	
PROFIT (LOSS) FOR THE PERIOD	**45,41**	**82,42**	**-44.91%**

Briefly, the "**Interest Margin**" and the "**Total Fees from Customers**" were higher, respectively by 4.9% and 10.5%, than the values of the same period of the previous year, whereas "**Other Revenues from Financial Management**" were 135.9% below the 2010 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".
In terms of the fees item, the excellent performance is to a great extent the consequence of Global Markets activities, in addition to the result achieved by the Corporate Finance Division and the Investment Banking Division, which positively contributed to the overall result.

Consequently, the "**Margin from Financial and Insurance Management**", at €305.9 million, is 7.1%, or about -€23.5 million, lower than the 2010 result.

"**Net value adjustments for Impairment**" increased significantly to €126.8 million, versus the amount of €122.9 million in 2010. This amount once again reflects the level of maximum attention pursued by the Bank for financial year 2011 to control credit risk, also in consideration of the persistence of a macroeconomic scenario that is complex and rich in uncertainties.

With respect to "**Operating costs**", there was a decrease of 3.1% compared to 2010, as a direct result of the Bank's systematic containment action based on the guidelines issued by the Parent Company.

"**Profit before Taxes**" amounted to €88.2 million, versus €130.1 million in 2010, with a negative difference of about €41.9 million (-32.21%).

"**Income taxes**" for the period, both current and deferred, amounted to €42.8 million with an effective tax rate of 48.5%. The tax rate recalculated gross of the amount paid to the tax authorities for a fiscal transaction related to a notice of assessment, totalling approximately €1.5 million, would have been 46.8%.

"Profit for the Period", net of taxes, was €45.4 million, versus €82.4 million the previous year.

MANAGEMENT INDICATORS

(amounts in millions of Euro)

	31/12/2011	21/12/2010	% Changes
Credit quality indices (%)			
Net non-performing loans / Loans to customers	11.48	8.62	33.23
Net watch-list loans / Loans to customers	5.41	4.11	31.65
Profitability indices (%)			
R.O.E. on shareholders' equity [(1)]	3.92	7.33	(46.61)
R.O.E. on capital balance [(2)]	4.05	7.71	(47.53)
Interest margin / Operating revenues [(3)]	152.32	126.01	20.88
Net fees/ Operating revenues [(3]	24.38	19.16	27.28
Operating costs / Operating revenues [(3]	42.07	37.68	11.63
Net adjustments on on-time receivables / loans	0.87	0.88	(0.33)
Capital ratios (%)			
Tier 1 capital ratio [(4)]	6.19	6.85	(9.64)
Total capital ratio [(4)]	7.47	7.91	(5.56)

[(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 €42.2 million, versus €41.1 million as at 31 December 2010. Based on the criteria set forth by international accounting standards, equity investments are classified in the following balance sheet items: "Financial assets available for sale - Item 40" and "Equity investments - Item 100"; shown below.

(amounts in millions of Euro)

Company	*% Stake*	*Carrying amount*
Marina di Stabia S.p.A.	15.37%	6,606
S.T.B. Società delle Terme e del Benessere S.p.A.	14.10%	5,823
Moncada Solar Equipment S.r.l.	21.67%	5,541
Ital TBS Telematic & Biomedical Services S.p.A.	1.98%	908
Società Infrastrutture Toscane S.p.A.	4.80%	576
ABS Technology S.p.A.	10.00%	500
DBI - FAU S.r.l.	30.00%	450
Bioera S.p.A.	2.82%	442
Classica S.p.A.	9.68%	422
Classica Sviluppo S.p.A.	9.68%	379
Newco S.p.A.	3.61%	300
Arkimedica S.p.A.	3.32%	235
Arcea Lazio S.p.A.	5.00%	210
Other (*)		2,786
Equity investments classified among "Financial assets available for sale" Item 40		**25,178**
MPVenture 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%	
Equity investments classified under item 100 "Equity investments"		**19,533**
TOTAL EQUITY INVESTMENTS		**44,711**

(*) of which €2,500 thousand for joint ventures as per Law 24/12/2007 no. 244 par. 325 and 327 - cinematographic credit (Motorino Amaranto, IIF and Bibifilm, for 1,500, 600 and 400 thousand, respectively)

The table below summarises the investments for 2011:

(amounts in millions of Euro)

Name/Headquarters	*Investment Amount*
S.T.B. Società delle Terme e del Benessere S.p.A.	795
Bioera S.p.A.	508
DBI - FAU S.r.l.	450
Arkimedica S.p.A.	243
Financial assets available for sale	**1,996**
Equity investments	**-**
TOTAL	**1,996**

Regarding the transactions listed above, Bioera and DBI-FAU are new investments, S.T.B. is a follow on, while the investment in Arkimedica was generated by a settlement agreement related to a loan. Please see the notes commenting on the main investee companies for additional information.

Regarding disposals carried out in 2011, 22% of MPVENTURE SGR S.p.A. (formerly MPS Venture SGR S.p.A.) was disposed of for €4,345 thousand (net of costs incurred for the sale). That shareholding was shown in the financial statements as at 31 December 2010 under "non-current assets held for sale" with a value of €445 thousand. Please see the notes commenting on the investee MPVENTURE SGR S.p.A. for additional information.

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 (lasting until 31 December 2080) for the construction and management of a tourist marina in Castellammare di Stabia, deriving from the conversion of an inactive industrial complex. The majority of the company's capital is held by a group of entrepreneurs and professionals from Castellammare di Stabia. In the course of 2011, the interest held by the Bank decreased slightly from 16.32% to 15.37%, since the Bank did not subscribe the share capital increase of €2.5 million resolved by the company and subscribed by other shareholders. The last transactions on share capital carried out in 2010 confirmed that the values were recoverable.

Moncada Solar Equipment S.r.l. - Aragona (AG). This company, founded in 2008 and part of the Moncada Energy Group, produces silicon thin film photovoltaic panels. Production started in 2010. The Bank is taking part in this initiative as a financial partner, with an equity investment representing about 21.67% of the share capital. In order to assess the investment, the existence of an option to sell the shares in favour of the Bank was considered in addition to the counterparty's solvency.

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. In the second half of 2011, the company resolved a share capital increase which the bank subscribed in option for €795 thousand. As a result of the subscription, the percentage share grew marginally to 14.10% (versus 13.82%) because the share capital increase was not subscribed by some minority shareholders. The Bank also holds 30 units of the closed-end real estate fund Cosimo I, managed by Castello SGR S.p.A., owner of the Fonteverde and Grotta Giusti property complexes managed by S.T.B.. The units are posted as available-for-sale assets, at an overall value of €1,704 thousand, calculated based on the most recent NAV available.

In order to assess the investment, the existence of an option to sell the shares in favour of the Bank was considered in addition to the counterparty's solvency.

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 1.98% of the share capital.

DBI - FAU Srl - Siena. This is a recently established company active in the sector of executing road sign works (vertical and horizontal traffic signs), as well as the sale of products and equipment related to road signs and train signals. The company was established to relaunch the company FAU S.p.A. through the identification of a new industrial partner (DBI Holding Corp.) and a transaction to lease a business unit from the company FAU. The company is controlled by the American DBI Holding Corp., working in the sector of transport infrastructure maintenance and management. The Bank holds an interest representing 30% of the share capital.

Bioera S.p.A. - Milan. This company is listed on the electronic equity market and is specialised in the production and sale of organic and natural products.
The Bank's investment (representing approximately 2.82% of the share capital) was purchased in 2011 following the subscription of a share capital increase for which MPSCS issued a guarantee commitment.

Classica S.p.A. - Padua. This is a financial company which controls Classica SIM S.p.A. In the first quarter of 2011, the company arranged for a proportional split-off, in favour of the newly established Classica Sviluppo S.p.A., of non-strategic equity investments with regard to the control of the stock brokerage firm (SIM), to comply with the capital parameters in relation to the control exercised over the SIM. The carrying value was attributed to the beneficiary company in proportion to the net equity being split off. The Bank holds an approximately 9.68% interest in the company. When assessing the investment an impairment loss of approximately €374 thousand was recorded as a result of the impairment losses posted by the company in relation to the subsidiary Classica SIM S.p.A..

Classica Sviluppo S.p.A. - Padua. Please see the comment on Classica S.p.A. The Bank holds a 9.68% interest in the company.

Società Infrastrutture Toscane S.p.A. - Florence. This is a special purpose vehicle, pursuant to art. 37 *quinquies* of Law 109/94, and holder of the concession to plan, build and manage the "Bretella Autostradale regionale a pedaggio Lastra Signa - Prato" motorway project. In December 2011, the Tuscany Region decreed that the concession was cancelled since it was too burdensome. The company is assessing possible initiatives to be undertaken in relation to the Tuscany Region's measure. The Bank has a 4.80% holding in the share capital, which is subscribed for €30 million, and 50% of the nominal amount is paid in. The company's main shareholders are Autostrade per l'Italia with 46% and the Florence Chamber of Commerce with 31%. In consultation with the Region's General management, the company has initiated the process for the recognition of costs incurred for the project, which are shown as outstanding items in the balance sheet assets.

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. In 2011, the control of the company was transferred from Amtec to Bassilichi, which purchased 60%, bringing its interest up to 90%.

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 14.65% of the company Marina di Stabia S.p.A.. The Bank holds an equity interest of 3.61%.

Arkimedica S.p.A. - Gattatico (RE). This company works in the healthcare sector (offering health care products and services) and is listed on the electronic equity market. The shareholding held (representing approximately 3.32% of the share capital) was acquired in execution of a settlement agreement between Cape Natixis SGR S.p.A., in extraordinary administration (of the first part), and MPSCS and Efibanca (of the second part), as full and final settlement of any guarantee obligation of Cape Natixis SGR S.p.A. (also in extraordinary administration) and of the Cape Natexis Private Equity Fund in relation to banks for the loan granted to the company Tech Med S.p.A. in liquidation (controlled by the fund, and holder of 27.5% of Arkimedica).

Arcea Lazio S.p.A. - Rome. This company is responsible for the design, construction and maintenance of the regional motorway network, established pursuant to Lazio Regional Law no. 37 of 28 October 2002, subsequently amended more than once by the Lazio Region (following disputes brought up at the community level on the regulatory system). The Lazio Regional Authorities are the majority public shareholder with 51%, while the minority shareholders include Autostrade per l'Italia S.p.A. (34%), Duemilacinquanta Consortium (10%) and the Bank (with 5%).

MPVenture S.G.R. S.p.A. - Florence. This asset management 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 closed the subscription (partial) of a new fund (MPS Venture 3), operative beginning in 2012.
During the year, the Bank disposed of a 22% shareholding in MPVenture SGR S.p.A. (formerly MPS Venture SGR S.p.A.) to the company "La Centrale Finanziaria Generale S.p.A." for a total net price of €4,345 thousand. Due to the disposal, the interest held in the asset management company decreased from 70% to 48%, with a resulting reclassification of the equity investment to associated companies, and the Asset Management Company is no longer included within the scope of MPS Group. The asset management company also took its current name (MPVENTURE SGR S.p.A.) in December 2011. The asset management company's shareholding structure is as follows: MPSCS 48%, Intermonte SIM 30%; La Centrale Finanziaria Generale S.p.A. 22%.

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 built on several lots in the resort, and the enhancement of several existing structures destined for offering accommodation and hotel services. The Bank is participating in the initiative as a financial partner with an equity investment, representing 20% of the share capital, acquired from the majority shareholder "INFI - MONTI S.p.A." in June 2008, for an investment of €5 million, in relation to a maximum commitment of €10 million. In order to check the recoverability of the investment, its valuation includes both the current option to sell shares in favour of the Bank and the counterparty's solvency.

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%).
When valuating the equity investment, the full reduction of the equity investment's value was reported due to the impairment losses verified by the company on the two subsidiary special purpose vehicles. The company's operational losses, correlated with the results of the subsidiary real estate vehicles, were considered in the process of valuating the credit exposure towards the investee.

Integrated Management of Risk and Capital[1]

Consistent with the historical strategy implemented and in line with the mission assigned to it, the Bank 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).

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 attributed 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;
- 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.

[1] *For more details on Risk Management methodologies and models, please see Explanatory Notes Part E "Information on risks and hedging policies".*

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) of the trading portfolio (trading book)
- Interest rate risk of the banking book (Asset & Liability Management - ALM)
- Liquidity risk
- Equity investment portfolio risk
- Collective investment undertakings risk (alternative funds)
- Operational risk
- Business risk
- Property risk
- Reputational risk

ACTIVITIES RELATED TO INTERNATIONAL SUPERVISORY REGULATIONS

In line with the principles of the New Capital Adequacy Agreement ("Basel 2"), as regards the First Pillar 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.
During the year, work continued for the completion and extension of the aforementioned models for Group 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. Compliance activities relating to Second Pillar also continued. During the first half, the Parent Company completed the methodological and organisational activities needed to coordinate the optimisation and governance of all 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, has complied with the obligation for quarterly publication of the consolidated information according to the provisions of the supervisory regulations. The disclosure has been published on the Montepaschi Group website

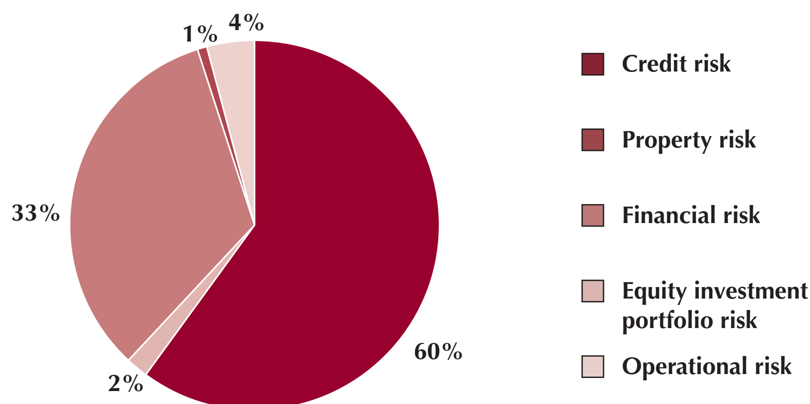
(www.mps.it/Investor+Relations) and is constantly updated based on the provisions of the current regulations in force. During the year, the Risk Management Department, together with other Group functions involved in the process, supported activities to prepare the stress tests required at the European level by the EBA. Methodological and application-related analyses required by the new international supervisory regulation (Basel III) were also initiated, particularly with regard to the treatment of liquidity, counterparty and market risk and the related adjustment of the reporting databases.

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, to be applied 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 standardised 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.

DIVERSIFIED ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31 DECEMBER 2011



As of 31 December 2011, the Total Diversified Economic Capital of MPSCS (excluding intra-group operations) was 60% 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) amounts to approximately 33% of the Total Economic Capital, whilst capital covering property risks is about 1%.
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 2011 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	30	8	8	**30**
Managers	317	108	49	**258**
Professionals	220	88	12	**144**
Total	**567**	**204**	**69**	**432**

Actual employees	*31/12/2011*	*31/12/2010*	*Changes from 12/2010*	
			Absolute	*%*
Executives	30	34	(4)	(11.76)
Managers	258	239	19	7.95
Professionals	144	154	(10)	(6.49)
Total	**432**	**427**	**5**	**1.17**

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

- Inflows (total of 21):	
15	ordinary hirings
6	secondments received
- Outflows (total of 16):	
7	personnel seconded to the Parent Company BMPS, Consum.it and the Operational Consortium
5	termination of secondments received
2	resignations
2	voluntary redundancy

DISTRIBUTION BY AGE GROUP AND AVERAGE AGE

The following information pertains to the "workforce" situation as at 31 December 2011:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	*age*
Women	10	65	52	40	167	42.44
Men	11	82	122	50	265	42.98
Total 2011	**21**	**147**	**174**	**90**	**432**	**42.77**
Incidence	4.86%	34.03%	40.28%	20.83%	100.00%	
Total 2010	**18**	**159**	**167**	**83**	**427**	**42.53**
Incidence	4.22%	37.24%	39.11%	19.44%	100.00%	

HIRING

In 2011, the Bank hired 15 personnel holding high professional qualifications, to strengthen its business units. These hirings partially involved the Global Market, to both reinforce the Financial Controls Staff and consolidate the following business units: Financial Institutions, Fixed Income, Credit Trading and Customer Desk. Additional operational adjustments regarded the Investment Banking Division and the structures reporting to the administrative bodies, including Compliance.

SECONDMENTS

Operational integration procedures initiated by the Parent Company led to the entry into the Bank of 6 seconded resources. Those resources particularly helped to strengthen the Corporate Customer Desk Office. At the same time, 7 of the Bank's employees were seconded to other Group entities, and the secondments of 5 resources from the Parent Company finished.

TERMINATION OF THE EMPLOYMENT RELATIONSHIP

This year, in relation to the Bank's "workforce" - 2 employees resigned and 2 employees left the Bank since, having earned the right to receive their pensions, they were able to take advantage of voluntary redundancy according to the implementation methods set forth at the MPS Group level.

TRAINING OF PERSONNEL

The training conducted in 2011 involved the Bank directly holding courses mostly of a technical nature specific to MPSCS. Furthermore, specific training events for executive and management personnel were planned, and partially carried out, in order to develop and support managerial qualities. In addition, multiple opportunities were promoted to participate in external specialist courses held by consultants with proven professional qualifications.
Overall, 5,928 training hours were provided, 4,154 in the classroom and 1,774 online.

The main areas in which training was provided were:
- skills and managerial development (101 hours);
- credit, risk management and planning (15 hours);
- finance (544 hours);
- legal/juridical, compliance and auditing (4,250 hours);
- production and organisation systems (620 hours);
- other courses, including on the English language (398 hours).

The main areas covered in the Bank's classroom courses were:
- the regulations of the "MIFID - Markets in Financial Instruments Directive" (432 hours, 67 resources trained);
- "law no. 231/2001 Corporate responsibility, Code of Ethics and the Liability of Juridical Persons" (1,014 hours, 342 resources trained);
- "Anti-Money Laundering" legislation (509 hours, 77 resources trained).

EMPLOYMENT AND TRADE UNION RELATIONS

In 2011, continuous contact with the company's Trade Unions continued, supporting the maintenance of a good "corporate climate" level, which has been strengthened in recent years, and also ensuring a fluid management of employment relations.

Organisational and Technological Dynamics

The main project areas addressed in 2011 were:

I. Securitisation of credit assets (self securitisation)
This operation, which concluded in November, was carried out with the cooperation of the Parent Company and the Operational Consortium to support the Group's funding policies, and helped to optimise the characteristics of the Bank's assets which would increase their ability to be refinanced with the ECB. The most significant initiatives carried out were the creation of a dedicated team to manage that operation and the implementation of specific IT procedures.

II. Health and Safety Certification and confirmation of the Environmental Certification
The Bank achieved two important results with regard to corporate social responsibility: renewing the Environmental Management System Certification, according to the international ISO 14001 standard, and obtaining the Occupational Health and Safety Management System Certification (SSL) according to the OH SAS 18001 standard. In fact, the audit of the Management Systems by the Certification agency (RINA Services Spa) concluded successfully last June. Controls were carried out on the documents, processes and regulatory compliance of the properties of the Florence, Siena and Rome offices. At the end of the controls, the Rina audit team assessed both Systems as "well configured, implemented and disseminated within the Bank".

III. Co.Met.A. and SAP liabilities cycle
Within the process of standardising the Bank's "no core" applications, participation continues in the structuring of the Co.Met.A. application (a modern platform soon to be introduced to support synthesis processes - accounting, reporting and financial statements). Activities for the acquisition of the SAP application beginning from 1 January 2012 to support the general expense management procedure were also basically completed. At that time, the Bank defined the activities necessary to concentrate the invoice payment phases within the Operational Consortium, in line with the Group's operating model, which involves widespread use of specialised services provided on an outsourcing basis by the various Group entities.

IV. Exploiting and Rationalising the Bank's Property Assets
In partnership with the Parent Company, initiatives continue to complete the Asset Disposal project and to finish the disposal of other properties owned by the Bank and not used for business purposes.

V. Financial Markets and Monitoring of Market and Counterparty Risks
The main initiative supporting finance activities was the activation of the MTS Market Bond Vision Platform; through this infrastructure, the Bank was able to participate in the competitive auctions of government bonds planned by the ECB. Market and counterparty risk monitoring was also reinforced by: participating in the Compensation and Guarantee Fund for Eurotlx; participating in the EFSF (European Financial Stability Facility); completing the novation of more standardised over the counter derivative contracts (typically irs plain vanilla) at the LCH clearing house.

VI. Model Optimisation and increasing organisational efficiency
When supervisory provisions or market conditions change, in relation to developments in the Group's Business Plan, the Bank's organisational structure is adapted immediately to ensure maintenance of the streamlined operations which have always characterised it. The most recent actions are reported below: i) establishment of the Anti-Money Laundering department in compliance with the provisions of the Bank of Italy measure of March 2011, placed within the Compliance Office, in line with the model adopted by the Parent Company; ii) strengthening of the Operations Department with the creation of the Coordination and Operational Support Staff; iii) analysis of activities and controls carried out by the Business Control Unit and by the Middle Office of Global Markets, with the resulting issue of a specific internal regulation. Also in this area, and in compliance with the policies for cost containment and

standardisation with Group processes, the Parent Company was assigned real estate management activities. Furthermore, the storage of hard copy files was outsourced to specialised companies.

VII. Business Continuity

The Bank successfully participated in the national test conducted with the Bank of Italy's CODISE office, bearing witness to the investments made in terms of process, training and infrastructures, guaranteeing both compliance with supervisory regulations and the Bank's and the Group's continuity also in the case of a strong infrastructural crisis linked to natural disasters or other disastrous events.

VIII. Adaptation of Internal Regulations

The most significant "investments" were made with regard to: Management of risk oversight guarantees (Pledge), General expenses, Operating Risks, Form "231", Anti-Money Laundering, Valuation of Market Risks, OTC Derivatives for Customers and harmonisation of the Relative Product Catalogue, Code of Conduct with Related Parties, Group Code of Ethics and Company Code of Conduct.

Internal Audit

The Audit Function, which reports directly to the Management Body, oversees the Bank's overall Internal Control System, in full cooperation with the same department of the Parent Company and with the Bank's other control departments. The MPSCS Internal Control System, suitably regulated and updated on the basis of changes in the reference legislative and regulatory environment, aims to guarantee healthy and correct business management in line with pre-established goals through a suitable process for identifying, measuring, managing and monitoring the main risks. In this regard, keeping in mind the relevance and specific characteristics of the Bank in the context of the MPS Group, the goal of Internal Audit is to ensure, through targeted initiatives, the audit of the "highest risk" activities (Finance and Credit) and, through transversal initiatives, oversight over other business operations areas as well as assurance to Top Leadership and Control Bodies. In this sense, particular attention is given to the separation between lending and financial markets activities and in the latter area, between activities carried out on the Bank's behalf and those for direct customers or Group banks. During the year, the Audit Function completed the set of audits, remote analyses and supervisory and validation actions set forth in the Audit Plan. That plan is part of an audit cycle which, on a three-year basis, ensures that all relevant parts of business processes are audited. The Department also continued to supervise the precise codification of business processes, the relative responsibilities and controls, particularly resulting from what emerged during the audit activities and follow ups to verify that the issues found during the controls carried out in previous periods were solved. At the same time, raising awareness amongst the business structures continued in order to pursue a more widespread culture of controls and business compliance. Considering that the controls carried out did not detect particularly significant criticalities, that initiatives aimed at overcoming the majority of gaps found were promptly activated and that those issues are currently being addressed also due to follow ups, it is deemed that the Bank's overall Internal Control System is essentially suitable.

In particular, risks continue to be closely monitored and supervised, also by assigning specific control responsibilities and updating the operating limits defined by the Board of Directors and by Top Management, in line with the Parent Company's guidelines. Risk quantification is centralised within the Parent Company's Risk Management Department, guaranteeing that specialist controls and the measurement of the various risk components are carried out, particularly for financial, credit and operating risk.

Consistent with what has been done in previous years, particular focus was dedicated to the credit area and, in particular, to the analysis of positions classified as doubtful loans, the correct management of guarantees obtained against loans issued by the Bank, compliance with the regulations set forth for granting new loans and the analyses to grant credit to counterparties for financial transactions and the use of the override power and the consistency of the relative reasons.

As regards the finance area, given that the Risk Management Department supervises the trends of and compliance with VaR limits and the correct valuation of "Profit & Loss" on a daily basis, the work of the sales desks and the Business Control Unit was controlled, as well as activities carried out on the TLX market and on the Deal Done Trading systematic internaliser. The securitisation of OTC derivatives with foreign counterparties and the management of manual corrections carried out by the Middle Office were also controlled.

From the operating risks perspective, besides participating in periodic risk assessment activities, the functioning of the operating risks governance and management system was also reviewed. In that area, the Bank uses an integrated system based on a governance model managed by the Parent Company, aimed at the adoption of the advanced approach into regulations (A.M.A.), which regulates, at the MPS Group level, the process for the identification, measurement, monitoring and management of the risks of that kind.

Also in terms of risk monitoring, intense auditing activities on regulated and compliance processes were conducted during the year. As usual, the application of Law 262/2005 on the topic of financial accounting was verified, with precise controls on the general expenses process, on the use of different credit and debit ledgers as well as on the procedures for the accounting reporting of trading activities of the DDT systematic internaliser. Anti-money laundering controls were especially emphasised, and there is a specific long-term audit plan on this topic to control all related components. Similarly, the controls planned for other transversal topics, such as Transparency and Business Continuity Management, were also completed. Finally, it should be noted that transactions with the Parent Company's Related Parties and obligations concerning the maintenance of the organisational model pursuant to Legislative Decree 231/2001 were also audited.

Compliance

In 2011, the Compliance Office's work was focused on topics already analysed in previous six-month periods; particularly, compliance activities regarded the incorporation within business processes and regulations of the main new legislative elements (such as those on Privacy, Anti-Money Laundering and Related parties) as well as the interventions identified as necessary within the Compliance Plan prepared at the beginning of the year.
The analysis conducted and summarised in the compliance reports shows an essential compliance for topics with a significant impact; this compliance was also found in the results of the assessment model adopted, with improvement areas limited to investment services.
With regard to investment services compliance, activities aimed at drawing up a new contractual set for transactions in OTC derivatives continued, and the internal regulatory document relative to the functioning and organisation of the DDT was also revised and supplemented. The new regulatory document, specifically, extends the possibility to apply the short preliminary investigation procedure to other types of bonds.
In terms of the obligations related to the MiFID Directive, during the year, a master agreement for investment services was drawn up, and the MiFID attachments were prepared (conflicts of interest policy, Inducements policy and Execution Policy) for direct operations with retail and professional customers.
With regard to related party transactions regulated by Consob Resolution 17221 (as subsequently amended with resolution 17389) to implement the delegation of authority contained in Article 2391 bis of the Italian Civil Code, the Bank enacted the relative Group Directive on 11 January 2011.
Regarding anti-money laundering compliance and the fight against terrorism, the activities implemented particularly helped to optimise the procedure for making AUI records. Activities focused on collecting and filing documentation to re-assess existing customers continue (particularly the acquisition of the statement as per art. 21 and the KYC Questionnaire). In the second half, the KYC IT application was also launched, to assess the adequate/reinforced customer supervision. As a result of the Bank of Italy measure of 10 March 2011, the Anti-Money Laundering Department was established within the Compliance Office, and all materials for governing the risk of money-laundering and financing of terrorism were also supplemented.
Instead, with regard to banking services compliance, on the topic of transparency, the simplified loan cancellation procedure - introduced by the Bersani Decree in 2007 - was monitored, while for privacy purposes, the main new elements arise from the regulations of Decree-Law no. 70/2011, which aligned the Italian regulation with the position of other European Union countries.
As regards Form 231,the Bank completed the self-assessment procedure to evaluate the controls implemented over risks identified related to the banking and financial area, which supports the achievement of full compliance with the requirements set forth in Legislative Decree 231/2011 for exemption from corporate administrative liability.
At the beginning of 2011, based on the Bank of Italy measures issued in recent years, the “Incentive Salary Models” Working Group was established which, in cooperation with and with the prior authorisation of the applicable Parent Company functions, is responsible for examining the measures issued by the relevant domestic and European bodies as well as the Parent Company documentation on this topic, defining and sharing with the Bank's Management the criteria for developing distribution models as well as handling relations with the various figures involved.
On the topic of claims and alternative dispute resolution systems, the internal claims regulation (D40) was issued which regulates, *inter alia*, the functioning of the Conciliation and Arbitration Chamber established at Consob (which began working on last 21 March). Furthermore, based on the fact that an attempt at conciliation is an obligatory condition for taking legal action regarding banking and financial agreements (in force as of last 20 March), the applicable functions also prepared a process document which specifies the principles and operating requirements related to that obligation. During the year, on the topic of investment services, 6 claims related to transactions on financial instruments were submitted, and one was accepted. Instead, 9 claims were submitted regarding banking services, of which two were accepted and one is currently being assessed as of the reporting date.

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).
During the year, activities to maintain the Management System continued, and more specifically, periodic monitoring on the management procedures as well as controls on compliance with applicable environmental regulations were conducted.
In June 2011, the RINA certification Agency carried out its usual annual visit to confirm the ISO 14001 certification. The Management System's area of application has expanded. It currently includes disbursement of credit, Corporate Finance services, consulting and services offered to the Public Administration for granting public facilitations, and since 2011, it has also included structured finance services, investments and activities on the capital market.
As a result of the audit, the certification Agency provided only some recommendations for improvement.

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 2011 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 2011. 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 2011. 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. Services outsourced to and financial transactions carried out with MPS Group counterparties, summarised below, are as a rule governed on the basis of regular market conditions regulated by dedicated agreements between the Parties (called Service Level Agreements (SLA)).
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, set forth in detail in the paragraphs above;
- 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 Group bank specialised in carrying out collection procedures for loans which have become uncollectable), 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 Company and some of its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised oversight of risk management by the Parent Company's Risk Management Department;
- 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 amounts exceeding the specific thresholds by Parent Company structures, in the function of Centralised Group Purchasing;
- the lease of premises owned by the Group.

In the course of 2011 "atypical or unusual" transactions were not carried out which in terms of significance and/or relevance could have given rise to doubts regarding the preservation of the company assets, either with related parties or with parties other than related parties.

In order to provide a comprehensive disclosure, please note that, unlike what was done in previous years, the Bank did not provide for any purchase of shares of the parent company for bonus allocation to the Bank's employees (stock granting from 2010), as agreed between the Management and the Bank's trade union organisations (contrary to what is established in the supplementary employment agreement).

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

The Bank's operations in 2011, 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. One of the most significant events which occurred after the 2011 year-end close was that on 2 February, the Moody's rating agency placed the Banca Monte dei Paschi di Siena ratings under observation for a possible downgrade; in particular: the individual rating "D+" (Bank Financial Strength Rating or BFSR), the long term rating "Baa1" and the short-term rating "Prime -2".

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2011 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 2011 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2011

- to ordinary reserves (1/20)	**Euro**	**2,270,356.57**
- to reserves required by the Articles of Association pursuant to Article 26 (1/20)	**Euro**	**2,270,356.57**
- to extraordinary reserves	**Euro**	**13,624,219.95**
- payables to shareholders		
(as dividend to be distributed - Euro 0.03055 per share)	**Euro**	**27,242,198.38**
PROFIT FOR 2011	**Euro**	**45,407,131.47**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2011*	*31/12/2010*	*Changes*	
				absolute	*%*
10.	Cash and cash equivalents	1,666	2,180	(514)	(23.58%)
20.	Financial assets held for trading	35,479,341,542	28,448,476,303	7,030,865,239	24.71%
40.	Financial assets available for sale	72,028,333	72,237,570	(209,237)	(0.29%)
60.	Due from banks	4,571,815,458	1,696,934,944	2,874,880,514	169.42%
70.	Loans to customers	14,340,697,144	16,227,650,887	(1,886,953,743)	(11.63%)
80.	Hedging derivatives		329,880	(329,880)	(100.00%)
100.	Equity investments	19,532,713	19,572,713	(40,000)	(0.20%)
110.	Property, plant and equipment	15,307,539	15,837,545	(530,006)	(3.35%)
130.	Tax assets	96,053,133	86,682,746	9,370,387	10.81%
	a) current	*10,413,386*	*9,116,251*	*1,297,135*	*14.23%*
	b) prepaid	*85,639,747*	*77,566,495*	*8,073,252*	*10.41%*
140.	Non-current assets held for sale and discontinued operations		445,500	(445,500)	*(100.00%)*
150.	Other assets	22,590,980	32,852,244	(10,261,264)	(31.23%)
	Total Assets	**54,617,368,508**	**46,601,022,512**	**8,016,345,996**	**17.20%**

Balance Sheet

	Liabilities and Shareholders' Equity	*31/12/2011*	*31/12/2010*	*Changes*	
				absolute	*%*
10.	Due to banks	7,236,232,360	6,490,888,045	745,344,315	11.48%
20.	Due to customers	11,804,064,586	11,032,538,188	771,526,398	6.99%
30.	Outstanding securities	243,790,453	279,154,333	(35,363,880)	(12.67%)
40.	Financial liabilities held for trading	34,017,201,649	27,496,883,640	6,520,318,009	23.71%
60.	Hedging derivatives	1,111,240		1,111,240	-
80.	Tax liabilities	20,307,869	17,410,010	2,897,859	16.64%
	a) current	*16,678,825*	*13,752,211*	*2,926,614*	*21.28%*
	b) deferred	*3,629,044*	*3,657,799*	*(28,755)*	*(0.79%)*
100.	Other liabilities	89,901,977	108,130,822	(18,228,845)	(16.86%)
110.	Employee severance indemnities	2,168,161	2,277,341	(109,180)	(4.79%)
120.	Provisions for risks and charges	35,550,440	21,551,383	13,999,057	64.96%
	a) pensions and similar obligations	*5,834,354*	*6,157,977*	*(323,623)*	*(5.26%)*
	b) other provisions	*29,716,086*	*15,393,406*	*14,322,680*	*93.04%*
130.	Valuation reserves	(3,176,469)	(2,680,335)	(496,134)	18.51%
160.	Reserves	620,285,134	567,924,943	52,360,191	9.22%
170.	Share premium reserve	228,089,231	228,089,231	-	-
180.	Share capital	276,434,746	276,434,746	-	-
200.	Profit for the period	45,407,131	82,420,165	(37,013,034)	(44.91%)
	Total Liabilities and Shareholders' Equity	**54,617,368,508**	**46,601,022,512**	**8,016,345,996**	**17.20%**

Income Statement

	Items	*31/12/2011*	*31/12/2010*	*Changes*	
				absolute	*%*
10.	Interest income and similar income	757,462,251	542,563,420	214,898,831	39.61%
20.	Interest expense and similar charges	(483,635,407)	(282,637,246)	(200,998,161)	71.12%
30.	**Interest margin**	**273,826,844**	**259,926,174**	**13,900,670**	**5.35%**
40.	Fee income	114,489,847	173,915,409	(59,425,562)	(34.17%)
50.	Fee expense	(72,217,578)	(133,840,536)	61,622,958	(46.04%)
60.	**Net fees**	**42,272,269**	**40,074,873**	**2,197,396**	**5.48%**
70.	Dividends and similar income	84,806,253	179,514,865	(94,708,612)	(52.76%)
80.	Net income from trading activities	(99,555,062)	(149,763,477)	50,208,415	(33.53%)
90.	Net income from hedging activities	(4,405)	8,913	(13,318)	(149.42%)
100.	Profit (loss) from sale or repurchase of:	(811,411)	(128,461)	(682,950)	531.64%
	a) loans		-	-	-
	b) financial assets available for sale	*(811,411)*	*(128,461)*	*(682,950)*	*531.64%*
	c) financial assets held to maturity		-	-	-
	d) financial liabilities		-	-	-
120.	**Operating income**	**300,534,488**	**329,632,887**	**(29,098,399)**	**(8.83%)**
130.	Net value adjustments/write-backs due to impairment of:	(126,768,213)	(122,917,263)	(3,850,950)	3.13%
	a) loans	*(113,486,423)*	*(115,375,263)*	*1,888,840*	*(1.64%)*
	b) financial assets available for sale	*(373,539)*		*(373,539)*	-
	c) financial assets held to maturity		-	-	-
	d) other financial transactions	*(12,908,251)*	*(7,542,000)*	*(5,366,251)*	*71.15%*
140.	**Net income from financial management**	**173,766,275**	**206,715,624**	**(32,949,349)**	**(15.94%)**
150.	Administrative expenses	(79,786,287)	(78,091,678)	(1,694,609)	2.17%
	a) personnel expenses	*(42,725,548)*	*(41,428,969)*	*(1,296,579)*	*3.13%*
	b) other administrative expenses	*(37,060,739)*	*(36,662,709)*	*(398,030)*	*1.09%*
160.	Net provisions for risks and charges	(14,391,942)	(9,209,184)	(5,182,758)	56.28%
170.	Net value adjustments/write-backs on property, plant and equipment	(528,533)	(881,751)	353,218	(40.06%)
180.	Net value adjustments/write-backs on intangible assets	-	(2,520)	2,520	(100.00%)
190.	Other operating income/charges	4,328,004	4,992,402	(664,398)	(13.31%)
200.	**Operating costs**	**(90,378,758)**	**(83,192,731)**	**(7,186,027)**	**8.64%**
210.	Profit (loss) from equity investments	3,859,280		3,859,280	-
240.	Gains (losses) on disposal of investments	-	6,570,063	(6,570,063)	(100.00%)
250.	**Profit (loss) from current operations before taxes**	**87,246,797**	**130,092,956**	**(42,846,159)**	**(32.94%)**
260.	Income taxes for the year from current operations	(41,839,666)	(47,672,791)	5,833,125	(12.24%)
290.	**Profit (loss) for the period**	**45,407,131**	**82,420,165**	**(37,013,034)**	**(44.91%)**

Basic and Diluted Earnings per Share

	31/12/2011	*31/12/2010*
Basic earnings per share		
- from current operations	0.03055	0.09243
- on discontinued operations		
Diluted earnings per share		
- from current operations	0.03055	0.09243
- on discontinued operations		

Statement of Overall Profitability

	Items	*31/12/2011*	*31/12/2010*
10.	**Profit (loss) for the period**	**45,407,131**	**82,420,165**
	Other revenue components net of taxes		
20.	Financial assets available for sale	(496,134)	910,337
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**	**(496,134)**	**910,337**
120.	**Comprehensive income (Item 10+110)**	**44,910,997**	**83,330,502**

Statement of Changes in Consolidated Equity 31/12/2010 - 31/12/2011

				Allocation of previous year's results			*Changes for the period*							
							Shareholders' Equity transactions							
	Balances as at 31/12/2010	*Changes in initial balances*	*Balances as at 01/01/2011*	*Reserves*	*Dividends and other allocations*	*Changes in Reserves*	*Issue of new shares*	*Purchase of treasury shares*	*Extraordinary dividend distribution*	*Change in equity instruments*	*Derivates on treasury shares*	*Stock options*	*Comprensive income 2011*	*Shareholders' equity as at 31/12/2011*
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:	**567,924,943**		**567,924,943**	52,337,945		22,246								**620,285,134**
a) profit	*321,594,699*		*321,594,699*	*52,337,945*		*22,246*								*373,954,890*
b) other	*246,330,244*		*246,330,244*											*246,330,244*
Valuation reserves	**(2,680,335)**		**(2,680,335)**										(496,134)	**(3,176,469)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**82,420,165**		**82,420,165**	(52,337,945)	(30,082,220)								**45,407,131**	**45,407,131**
Shareholders' equity	**1,152,188,750**		**1,152,188,750**	**0**	**(30,082,220)**	**22,246**							**44,910,997**	**1,167,039,773**

Note:

The positive change of €22,246 in profit reserves derives from the allocation to reserve of the payable to shareholders related to dividends resolved by the Shareholders' Meeting of 27 April 2006 (distribution of profits from 2005) not collected by Shareholders.

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

				Allocation of previous year's results			*Changes for the period*							
							Shareholders' Equity transactions							
	Balances as at 31/12/2010	*Changes in initial balances*	*Balances as at 01/01/2011*	*Reserves*	*Dividends and other allocations*	*Changes in Reserves*	*Issue of new shares*	*Purchase of treasury shares*	*Extraordinary dividend distribution*	*Change in equity instruments*	*Derivates on treasury shares*	*Stock options*	*Comprensive income 2011*	*Shareholders' equity as at 31/12/2011*
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 by Shareholders.

Statement of Cash Flows (indirect method)

(amounts in Euros)

A.	**OPERATING ACTIVITIES**	**31/12/2011**	**31/12/2010**
1.	**Management**	**(404,789,657)**	**(198,345,478)**
	- profit (loss) for the period	45,407,131	82,420,165
	- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(528,321,000)	(396,998,251)
	- net value adjustments/write-backs due to impairment	119,034,213	119,385,263
	- net value adjustments/write-backs to property, plant and equipment and intangible assets	528,533	884,271
	- net provisions to risks and charges and other costs/revenues	14,391,942	9,209,184
	- taxes not paid	40,330,331	49,084,757
	- other adjustments	(96,160,807)	(62,330,867)
2.	**Cash flows generated/absorbed by financial activities:**	**(4,590,536,045)**	**(11,678,050,812)**
	- financial assets held for trading	(6,342,631,131)	(10,958,626,828)
	- financial assets available for sale	124,362	(28,602,774)
	- due from banks: other receivables	(226,723,133)	(3,060,437,339)
	- loans to customers	1,956,778,205	2,347,034,509
	- other assets	21,915,652	22,581,620
3.	**Cash flows generated/absorbed by financial liabilities:**	**6,652,963,463**	**9,942,819,795**
	- due to banks: other amounts payable	(274,953,587)	(334,835,057)
	- due to customers	723,711,776	(128,556,239)
	- outstanding securities	(37,155,109)	(26,439,526)
	- financial liabilities held for trading	6,437,534,548	10,627,798,507
	- other liabilities	(196,174,165)	(195,147,890)
	Net cash flows absorbed/generated by operating activities	**1,657,637,761**	**(1,933,576,495)**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**3,183,500**	**29,282,000**
	- sale of equity investments	485,500	3,833,000
	- dividends from equity investments	2,689,000	1,793,000
	- sale of property, plant and equipment	9,000	23,656,000
	- sale of intangible assets		
2.	**Cash flows absorbed by:**	**(12,527)**	**(3,782,681)**
	- purchase of equity investments		(3,680,000)
	- purchase of property, plant and equipment	(12,527)	(102,681)
	- purchase of intangible assets		
	Net cash flows generated/absorbed by investing activities	**3,170,973**	**25,499,319**
	FUNDING ACTIVITIES		
	issue/purchase of treasury shares		
	issue/purchase of equity instruments		-
	distribution of dividends and other purposes	(30,082,220)	(26,751,750)
	Net cash flows generated/absorbed by funding activities	**(30,082,220)**	**(26,751,750)**
	NET CASH FLOWS ABSORBED/GENERATED DURING THE PERIOD	**1,630,726,514**	**(1,934,828,926)**

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

(importi in unità di euro)

Items	*31/12/2011*	*31/12/2010*
Cash and cash equivalents at the beginning of the period	(3,902,906,179)	(1,967,077,253)
Total net cash flows absorbed/generated during the period	1,630,726,514	(1,934,828,926)
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at the end of the period	(2,272,179,665)	(3,901,906,179)

Note:
Cash and cash equivalents include on demand payables and receivables and deposits with banks, posted under asset item 60 "Due from banks" and liability item 10 "Due to 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 Bank;
  - 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 2011. 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 company's financial statements include:
• balance sheet
• income statement
• statement of comprehensive income
• statement of changes in shareholders' equity
• cash-flow statements
• explanatory notes
and are accompanied by the directors' report on operations.
The Bank, 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.
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 Bank of Italy "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.
Assets and liabilities and costs and revenues are not offset, except where allowed or required by the International Accounting Standards or the provisions of the Bank of Italy's "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.

Section 3 - EVENTS AFTER THE REPORTING PERIOD

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.
There are no events after the reporting period pursuant to international accounting standard IAS 10, “Events after the Reporting Period”.
These financial statements have been drawn up considering appropriate the assumption of the Bank’s continuation as a going concern. With regard to the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, Consob and Isvap, as updated, 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 going concern, since the uncertainties resulting from the current economic situation do not generate doubts concerning the company’s capacity to continue operating as a going concern.
The measurement criteria adopted are consistent with that assumption and comply with the matching principle, the principle of the importance and significance of information, and the principle of the prevalence of economic substance over legal form. Those criteria have not changed since last year.

Section 4 - OTHER INFORMATION

List of IAS/IFRS international accounting standards and SIC/IFRIC interpretations whose application is mandatory in the 2011 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 2011 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 2011. 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 2011 Financial Statements is mandatory

Accounting Standards		Changes whose mandatory application starts in 2011	
		Improvements to International Accounting Standards (R.C. 149/11)	Other changes
IAS 1	Presentation of Financial Statements	S	
IAS 2	Inventories		
IAS 7	Cash-flow statements		
IAS 8	Accounting policies, changes		
	in accounting estimates and errors		
IAS 10	Events after the reporting period		
IAS 11	Construction contracts		

(list of IAS/IFRS principles whose application to the 2011 financial statements is mandatory - continued)

IAS 12	Income taxes		
IAS 14	Segment Reporting (replaced by IFRS 8 since 1 January 2009)		
IAS 16	Property, plant and equipment		
IAS 17	Leases		
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		R.C. 632/10
IAS 26	Accounting and reporting by retirement benefit plans		
IAS 27	Consolidated and separate financial statements	S	
IAS 28	Investments in associates	S	
IAS 29	Financial reporting in hyperinflationary economies		
IAS 31	Interests in joint ventures	S	
IAS 32	Financial instruments: presentation	S	R.C. 1293/09
IAS 33	Earnings per share		
IAS 34	Interim financial reporting	S	
IAS 36	Impairment of assets		
IAS 37	Provisions, contingent liabilities and contingent assets		
IAS 38	Intangible assets		
IAS 39	Financial instruments: recognition and measurement	S	
IAS 40	Investment property		
IAS 41	Agriculture		
IFRS 1	First-time adoption of International Financial Reporting Standards	S	R.C. 574/10
IFRS 2	Share-based payments		
IFRS 3	Business combinations	S	
IFRS 4	Insurance contracts		
IFRS 5	Non-current assets held for sale and discontinued operations		
IFRS 6	Exploration for and evaluation of mineral resources		
IFRS 7	Financial instruments: disclosures	S	
IFRS 8	Operating segments (replaces IAS 14) applicable since 2009		

Interpretations whose application to the 2011 financial statements is mandatory

Accounting Standards		Interpretation to be applied for the first time in 2011	
		Improvements to International Accounting Standards (R.C. 149/11)	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		
IFRIC	10	Interim Financial Reporting and Impairment		
IFRIC	11	Group and Treasury Share Transactions		
IFRIC	12	Service concession arrangements		
IFRIC	13	Customer Loyalty Programmes	S	
IFRIC	14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction		R.C. 633/10
IFRIC	15	Agreements for the construction of real estate		
IFRIC	16	Hedges of a net investment in a foreign operation		
IFRIC	17	Distributions of non-cash assets to owners		
IFRIC	18	Transfers of assets from customers		
IFRIC	19	Extinguishing Financial Liabilities with Equity Instruments		R.C. 662/10

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2011, the following are noted in particular.

- **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:
  - 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 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, as much as possible, 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 "Improved 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.

"Improvements to International Accounting Standards" Project (2010). 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. The amendments were endorsed by the European Commission with Regulation 149/2011 of 18 February 2011.

- **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), 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 set forth in IAS 8 concerning changing accounting policies are not applicable to the entity's first IFRS financial statements.

- **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 an impairment test pursuant to IAS 36. 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 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. It also specifies that 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 explains that IAS 32, IAS 39 and IFRS 7 do not apply to contingent liabilities generated by business combinations whose date of purchase occurs before the application of IFRS 3 (2008).
- **IFRS 7 - 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 - 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, IAS 28 and IAS 31 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) 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.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2011.

Pursuant to IAS 8 "Accounting policies, changes in accounting estimates and errors", paragraphs 30 and 31, we point out that as of 28 February 2012 the European Commission had endorsed certain standards and interpretations issued by the IASB, whose mandatory application is effective after 31 December 2011; 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 7 - Financial instruments: disclosures** 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 remains unchanged. The amendment, endorsed by the European Commission with Regulation 1205/2011 of 22 November 2011, is applicable starting from the financial statements for the years starting after 30 June 2011.

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

For these principles and interpretations, the date on which application is mandatory as set forth by the IASB, which is in any case after 31 December 2011, is indicated. It should be considered that for companies located in European Union countries, the mandatory application date will be set forth in the endorsement regulations.

- **IFRS 9 - Financial instruments - comprehensive revision project.** 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. The project was divided into three distinct phases: 1) classification and assessment of financial assets, 2) amortised cost and impairment, 3) hedges. Regarding the first phase, on 12 November 2009 the IASB issued the accounting standard "IFRS 9 - Financial instruments". The new accounting standard pertains to the classification and assessment of financial assets. Portfolio categories were reduced to three (amortised cost, fair value with changes in income statement and fair value with changes in other comprehensive income). 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 amortised 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. 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 other comprehensive income is not reversed to the income statement when the liability is settled or extinguished.

As regards phase 2 of the project, “Amortised cost and impairment”, the IASB had published Exposure Draft 2009/12 in November 2009, “Financial instruments: amortised cost and impairment”, which today has been partially superseded. In fact, in that document the IASB proposed the introduction into the set of accounting standards of an impairment model based on expected losses. That model only applies to financial instruments which are measured at amortised cost based on IFRS 9. The impairment model proposed with ED 2009/12 set forth that expected losses should be reported in the income statement by measuring the amortised cost, using an effective interest rate based on cash flows which incorporate the expected losses. The consultation conducted on this document showed that that proposal would have caused quite significant operating impacts, with costs that would have exceeded the benefits generated by applying the new method. Based on that result, in January 2011, the IASB then returned to this topic and published, together with the FASB, the supplement to ED 2009/12 “Financial instruments: impairment”, which has also been de facto superseded. In fact, although that new document did not change the core principle of ED 2009/12 (method of expected losses), it introduced a notable operating simplification, achieved by decoupling the reporting of expected losses from the measurement of amortised cost. Basically, the method for calculating amortised cost (and the effective interest rate) was the same as that set forth in the current IAS 39; the expected losses are reported separately from interest, using time-proportional criteria paired with a floor for performing (good book) loans and posting impaired loans (bad book) immediately to the income statement. The consultation stage for that last document was completed on 1 April 2011. Based on the results of that consultation, the IASB and the FASB launched a discussion, which is still under way and which should generate a new impairment model based on three credit buckets. For the first bucket, which includes all receivables at the moment of first reporting, expected losses in the subsequent 12 months will be reported. The deterioration in the credit quality of assets initially classified in bucket 1 will cause them to be transferred to bucket 2 (collective valuation of lifetime expected credit losses) and subsequently to bucket 3 (individual valuation of lifetime expected credit losses). A re-exposure should be published in the second quarter of 2012.
As regards phase 3 of the project, “Hedging”, the IASB published ED 2010/13 “Hedge accounting”. This document deals with the rules for accounting for hedging of individual hedged items or closed groups of hedged items. The new principle is based on a new definition of the goal of hedge accounting, which consists of showing in the financial statements the effects of the risk management activities of a company which uses financial instruments to manage exposure to particular risks which could have effects on the income statement. The consultation stage for that last document was completed on 9 March 2011. As a result of feedback received during the consultation, the IASB decided to make some changes with respect to ED 2010/13; the final version of the principle should be issued in the first half of 2012. The accounting rules for hedging of open portfolios will instead be discussed in a subsequent document which the IASB plans to issue in the third quarter of 2012.

- In December 2011, the IASB issued an amendment to IFRS 9 and IFRS 7 “Mandatory effective date and transition disclosures”, in which the date of the first mandatory application of the entirety of IFRS 9 was postponed from 1 January 2013 to 1 January 2015. Advance application is permitted. Also, disclosure requirements regarding transition to the new principle were introduced in IFRS 7. If the entity applies IFRS 9 in periods beginning before 1 January 2012, the initial inventories for the year do not need to be recalculated and the disclosures required by the new paragraphs introduced in IFRS 7 with the amendment do not need to be provided. If the advance application takes place in years beginning between 1 January 2012 and 1 January 2013, the entity must choose whether to apply the disclosures required by the new paragraphs introduced in IFRS 7 with the amendment or recalculate initial inventories. If the advance application takes place in years beginning on 1 January 2013 or afterwards, the entity must provide the disclosures required by the new paragraphs introduced in IFRS 7 with the amendment and should not recalculate initial inventories.
- In December 2010, the IASB published an amendment to **IAS 12** “**Deferred taxes: recovery of underlying assets”.** IAS 12 sets forth that deferred tax assets and liabilities must be calculated considering the methods for recovering the asset’s carrying amount, whether through sale or through use. The way in which the carrying amount of an asset or liability is recovered (for example through sale rather than through depreciation) can in fact determine both a

different tax rate at the time of recovery and a different tax base. An entity measures deferred tax assets and liabilities using rates and tax bases consistent with the expected manner of asset recovery. In order to decrease subjectivity in estimating the asset's expected manner of recovery, a rebuttable presumption was introduced based on which it is assumed that the assets measured at fair value pursuant to IAS 40 are recovered through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendments also incorporate into IAS 12 the guidance previously contained in SIC-21 "Income Taxes-Recovery of revalued non-depreciable assets". The amendment must be applied for financial periods beginning on or after 1 January 2012.

- In December 2010, the IASB published two amendments to **IFRS 1 "First time adoption"**. The first amendment replaces the references to a set transition date "1 January 2004" with the "the date of transition to IFRSs", thereby exempting first-time adopters from having to restate past transactions that occurred before their transition to IFRSs. The second amendment provides instructions on how to present IFRS financial statements (or present them for the first time) after a period of severe hyperinflation of the functional currency. Both amendments must be applied for financial periods beginning on or after 1 July 2011.
- In May 2011, the IASB published the new accounting principles **IFRS 10 "Consolidated financial statements"**, **IFRS 11 "Joint Arrangements"** and **IFRS 12 "Disclosure of interests in other entities"**. The issue of IFRS 10 summarised within a single principle the consolidation criteria previously contained in IAS 27 and, for Special Purpose Entities, in SIC 12; the rules contained in IFRS 10 now apply to all entities.
  IFRS 10 introduces a new concept of control: an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The issue of IFRS 10 led to the revision of **IAS 27 "Consolidated and separate financial statements"** which, renamed **"Separate financial statements"** now contains, for separate financial statements, the accounting criteria and disclosure requirements relative to investments in subsidiaries, associates and companies subject to joint control.
  IFRS 11 "Joint arrangements" replaced IAS 31 "Interests in Joint Ventures"; the principle requires that the entity determine the type of joint arrangement in which it is involved and verify the rights and obligations deriving from the arrangement; if the entity is in a joint venture, it must show the investment in the financial statements using the equity method in compliance with **IAS 28, which was renamed "Investments in associates and joint ventures"**. Joint ventures can no longer be consolidated with the proportionate method.
  The new IFRS 10, IFRS 11 and IFRS 12 standards and the new versions of IAS 27 and IAS 28 must be applied for financial periods beginning on or after 1 January 2013.
- Also in May 2011, the IASB published the new accounting standard **IFRS 13 "Fair value measurement"**. The publication of IFRS 13 collected within a single standard the fair value definitions issued to date throughout the entire IFRS corpus, and eliminated the existing inconsistencies. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (exit price). The definition of fair value contained in IFRS 13 highlights that measurement techniques are market based and not entity specific. The standard must be applied for financial periods beginning on or after 1 January 2013.
- In June 2011, the IASB published the **revised version of IAS 19 "Employee benefits"**. The review of the standard is the result of a project aimed at improving the comparability and the quality of information provided regarding post-employment benefits. The amendments made to the standard mainly regard:
  - the way of presenting changes in assets and liabilities arising from defined benefit plans;
  - the treatment of plan amendments, curtailments and settlements;
  - the disclosure to be provided for defined benefit plans;
  - other less significant issues.

  The standard must be applied for financial periods beginning on or after 1 January 2013.
- In June 2011, the IASB published the amendment to **IAS 1 "Presentation of items of other comprehensive income"**. The most significant change consists of the obligation to distinguish, in the statement of other

comprehensive income, the items which are reclassified to the income statement in specific situations (sale, impairment) from those which are never reclassified to the income statement. The standard must be applied for financial periods beginning on or after 1 July 2012.

- In December 2011, the IASB published the amendment to **IAS 32 "Offsetting financial assets and financial liabilities"**, which introduced some paragraphs into the application guidance which clarify the methods for applying the current rules (par. 42 of IAS 32) that govern the offsetting of financial assets and financial liabilities in the balance sheet. The amendment must be applied for financial periods beginning on or after 1 January 2014.
- Also in December 2011, the IASB published an amendment to **IFRS 7 "Disclosures - offsetting financial assets and financial liabilities"**, which introduced new disclosure requirements related to financial assets and financial liabilities which are offset pursuant to paragraph 42 of IAS 32. The amendment must be applied for financial periods beginning on or after 1 January 2013.

A.2 - PRINCIPAL FINANCIAL STATEMENT AGGREGATES

Section 1 - 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 2011 are described below.

1) FINANCIAL ASSETS HELD FOR TRADING

a) initial recognition

For purchase and sale transactions involving standard financial instruments, financial 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 applied to 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 (for the positive value), 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.
Considering that financial instruments such as repurchase agreements and securities lending are short-term transactions, their 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 transaction 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 on that basis 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.
The criteria used to determine the fair value of financial instruments are described in section A.3 "*Fair value disclosure*", below, which should be referred to for additional details.

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 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 non-monetary instruments (equity securities) are recorded in the specific shareholders' equity reserve, while those relating to monetary instruments (receivables and debt securities) are recorded in the income statement. 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. Regardless of whether debt securities are listed on active markets, their impairment is recognised in the income statement strictly in relation to the issuer's ability to fulfil its obligations and therefore to pay the required remunerations and to repay the principal at the maturity date. Therefore, it is necessary to assess whether there are indications of a loss event which could have a negative impact on expected cash flows. If there are no actual losses, no loss is recorded on the security, and any capital loss is accounted for in the negative shareholders' equity reserve.

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 for equity instruments and in the income statement for debt securities.

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.

When the reasons for the impairment no longer apply, as the result of an event occurring subsequent to the recognition of impairment, the amounts are written back: i) to the income statement (under the aforementioned item 130) if the loss is related to debit and credit instruments; ii) 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 instrument.
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 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 and for the next two years, it will not be possible to include it in the category "Financial assets held to maturity".
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 and 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 changes in 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 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 when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) 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 hedging transactions, 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.
For fair value hedges, when the hedging transaction is interrupted, the positive or negative adjustment made to the hedged item until the date that the hedge is no longer applied is transferred to the income statement. Specifically, if the hedged item was not derecognised from the financial statements, that transfer is carried out over a time horizon corresponding to the remaining lifetime of the hedged item, through the change in the effective interest rate of that item; if the hedged item is derecognised (for example, if repaid early), the adjustment is entirely posted to the income statement when the hedging transaction is interrupted.
For cash flow hedges, any reserve is transferred to the income statement when the hedged item, still existing, generates its effects on the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred to the income statement immediately.

7) EQUITY INVESTMENTS

a) initial recognition

This item includes interest held in associated companies. Upon initial recording, these equity investments are entered at the purchase cost, with the addition of any costs directly attributable to the purchase.

b) classification

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 the retained interest in the balance sheet at fair value and allocate any profits or losses deriving from the loss of control to 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.
If the Bank 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 Bank will still hold a minority interest in the subsidiary.

8) PROPERTY, PLANT AND EQUIPMENT

a) initial recognition

Property, plant and equipment are 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”) to the extent that, if the Bank did not participate in tax consolidation, the Bank itself could have used 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”.

d) 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 transaction 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

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.

c) 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.
Please see section A.3 "*Fair value disclosure*", below, for a description of the criteria used to determine the fair value of financial instruments.

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;
- 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 on the initial recognition date, in the reporting currency, and are converted into Euro using the exchange rate in force on 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, 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. (parent company) 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.

■ Securitisations

For securitisation transactions finalised after 1 January 2004, which involve disposing of receivables to special purpose vehicles and in which, even if there is a formal transfer of the legal ownership of the receivables, control over the cash flows they generate is retained along with the majority of risks and benefits, the receivables subject to the transaction are not derecognised.
As a result, transferred receivables are maintained in the financial statements, as a receivable from/payable to the special purpose vehicle net of the securities issued by the company and repurchased by the Bank. The income statement also reflects the same accounting criteria.

■ 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 (see the paragraph below, "A.3 Fair value disclosure");
evaluation of the congruity of the value of equity interests and of other tangible and intangible assets;
As regards point b), please see the description in section A.3 "*Fair value disclosure*", below; while for cases a) and c), the most relevant and significant qualitative issues subject to discretion are illustrated in more detail below.
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 and only if there is objective evidence of a reduction in future cash flows, relative to the originally estimated ones, as a result of specific events which take place after the initial recognition; 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 BMPS Group

or

  - local or national economic conditions related to the breaches pertaining to the assets within the BMPS 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 amount of the loss is booked to the income statement under Item 130 "a) Net value adjustments/write-backs due to impairment of loans".
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 Adequacy 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 2011, 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.
Procedure for determining the impairments of equity investments and of other tangible and 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.
The fair value of properties is mainly determined on the basis of an appraisal. The property is periodically re-appraised each time there is a change in the performance of the real estate market which leads to the belief that the previous estimates are no longer valid. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the carrying amount. For other tangible assets and intangible assets - other than goodwill - the carrying value is normally assumed 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.

Section 2 - BUSINESS CONTINUITY

These financial statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern. In fact, it is deemed that there are currently no uncertainties concerning the company's capacity to continue its operations as a going concern in compliance with the provisions of IAS1. The measurement criteria adopted are consistent with that assumption and comply with the matching principle, the principle of the importance and significance of accounting information, and the principle of the prevalence of economic substance over legal form. Those criteria have not changed since last year.

Section 3 - RISKS AND UNCERTAINTIES RELATED TO THE USE OF ESTIMATES

In compliance with IFRS, company Management must make assessments, estimates and assumptions which influence the application of accounting standards and the asset and liability and cost and revenue amounts recognised in the financial statements. The estimates and relative assumptions are based on past experience and on other factors considered reasonable in the situation and are adopted to estimate the carrying amount of assets and liabilities which cannot be easily deduced from other sources. In particular, estimation processes have been adopted to support of the recognition value of the most significant evaluated items posted to the financial statements, as set forth by accounting standards and the reference regulations mentioned above. Said estimation processes are mostly based on estimates of future recoverability of the values posted to the financial statements according to the rules set forth by standards

in force, and these are also carried out with a view to the business as a going concern, that is, not considering the forced liquidation of the items being assessed. Processing those estimates requires using the information available and making subjective evaluations. 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, even significantly, as a result of a change in the subjective evaluations used. Those estimates and evaluations are difficult to make and therefore inevitably involve some uncertainty, even in stable macroeconomic conditions.

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 2010 by the IASB and endorsed by the European Commission on 15 October 2010 with Regulation 1004/2010. Therefore, no transfer was made either in 2010 or in the current year.

A.3.2 Fair value hierarchy

In March 2011, 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. In summary, 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	*31/12/2011*			*31/12/2010*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	6,237,976	29,214,958	26,408	5,562,290	22,867,931	18,255
2. Financial assets at fair value						
3. Financial assets available for sale		33,372	38,656		34,866	37,372
4. Hedging derivatives					330	
Total	**6,237,976**	**29,248,330**	**65,064**	**5,562,290**	**22,903,127**	**55,627**
1. Financial liabilities held for trading	1,861,856	32,132,226	23,119	608,470	26,853,260	35,153
2. Financial liabilities at fair value						
3. Hedging derivatives		1,111				
Total	**1,861,856**	**32,133,337**	**23,119**	**608,470**	**26,853,260**	**35,153**

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	**18,255**		**37,372**	
2. Increases	**21,210**		**2,734**	
2.1 Purchases			2,500	
2.2 Income allocated to:				
2.2.1 Income statement	20,585		234	
- of which capital gains	*19,578*			
2.2.2 Shareholders' equity				
2.3 Transfers from other levels				
2.4 Other increases	625			
3. Decreases	**13,057**		**1,450**	
3.1 Sales	1			
3.2 Redemptions	1,532			
3.3 Losses allocated to:				
3.3.1 Income statement	10,565		236	
- of which capital losses	*6,071*			
3.3.2 Shareholders' equity			1,214	
3.4 Transfers from other levels				
3.5 Other decreases	959			
4. Closing balances	**26,408**		**38,656**	

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	**35,153**		
2. Increases	**13,664**		
2.1 Issues			
2.2 Losses allocated to:			
2.2.1 Income statement	13,040		
- of which capital losses	*10,889*		
2.2.2 Shareholders' equity			
2.3 Transfers from other levels			
2.4 Other increases	624		
3. Decreases	**25,698**		
3.1 Redemptions	1,963		
3.2 Repurchases			
3.3 Income allocated to:			
3.3.1 Income statement	21,584		
- of which capital gains	*17,696*		
3.3.2 Shareholders' equity			
3.4 Transfers from other levels			
3.5 Other decreases	2,151		
4. Closing balances	**23,119**		

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 eliminated from the income statement and broken down over the life of the financial instrument if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and 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

	31/12/2011	*31/12/2010*
a. Cash	2	2
b. Unrestricted deposits with Central Banks		
Total	**2**	**2**

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2011*			*31/12/2010*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	5,675,098	3,217,106	14,353	5,132,810	2,497,767	7,195
1.1 Structured securities	*1,001*	*167,437*	*11,468*	*49,399*	*176,759*	*4,214*
1.2 Other debt securities	*5,674,097*	*3,049,669*	*2,885*	*5,083,411*	*2,321,008*	*2,981*
2. Equity securities	326,874	3,483		216,919		
3. Units in collective investment undertakings	95,011	24,735		63,096	19,419	
4. Loans		9,680,038			8,953,021	
4.1 Repurchase agreements		*9,638,763*			*8,893,777*	
4.2 Other		*41,275*			*59,244*	
Total A	**6,096,983**	**12,925,362**	**14,353**	**5,412,825**	**11,470,207**	**7,195**
B. Derivative instruments						
1. Financial derivatives:	140,993	13,474,571	12,055	149,465	10,368,490	11,040
1.1 trading	*140,993*	*13,474,571*	*12,055*	*149,465*	*10,368,490*	*11,040*
1.2 associated with fair value option						
1.3 other						
2. Credit derivatives		2,815,025	0		1,029,234	20
2.1 trading		*2,815,025*			*1,029,234*	*20*
2.2 associated with fair value option						
2.3 other						
Total B	**140,993**	**16,289,596**	**12,055**	**149,465**	**11,397,724**	**11,060**
Total (A+B)	**6,237,976**	**29,214,958**	**26,408**	**5,562,290**	**22,867,931**	**18,255**

Note:
The above table includes the valuations on off-balance sheet transactions and the accrued coupon component.
The sub-items below include impaired assets totalling €4,957 thousand:
- *sub-item "Debt securities - 1.2 Other debt securities": €3,088 thousand pertaining to bonds issued by the Lehman group, present in both years. The write-downs made amount to €9,581 thousand, fully recorded in 2009.*
- *sub-item ""Derivative instruments - 1.1 For trading": €1,869 thousand as past due differentials for OTC derivative contracts stipulated with corporate customers (€1,240 thousand as at 31 December 2010). The relative value adjustments amount to €5,937 thousand, including €2,053 thousand recorded in 2011.*

Please note that, following analyses carried out during the year on the manner of representing pool securities lending with collateral in the accounts, the Bank decided to change the recognition of those transactions in the balance sheet as follows: i) offsetting of asset and liability balances, with consistent amounts and ii) maintenance of the credit and/or debt of the respective collateral settled between the parties. That change also involved item 40 "Financial liabilities held for trading". To better present the financial statements, the figures from 2010 were also reclassified and presented for comparison.

2.1.a Analysis of debt securities: structured securities

Structured debt securities	*31/12/2011*	*31/12/2010*
- Index Linked	3,520	11,504
- Reverse convertible		
- Convertible		
- Credit linked notes	11,468	603
- Equity Linked	49,116	115,357
- Step - up, Step - down	2,259	12,533
- Dual Currency		
- Drop Lock		
- Target redemption note		
- Cap Floater		
- Reverse Floater	5,875	22
- Corridor		
- Commodity	61,702	35,935
- Fund Linked	28,116	33,507
- Inflation	1,405	14,535
- Other	16,445	6,376
Total	**179,906**	**230,372**

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

Voci/Valori	*31/12/2011*	*31/12/2010*
A. CASH ASSETS		
1. **Debt securities**	**8,906,557**	**7,637,772**
a) Governments and Central Banks	5,248,142	4,211,621
b) Other public entities	1,310	28,364
c) Banks	3,158,553	2,774,578
d) Other issuers	498,552	623,209
2. **Equity securities**	**330,357**	**216,919**
a) Banks	28,644	9,122
b) Other issuers	301,713	207,797
- Insurance companies	*4,991*	*360*
- finance companies	*15,256*	*16,112*
- non-financial companies	*281,466*	*191,325*
- other		
3. **Units in collective investment undertakings**	**119,746**	**82,515**
4. **Loans**	**9,680,038**	**8,953,021**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	4,313,850	4,573,548
d) Others	5,366,188	4,379,473
Total A	**19,036,698**	**16,890,227**
B. DERIVATIVE INSTRUMENTS		
a) Banks	9,117,106	10,110,057
- fair value		
b) Customers	7,325,538	1,448,192
- fair value		
Total B	**16,442,644**	**11,558,249**
Total (A+B)	**35,479,342**	**28,448,476**

Note:
The amount indicated in item "B. Derivative instruments", "b) Customers", related to 31 December 2011, includes €4,694,940 thousand as an exposure to LCH (CCP).

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

Categories/Balances	*31/12/2011*	*31/12/2010*
a. Stock	5,691	1,94
b. Bonds	3,747	3,936
c. Balanced	88,585	66,122
d. Cash		
e. Flexible	4,338	
f. Reserved		
g. Speculative		
h. Properties		
i. Other	17,385	10,516
Total	**119,746**	**82,515**

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	**7,637,772**	**216,919**	**82,515**	**8,953,021**	**16,890,227**
B. Increases	**100,565,048**	**2,669,552**	**144,731**	**260,558,013**	**363,937,344**
B1. Purchases	98,266,696	2,618,575	143,762	260,489,968	**361,519,001**
B2. Positive fair value changes	161,542	10,721	363		**172,626**
B3. Other changes	2,136,810	40,256	606	68,045	**2,245,717**
C. Decreases	**99,296,263**	**2,556,114**	**107,500**	**259,830,996**	**361,790,873**
C1. Sales	98,264,140	2,348,365	96,489	259,787,636	**360,496,630**
C2. Redemptions			762		**762**
C3. Negative fair value changes	215,667	27,383	7,297	498	**250,845**
C4. Transfers to other portfolios					
C5. Other changes	816,456	180,366	2,952	42,862	**1,042,636**
D. Closing balances	**8,906,557**	**330,357**	**119,746**	**9,680,038**	**19,036,698**

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 2011.

Additionally, the sub-item A. "Opening balances", under the "Debt securities" column, contains the bonds issued by Lehman (impaired assets excluded in the changes of the year as indicated in the previous version of Circular 262 issued by Bank of Italy).

Section 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

This year (and likewise as of 31 December 2010), 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/Balances	*31/12/2011*			*31/12/2010*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities		8,991	36,155		11,715	37,371
1.1 Structured securities						
1.2 Other debt securities		*8,991*	*36,155*		*11,715*	*37,371*
2. Equity securities	677	22,000	2,501		21,478	1
2.1 Measured at fair value	*677*	*22,000*			*21,478*	
2.2 Measured at cost			*2,501*			*1*
3. Units in collective investment undertakings		1,704			1,673	
4. Loans						
Total	**677**	**32,695**	**38,656**		**34,866**	**37,372**

Note:
For both periods compared, there is a hedge against changes in interest rates (fair value hedge) on the debt securities indicated in level 3; this hedge was implemented through interest rate swap derivative contracts.

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/Balances	*31/12/2011*	*31/12/2010*
1. **Debt securities**	**45,146**	**49,086**
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other issuers	45,146	49,086
2. **Equity securities**	**25,178**	**21,479**
a) Banks		
b) Other issuers	25,178	21,479
- Insurance companies		
- finance companies	*422*	*1,175*
- non-financial companies	*24,756*	*20,304*
- other		
3. **Units in collective investment undertakings**	**1,704**	**1,673**
4. **Loans**		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Others		
Total	**72,028**	**72,238**

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

Items/Balances	*31/12/2011*	*31/12/2010*
a. Stock		
b. Bonds		
c. Balanced		
d. Cash		
e. Flexible		
f. Reserved		
g. Speculative		
h. Properties	1,704	1,673
i. Other		
Total	**1,704**	**1,673**

4.3 Financial assets available for sale subject to micro-hedging

Items/Balances	*31/12/2011*	*31/12/2010*
1. Financial assets subject to fair value micro-hedging	36,155	37,371
a) interest rate risk	*36,155*	*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	**36,155**	**37,371**

4.4 Attività finanziarie disponibili per la vendita: variazioni annue

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	*Total*
A Opening balances	**49,086**	**21,479**	**1,673**		**72,238**
B. Increases	**3,631**	**4,823**	**31**		**8,485**
B1. Purchases		4,496			4,496
B2. Positive fair value changes	2,400	327	31		2,758
B3. Write-backs					
- booked to income statement					
- booked to shareholders' equity					
B4. Transfers from other portfolios					
B5. Other changes	1,231				1,231
C. Decreases	**7,571**	**1,124**			**8,695**
C1. Sales	4,500				4,500
C2. Redemptions					
C3. Negative fair value changes	2,790	750			3,540
C4. Write-downs due to impairment		374			374
- booked to income statement		*374*			*374*
- booked to shareholders' equity					
C5. Transfers to other portfolios					
C6. Other changes	281				281
D. Closing balances	**45,146**	**25,178**	**1,704**		**72,028**

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

As of 31 December 2011 (and likewise as of 31 December 2010), 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 /Balances	*31/12/2011*	*31/12/2010*
A. Due from Central Banks		
1. Restricted deposits		
2. Compulsory reserve		
3. Lending repurchase agreements		
4. Other		
B. Due from banks	**4,571,815**	**1,696,935**
1. Current accounts and unrestricted deposits	227,512	103,456
2. Restricted deposits	3,582,111	1,059,441
3. Other loans:	762,192	534,038
3.1 Lending repurchase agreements		
3.2 Financial lease		
3.3 Other	*762,192*	*534,038*
4. Debt securities		
4.1 Structured securities		
4.2 Other debt securities		
Total (carrying amount)	**4,571,815**	**1,696,935**
Total (fair value)	**4,571,815**	**1,696,935**

Note:
Sub-item B. "Due from banks - 2. Restricted deposits" includes:

- *€6,845 thousand (€12 thousand in 2010), as mandatory reserve fulfilled indirectly (through the Parent Company Banca Monte dei Paschi di Siena);*
- *€3,423,968 thousand (€942,858 thousand at the end of 2010) as collateral for securities lending transactions with BMPS Group customers, restricted in their favour.*

The sub-item B. "Due from banks - 3. Other loans: 3.3 others" mainly includes receivables such as collateral with short-term maturities (which differ from those mentioned in the point above, since they are fully available to the counterparty), for pool and non-pool securities lending activities, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).
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	*31/12/2011*		*31/12/2010*	
	Performing	*Impaired*	*Performing*	*Impaired*
1. Current accounts	28		26	
2. Lending repurchase agreements				
3. Mortgage loans	10,695,241	2,742,778	10,749,975	2,350,169
4. Credit cards, personal loans and loans secured over wages and salaries	2,478		2,024	
5. Financial lease				
6. Factoring				
7. Other transactions	789,161		3,086,504	
8. Debt securities	109,876	1,134	37,672	1,281
8.1 Structured securities				
8.2 Other debt securities	109,876	*1,134*	37,672	*1,281*
Total carrying amount	**11,596,784**	**2,743,912**	**13,876,201**	**2,351,450**
Total fair value	**12,697,718**	**2,743,912**	**14,516,192**	**2,351,450**

Note:
Sub-item 8.2 "Other debt securities" includes junior bonds (class D - IT0004781453) generated by own securitisation transactions, entirely subscribed by the Originator (MPSCS) to guarantee a liquidity reserve for the vehicle, equal to €71,183 thousand. Receivables from the " Siena SME 11-1" vehicle, relating to cash flows collected by the vehicle for securitised receivables that should be reversed to the Originator, are reported in sub-item 7. "Other transactions" and amount to €49,240 thousand as at 31 December 2011.

7.1.a Loans to customers: analysis of impaired assets

Category / Balances	*31/12/2011*	*31/12/2010*
1. Non-performing	1,646,399	1,398,374
2. Watch-list	775,645	666,687
3. Restructured exposures	173,370	196,483
4. Past due exposures	148,498	89,906
Total carrying amount	**2,743,912**	**2,351,450**

7.1.b Loans to customers: details of other transactions

Type of transaction / Balances	*31/12/2011*	*31/12/2010*
1. Collateral credits	564,404	2,800,041
2. Deposits for disbursement of real estate credit transactions	133,146	229,140
3. Other	91,611	57,323
Total	**789,161**	**3,086,504**

Nota:
La sottovoce 1. "Crediti per collaterali" è relativa all'attività di prestito titoli in pool e non, per derivati otc e listed e per pronti contro termine (quest'ultimi a titolo di marginazioni aggiuntive).

7.2 Loans to customers: breakdown by debtor/issuer

Type of transaction / Balances	*31/12/2011*		*31/12/2010*	
	Performing	*Impaired*	*Performing*	*Impaired*
1. Debt securities:	**109,876**	**1,134**	**37,672**	**1,281**
a) Governments				
b) Other public entities				
c) Other issuers	109,876	1,134	37,672	1,281
- non-financial companies	*38,693*	*1,134*	*37,672*	*1,281*
- finance companies	*71,183*			
- Insurance companies				
- other				
2. Loans to:	**11,486,908**	**2,742,778**	**13,838,529**	**2,350,169**
a) Governments	12,543		13,219	
b) Other public entities	16,776		17,670	
c) Others	11,457,589	2,742,778	13,807,640	2,350,169
- non-financial companies	*10,106,977*	*2,596,859*	*10,163,318*	*2,248,776*
- finance companies	*1,182,528*	*85,871*	*3,427,422*	*50,925*
- insurance companies	*15,020*		*21,918*	
- other	*153,064*	*60,048*	*194,982*	*50,468*
Total	**11,596,784**	**2,743,912**	**13,876,201**	**2,351,450**

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/Balances	*31/12/2011*				*31/12/2010*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*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**

Note:
This is an interest rate risk hedge.

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					
B. Subsidiaries under joint control					
	-	-	-	-	-
C. Companies subject to significant influence					**19,533**
1. MPS Venture SGR S.p.A.	Florence	associated	48.000	48.000	972
2. Re.Gi.Im. S.p.A.	Rome	associated	40.000	40.000	3,680
3. Interporto Toscano SpA	Livorno	associated	36.303	36.303	8,370
4. Immobiliare Centro Milano S.p.A.	Milan	associated	33.333	33.333	-
5. Sviluppo Imprese Centro Italia S.p.A.	Florence	associated	29.000	29.000	1,507
6. Agricola Merse S.r.l.	Milan	associated	20.000	20.000	5,004
Total (A+B+C)					**19,533**

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

Name	Total assets	Total revenue	Profit (loss)	Shareholders' equity	Carrying amount	Fair Value (if listed)
A. Subsidiaries under exclusive control						
B. Subsidiaries under joint control						
C. Companies subject to significant influence					**19,533**	
1. MPS Venture SGR SpA *(1)*	9,878	8,483	4,103	7,400	972	N/A
2. Re.Gi.Im. S.p.A. *(2)*	30,207	-	(28)	9,172	3,680	N/A
3. Interporto Toscano SpA	180,154	7,699	(997)	18,786	8,370	N/A
4. Immobiliare Centro Milano S.p.A. *(3)*	94,484	1	(6,994)	(730)	0	N/A
5. Sviluppo Imprese Centro Italia SpA	8,463	1,900	338	7,888	1,507	N/A
6. Agricola Merse Srl	78,881	1,687	(3,599)	27,644	5,004	N/A
Total (A+B+C)					**19,533**	

Note:
The figures refer to the latest financial statements approved at 31 December 2010.
(1) As of 31 December 2010, the Bank had an overall share of 70%, 48% of which was shown in the previous financial statements under item 100 "Equity investments - of which A. Subsidiaries under exclusive control" and 22% of which was shown under item 140 "Non-current assets held for sale and discontinued operations, and associated liabilities".
(2) 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.
(3) Please note that a full impairment of the equity investment was posted (totalling €40 thousand), deeming that the loss of the year from 2010 and the anticipated loss of 2011 (the relative financial statements were not yet approved by the shareholders' meeting) are objective proof of a write-off of the equity investment's value.

10.3 Equity investments: changes in the year

	31/12/2011	*31/12/2010*
A. Opening balances	**19,573**	**20,171**
B. Increases	**0**	**3,680**
B1. Purchases		3,680
B2. Write-backs		
B3. Revaluations		
B4. Other changes		
C. Decreases	**40**	**4,278**
C1. Sales		
C2. Value adjustments	40	
C3. Other changes		4,278
D. Closing balances	**19,533**	**19,573**
E. Total revaluations		
F. Total adjustments	**40**	

Note to the 2011 financial statements.
C.2 see note (3) below the table above.
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 relates to the voluntary reduction of the share capital of MPS Venture SGR S.p.A; ii) €445 thousand, instead, relates to the transfer of the 22% shareholding in MPS Venture SGR S.p.A to "Non-current assets held for sale and discontinued operations, and associated liabilities" (IFRS 5).

10.4 Commitments relating to equity investments in subsidiaries
As of the balance sheet date, there were no 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 expiry of the commitment, originally planned for June 2011, was extended to December 2012.
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 / Balances	*31/12/2011*	*31/12/2010*
A. Assets used in the business		
1.1 owned	**736**	**965**
a) land		
b) buildings		
c) furniture	538	672
d) electronic equipment	42	118
e) other	156	175
1.2 held under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic equipment		
e) other		
Total A736	**965**	
B. Assets held for investment purposes		
2.1 owned	**14,572**	**14,873**
a) land	10,426	10,426
b) buildings	4,146	4,447
2.2 held under financial leases		
a) land		
b) buildings		
Total B14,572	**14,873**	
Total (A+B)	**15,308**	**15,838**

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			**5,040**	**9,000**	**237**	**14,277**
A.1 Total value reductions - net			4,368	8,882	63	13,313
A.2 Opening balances - net			**672**	**118**	**174**	**964**
B. Increases:			**14**			**14**
B.1. Purchases			13			13
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			1			1
C. Decreases:			**148**	**76**	**18**	**242**
C.1 Sales			2	1	6	9
C.2 Depreciation			145	75	7	227
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: a) intangible assets held for investment purposes b) discontinued operations						
C.7 Other changes			1		5	6
D. Net closing balances			**538**	**42**	**156**	**736**
D.1 Total value reductions - net			693	404	33	1,130
D.2 Gross closing balances			**1,231**	**446**	**189**	**1,866**
E. Measured at cost						

Note:
Item D.1 "Total value reductions - net" is lower than the opening values for the year since it was adjusted for the portion related to furnishings and equipment sold in the first half of 2011 (property, plant and equipment located in the former Florence offices, Viale Mazzini and Via Dei della Robbia, properties which were sold at the end of last year).

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

	Land	*Buildings*	*Total*
A. Opening balances	**10,426**	**4,447**	**14,873**
B. Increases:			
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			
B.7 Other changes			
C. Decreases:		**301**	**301**
C.1 Sales			
C.2 Depreciation		301	301
C.3 Negative fair value changes			
C.4 Value adjustments due to impairment			
C.5 Exchange losses			
C.6 Transfers to other asset portfolios:			
a) properties used for business			
b) non-current assets held for sale			
C.7 Other changes			
D. Closing balances	**10,426**	**4,146**	**14,572**

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**	**1,795**	**5,864**

Section 12 - INTANGIBLE ASSETS - ITEM 120

There are no such transactions for this financial statement item.

Section 13 - TAX ASSETS AND LIABILITIES - ASSET ITEM 130 AND LIABILITY ITEM 80

Current taxes
This item includes the estimated payable for current liabilities or liabilities referring to transactions from previous years.
As at 31 December 2011, current tax liabilities amounted to €16,679 thousand, as the estimated IRAP tax debt; this amount includes the 0.75 percent rate increase introduced by Law Decree no. 98 of 6 July 2011, enacted into Law no. 111 of 15 July 2011.
Current tax assets amount to €10,413 thousand and refer to IRAP advances paid with reference to the tax accrued in 2011.
As a result of the adhesion to the national tax consolidation system as a consolidated company, the Bank determines the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Parent 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 2011, 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. The rates used to calculate deferred and prepaid taxes for IRES and IRAP purposes are in line with the rates in force on the reporting date.

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 €84,065 thousand and to IRAP for €1,575 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, as well as provisions for endorsement credits;
- the part of prepaid taxes pursuant to sub-item "other financial instruments" shown as an offset entry of shareholders' equity, totalling €1,597 thousand, pertains to taxation on negative valuation reserves related to financial assets available for sale; the remaining portion of €7,655 thousand refers to provisions for derivative contracts which are not deductible for tax purposes;
- the item "other" mainly refers to provisions for legal cases.

	Items / Balances	*31/12/2011*	*31/12/2010*
1.	Receivables	74,357	70,933
2.	Other financial instruments	9,252	4,792
3.	Goodwill		
4.	Deferred charges		
5.	Intangible fixed assets		
6.	Entertaining expenses		3
7.	Personnel-related costs	64	56
8.	Tax losses		
9.	Valuation reserves		
10.	Other	1,967	1,782
	Prepaid tax assets - gross	**85,640**	**77,566**
	Offsetting against deferred tax liabilities	**-**	**-**
	Net prepaid tax assets	**85,640**	**77,566**

13.2 Deferred tax liabilities: breakdown
Deferred tax liabilities refer to IRES for €3,561 thousand and IRAP for €68 thousand. They are mainly recorded as offsetting entries in the income statement for €3,522 thousand (versus €3,571 thousand for 2010) in addition to €107 thousand recorded as offsetting entries to the shareholders' equity, the latter fully recorded in revaluations of AFS securities (in 2010, they were €87 thousand).
The main taxable temporary differences which caused deferred taxes to be recognised are specifically related to valuation gains recorded for units in collective investment undertakings and equity investments:

	Items / Balances	*31/12/2011*	*31/12/2010*
1.	Capital gains to be split into instalments		
2.	Goodwill		
3.	Intangible fixed assets		
4.	Receivables		
5.	Other financial instruments	3,406	3,461
6.	Valuation reserves	-	-
7.	Personnel-related costs	12	12
8.	Other	211	185
	Deferred tax liabilities - gross	**3,629**	**3,658**
	Offsetting against prepaid tax assets	**-**	**-**
	Net deferred tax liabilities	**3,629**	**3,658**

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 on receivables exceeding the deductible limit in the year for €6,883 (€13,823 thousand in 2010) and by the taxed allocations to provisions, made during the year, i.e. €9,151 thousand (€6,334 thousand in 2010). The decreases reported for the year include:

- the uses in 2011 of provisions taxed in previous years amounting to €2,765 thousand (versus €1,403 thousand in 2010);
- €4,360 thousand referable to write-downs on receivables split into eighteenths brought forward from previous years, for the portion deductible in the current year (versus €9,383 thousand in 2010).

	Items / Balances	*31/12/2011*	*31/12/2010*
1.	**Opening balance**	**76,063**	**66,892**
2.	**Increases**	**16,050**	**20,157**
2.1	Prepaid taxes recorded in the year	15,977	20,157
	a) relating to previous years		
	b) due to change in accounting standards		
	c) write-backs		
	d) other	*15,977*	*20,157*
2.2	New taxes or increase in tax rates	73	
2.3	Other increases		
3.	**Decreases**	**8,071**	**10,986**
3.1	Prepaid taxes cancelled during the year	7,132	5,200
	a) transfers	*7,132*	*5,200*
	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	939	5,786
4.	**Closing balance**	**84,042**	**76,063**

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.

Items / Balances	*31/12/2011*	*31/12/2010*
1. Opening balance	**3,571**	**3,104**
2. Increases	**255**	**1,375**
2.1 Deferred taxes recorded during the year	252	1,375
a) relating to previous years		*40*
b) due to change in accounting standards		
c) other	*252*	*1,335*
2.2 New taxes or increase in tax rates	3	
2.3 Other increases		
3. Decreases	**304**	**908**
3.1 Deferred taxes cancelled during the year	304	908
a) transfers	*304*	*444*
b) due to change in accounting standards		
c) other		*464*
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**3,522**	**3,571**

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.

Items / Balances	*31/12/2011*	*31/12/2010*
1. Opening balance	**1,503**	**2,586**
2. Increases	**988**	**113**
2.1 Deferred taxes recorded during the year	973	113
a) relating to previous years		
b) due to change in accounting standards		
c) other	*973*	*113*
2.2 New taxes or increase in tax rates	15	
2.3 Other increases		
3. Decreases	**893**	**1196**
3.1 Deferred taxes cancelled during the year	893	1196
a) transfers	*893*	*679*
b) written-off as non-recoverable		
c) due to changes in accounting standards		
d) other		*517*
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**1,598**	**1,503**

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%.

Items / Balances	*31/12/2011*	*31/12/2010*
1. Opening balance	**87**	**174**
2. Increases	**43**	**23**
2.1 Deferred taxes recorded during the year	40	23
a) relating to previous years		
b) due to change in accounting standards		
c) other	*40*	*23*
2.2 New taxes or increase in tax rates	3	
2.3 Other increases		
3. Decreases	**23**	**110**
3.1 Deferred taxes cancelled during the year	23	110
a) transfers	*23*	*86*
b) due to change in accounting standards		
c) other		*24*
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**107**	**87**

13.7 Current tax assets

Items / Balances	*31/12/2011*	*31/12/2010*
1. IRES advances		
2. IRAP advances	10,413	8,704
3. IRAP receivables		
4. Other receivables and withholdings		412
Current tax assets - gross	**10,413**	**9,116**
Offsetting against current tax liabilities	**-**	**-**
Current tax assets - net	**10,413**	**9,116**

Note:
For IRES advances, please see explanatory notes - part B, Asset “Section 15 - Other assets”.

Section 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

		31/12/2011	*31/12/2010*
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		
	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 discontinued operations**		
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:
Item "A.1 Equity investments" represents the 22% shareholding in MPS Venture SGR S.p.A., for which sale negotiations began in 2010 and were completed in the first half of 2011. The reclassification was carried out according to IFRS 5.

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	31/12/2011	31/12/2010
1. Amounts due from the tax authorities and similar	4,715	4,803
2. Items being processed	490	2,608
3. Amounts receivable associated with the supply of goods and services	39	206
4. Improvement and incremental costs on third party assets	1,964	2,459
5. Accrued income not attributable to own items	4,337	3,905
6. Prepaid expenses not attributable to own items	7	4,344
7. Receivable from consolidating entity for tax consolidation system	2,726	9,288
8. Receivables for reimbursement to personnel seconded with third parties	5,068	4,546
9. Other	3,244	693
Total	**22,590**	**32,852**

Note:
The sub-item "Amounts due from the tax authorities and similar" include amounts due from foreign tax authorities for €3,004 thousand (€2,677 in 2010); 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 185/2010.

LIABILITIES

Section 1 - DUE TO BANKS - ITEM 10

1.1 due to banks: breakdown by type

Tipologia operazioni/Valori	*31/12/2011*	*31/12/2010*
1. Due to Central Banks		
2. Due to banks	**7,236,232**	**6,490,888**
2.1 Current accounts and unrestricted deposits	465,021	209,068
2.2 Restricted deposits	5,615,780	4,855,733
2.3 Loans	1,093,722	1,366,447
2.3.1 borrowing repurchase agreements		
2.3.2 Other	*1,093,722*	*1,366,447*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other amounts payable	61,709	59,640
Total	**7,236,232**	**6,490,888**
Fair Value	**7,243,211**	**6,503,064**

Note:
The sub-item "Due to banks - 2.3 Loans - 2.3.2 Other" also includes payables such as collateral with short-term expiries for pool and non-pool securities lending, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).

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 to 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	*31/12/2011*	*31/12/2010*
1. Current accounts and unrestricted deposits		
Restricted deposits	3,106	3,111
3. Loans	11,658,412	10,791,311
3.1 Borrowing repurchase agreements		
3.2 Other	*11,658,412*	*10,791,311*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	142,547	238,116
Total	**11,804,065**	**11,032,538**
Fair Value	**12,340,502**	**11,261,195**

Note:
The sub-item "Loans - 3.2 Other" includes both medium-long term loans stipulated with MPS Ireland and collateral collected from institutional counterparties with short-term expiries for pool and non-pool securities lending, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).
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 at the time with the same counterparty (the amount remained unchanged since 2008).

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.

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	*31/12/2011*				*31/12/2010*			
	Carrying amount	*Fair value*			*Carrying amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	243,790		243,745		279,154		278,814	
1.1 structured								
1.2 other	*243,790*		*243,745*		*279,154*		*278,814*	
2. other securities								
2.1 structured								
2.2 other								
Total	**243,790**		**243,745**		**279,154**		**278,814**	

Note:
The 2011 carrying amount includes €1,791 thousand in interest accrued as of the balance sheet date (versus €1,154 thousand in 2010).

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

Name of liability	*Currency*	*date of issue*	*date of maturity*	*interest rate*	*carrying amount 31/12/11*	*31/12/10*
1. HT Series bond	Euro	30/09/2003	30/09/2013	floating	29,381	44,007
2. HU Series bond	Euro	30/09/2003	30/09/2013	floating	2,815	4,216
3. BancaVerde bond	Euro	22/12/2003	22/12/2013	floating	20,012	30,016
4. Series II bond	Euro	30/06/2005	30/06/2015	floating	40,485	50,001
5. Tier III bond	Euro	21/12/2010	17/01/2012	floating	151,097	150,914
					243,790	**279,154**

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 authorisation 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 authorisation 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 provides 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 acquire 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 2011, 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 31/12/2011*				
	Par value or notional value	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value*(*)
A. Cash liabilities					
1. Due to banks	*8,395,590*	110,022	8,288,009		8,398,031
2. Due to customers	*9,790,461*	1,596,284	8,221,348		9,817,632
3. Debt securities					
3.1 Bonds:					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A	**18,186,051**	**1,706,306**	**16,509,357**		**18,215,663**
B. Derivative instruments					
1. Financial derivatives		155,550	12,875,392	23,119	
1.1 Trading		*155,550*	*12,875,392*	*23,119*	
1.2 Associated with fair value option					
1.3 Other					
2. Credit derivatives			2,747,477		
2.1 Trading			*2,747,477*		
2.2 Associated with fair value option					
2.3 Other					
Total B		**155,550**	**15,622,869**	**23,119**	
Total (A+B)		**1,861,856**	**32,132,226**	**23,119**	

(*) = 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, which are recorded at fair value consistently with the standards applied to "long" positions.
As mentioned previously, following analyses carried out on the manner of representing pool securities lending with collateral in the accounts, the Bank decided to change the recognition of those transactions in the balance sheet as follows: i) offsetting of asset and liability balances, with consistent amounts and ii) maintenance of the credit and/or debt of the respective collateral settled between the parties. That change also involved item 40 "Financial assets held for trading". To better present the financial statements, the figures from 2010 were also reclassified and presented for comparison.

Type of transaction / Balances	*Total 31/12/2010*				
	Par value or notional value	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value*(*)
A. Cash liabilities					
1. Due to banks		440,991	915,449		1,356,440
2. Due to customers		15,293	14,512,573		14,527,866
3. Debt securities					
3.1 Bonds:					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A		**456,284**	**15,428,022**		**15,884,306**
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**	**26,853,260**	**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, 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*	*date of maturity*	*interest rate*	*carrying amount*
A. Due to banks				**22,458**	
DEUT BK 03/13 5.125	Euro	31/01/03	31/01/13	fixed	58
BMPS 06/16 4.875	Euro	31/05/06	31/05/16	fixed	161
BCO POPOLAR 7/49 RFL	Euro	21/06/07	29/06/49	floating	116
INTESA 08/18 6.625	Euro	08/05/08	08/05/18	fixed	232
SOC GEN-TV 09/49	Euro	04/09/09	29/09/49	floating	2,244
INTESA 09/19 5	Euro	23/09/09	23/09/19	fixed	2,520
UNICREDIT-TM PERPET	Euro	10/12/09	29/12/49	floating	104
BMPS 10/20 5	Euro	21/04/10	21/04/20	fixed	12,210
INTESA 10/20 5.15	Euro	16/07/10	16/07/20	fixed	433
BMPS 10/20 5.6	Euro	09/09/10	09/09/20	fixed	3,478
INTESA-TM 10/49	Euro	01/10/10	01/06/49	floating	113
BCO POPOLAR 10/20 6	Euro	05/11/10	05/11/20	fixed	582
BPOP MILANO 21 7.125	Euro	01/03/11	01/03/21	fixed	207
B. Due to customers					**7,701**
GENERALI-TM 00/22	Euro	20/07/00	20/07/22	floating	6,250
CRED SUI FI 13 6.375	Euro	07/06/01	07/06/13	fixed	36
ALLIANZ FII 22 6.125	Euro	31/05/02	31/05/22	fixed	28
ALLIANZ FII-TM 02/25	Euro	13/12/02	13/01/25	floating	86
MUNICH RE-TM 03/23	Euro	16/04/03	21/06/23	floating	1,291
CITIGROUP 04/19 TM	Euro	10/02/04	10/02/19	floating	10
Total (A+B)					**30,159**

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

Name of liability	*Currency*	*date of issue*	*date of maturity*	*interest rate*	*carrying amount*
A. Due to banks					**1**
- BEI-TM 98/13 (reverse floater)	Euro	26/01/98	05/02/13	floating	1
B. Due to customers					
-					-
Total (A+B)					**1**

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 31/12/11*
A.	**Opening balances**	**914,306**	**14,512,573**		**15,426,879**
B.	**Increases**	**39,481,478**	**1,086,964,449**		**1,126,445,927**
	B.1 Issues				
	B.2. Sales	39,464,192	1,086,934,113		1,126,398,305
	B.3. Positive fair value changes				
	B.4 Other changes	17,286	30,336		47,622
C.	**Decreases**	**32,114,532**	**1,093,266,007**		**1,125,380,539**
	C.1. Purchases	32,108,041	1,093,236,230		1,125,344,271
	C.2. Redemptions				
	C.3 Negative fair value changes				
	C.4 Other changes	6,491	29,777		36,268
D.	**Closing balances**	**8,281,252**	**8,211,015**		**16,492,267**

Note:
Sub-items B.3 and C.2 "Other changes" include the components relating to interest accrued at year end. The technical overdrafts were not considered when filling out the table above.

Section 5 - FINANCIAL LIABILITIES AT FAIR VALUE - ITEM 50

No positions have been classified in this category.

Section 6 - HEDGING DERIVATIVES - ITEM 60

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

Items/Balances	*31/12/2011*				*31/12/2010*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*Level 3*	*Notional value*
A. Financial derivatives	-	1,111	-	37,500	-	-	-	-
1. Fair Value	-	*1,111*	-	37,500	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Financial derivatives	-	-	-	-	-	-	-	-
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,111**	**-**	**37,500**	**-**	**-**	**-**	**-**

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

Transactions / type of coverage	*Fair value*						*Cash flows*		
	Micro					*Macro*	*Micro*	*Macro*	*Foreign invest.*
	rate risk	*exchange risk*	*credit risk*	*price risk*	*multiple risks*				
1. Financial assets available for sale	1.111								
2. Receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**1,111**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected settlements									
2. Portfolios of financial assets and liabilities									

Section 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	*31/12/2011*		*31/12/2010*	
	taxation to shareholders' equity	*taxation to income statement*	*taxation to shareholders' equity*	*taxation to income statement*
1. IRES payables				
2. IRAP payables		16,679		13,752
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**16,679**		**13,752**
Offsetting against current tax assets		-		-
Amounts due for current taxes - net		**16,679**		**13,752**

This item includes the estimated payable for current liabilities or liabilities referring to transactions from previous years. 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".
During the second half the Bank deposited €2,043 thousand (this amount includes penalties) following an in-court conciliation procedure related to a report on findings (pvc, *processo verbale di constatazione*) received in December 2010 from the Tuscany Regional Management. That pvc contested that the Bank had obtained an undue tax benefit, although it was obtained by correctly applying the regulations in force at the time (called abuse of right), related to some trading transactions carried out in 2007.

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	*31/12/2011*	*31/12/2010*
1.	Taxes due to the tax authorities and similar	4,115	5,528
2.	Amounts due to social security and welfare institutions	493	2,562
3.	Amounts due to the Parent Company for tax consolidation	36,050	55,875
4.	Sums available to customers	385	611
5.	Liabilities for payment agreements on Parent Company shares	-	951
6.	Other amounts due to employees	5,398	10,089
7.	Items being processed	3,287	1,687
8.	Amounts payable associated with the payment of supplies of goods and services	8,881	8,438
9.	Guarantees given	16,630	9,942
10.	Payables for reimbursement of cost of personnel seconded to Bank	1,595	-
11.	Deferred income not attributable to own items	661	1,939
12.	Other	12,407	10,509
	Total	**89,902**	**108,131**

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: changes in the year

	31/12/2011	*31/12/2010*
A. Opening balances	**2,277**	**2,541**
B. Increases	**82**	**62**
B.2 Provision for the year	82	23
B.3 Other increases		39
C. Decreases	**191**	**326**
C.1 Indemnities paid	191	326
C.2 Other decreases		
D. Closing balances	**2,168**	**2,277**

11.2 Other information

11.2.1 Main actuarial hypothesis used

Main actuarial hypotheses / Percentages	*31/12/2011*	*31/12/2010*
1. Average discounting back rate (*)	2.7311%	3.8304%
2. Estimated salary increase rates	-	-

Note:
(*) *The spot zero coupon rates curve as of 31 December 2011 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 € 3,050 thousand (3,137 as at 31 December 2010).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2011*	*31/12/2010*
1. Company pension funds 5,834 6,158		
2. Other provisions for risks and charges:	29,716	15,393
2.1 legal disputes	*10,173*	*4,163*
2.2 personnel expenses		
2.3 other	*19,543*	*11,230*
Total	**35,550**	**21,551**

Note:
The sub-item "Other provisions for risks and charges: 2.1 legal disputes" includes allocations for liabilities deemed likely in relation to miscellaneous ordinary cases with customers and for actions for revocation, accounting for 93% and 7%, respectively, of the total shown in the table.
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**	**6,158**	**15,393**	**21,551**
B.	**Increases**	**289**	**15,780**	**16,069**
B.1	Provision for the year	289	15,682	15,971
B.2	Changes due to the passage of time		75	75
B.3	Changes due to discount rate changes		23	23
B.4	Other increases			
C.	**Decreases**	**613**	**1,457**	**2,070**
C.1	Uses in the year	613	69	682
C.2	Changes due to discount rate changes			
C.3	Other changes		1,388	1,388
D.	**Closing balances**	**5,834**	**29,716**	**35,550**

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	*31/12/2011*		*31/12/2010*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**6,158**		**6,709**	
Increases	**289**		**55**	
Welfare cost relating to current work services				
Borrowing costs				
Members contributions to plan				
Actuarial losses				
Exchange losses				
Welfare cost relating to past work services	289		55	
Other changes				
Decreases	**613**		**606**	
Indemnities paid	613		606	
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	**5,834**		**6,158**	

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	*31/12/2011*	*31/12/2010*
1. Average discounting back rate	4.20%	4.50%
2. Estimated salary increase rates	1.50%	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	*31/12/2011*	*31/12/2010*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	620,285	567,925
4. (Treasury shares)		
5. Valuation reserves	(3,176)	(2,680)
6. Equity instruments		
7. Profit (loss) for the year	45,407	82,420
Total	**1,167,040**	**1,152,189**

Note:
Valuation reserves comprise a positive tax effect of €1,491 thousand, attributed to the category "Financial assets available for sale" (for 2010, the positive effect was €1,416 thousand). The gross amount of said reserves, without tax effect, would be €(4,667) thousand (for 2010, €(4,096) thousand).

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

14.1.a Share capital: breakdown

Items /Balances	*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
In the course of 2011, the number of outstanding shares did not change.

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 by the Shareholders' Meetings. The Bank does not hold any investment in Parent Company stock as of 31 December 2011.

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	*31/12/2011*	*31/12/2010*
1.	Financial assets available for sale	(4,667)	(4,096)
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	1,491	1,416
	Total	**(3,176)**	**(2,680)**

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	**(4,096)**			**1,416**	**(2,680)**
B. Increases	**2,970**			**(908)**	**2,062**
B.1 Fair value increases	1,318			(350)	968
B.2 Other changes	1,652			(558)	1,094
C. Decreases	**3,541**			**(983)**	**2,558**
C.1 Fair value decreases	3,541			(948)	2,593
C.2 Other changes				(35)	(35)
D. Closing balances	**(4,667)**			**1,491**	**(3,176)**

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

Assets / Balances	*31/12/2011*		*31/12/2010*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities	3	4,832		4,650
2. Equity securities	558	600	637	255
3. Units in collective investment undertakings	204		172	
4. Loans				
Total	**765**	**5,432**	**809**	**4,905**

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**	**(4,650)**	**382**	**172**	
2. **Positive changes**	**2,611**	**327**	**32**	
2.1 Fair value increases	959	327	32	
2.2 Transfer to income statement of negative reserves	1,652			
- due to impairment				
- due to conversion	*1,652*			
2.3 Other changes				
3. **Negative changes**	**2,790**	**751**		
3.1 Fair value decreases	2,790	751		
3.2 Transfer to income statement of positive reserves				
- due to conversion				
3.3 Other changes				
4. Closing balances	**(4,829)**	**(42)**	**204**	

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	**431,111**	A,B,C	**394,859**		
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**39,590**	A,B,C	**39,590**		
TOTAL RESERVES	**845,198**		**808,946**		
Profit for 2011	45,407				
Total Equity	**1,167,040**				

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

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	*31/12/2011*	*31/12/2010*
1. Financial guarantees given	321,779	246,751
a) Banks	*1,049*	
b) Customers	*320,730*	*246,751*
2. Commercial guarantees given	25,582	18,282
a) Banks		
b) Customers	*25,582*	*18,282*
3. Irrevocable commitments to grant finance	2,808,633	2,543,917
a) Banks	136,786	60,527
- certain to be called on	*136,786*	*60,527*
- not certain to be called on		
b) Customers	2,671,847	2,483,390
- certain to be called on	*1,383,558*	*887,839*
- not certain to be called on	*1,288,289*	*1,595,551*
4. Commitments underlying derivatives on receivables: protection sales	38,082,767	26,122,831
5. Assets lodged as collateral for third party bonds	643,249	840,925
6. Other commitments	410,060	671,974
Total	**42,292,070**	**30,444,680**

Note:
Item 5. "Assets lodged as collateral for third party bonds" shows the Bank's loans backing Eurosystem loan transactions stipulated by the Parent Company.

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

Portfolios	*31/12/2011*	*31/12/2010*
1. Financial assets held for trading	6,351,256	4,417,168
2. Financial assets at fair value		
3. Financial assets available for sale	36,155	
4. Financial assets held to maturity		
5. Due from banks	862,583	619,858
6. Loans to customers	601,862	2,798,714
7. Property, plant and equipment		

2.2 Other information: guaranteed deposit transactions

In accordance with the Bank of Italy requirements set forth in its notice of 16 February 2011, the table below shows assets not posted to the financial statements in compliance with the regulations of IAS39 which the Bank pledged as a guarantee of its own liabilities and commitments.

Type of guaranteed deposit	*Origin of the securities*		
	lending repo agreements and borrowed securities	*self-securitis securities*	*Total 31/12/2011*
Borrowing repurchase agreements and lent securities	11,283,871		11,283,871
Credit transactions on the Eurosystem			
Transactions on the Collateralised Interbank Market			
Other guaranteed deposit transactions			
Total	**11,283,871**		**11,283,871**

Type of guaranteed deposit	*Origin of the securities*		
	lending repo agreements and borrowed securities	*self-securitis securities*	*Total 31/12/2010*
Borrowing repurchase agreements and lent securities	11,529,100		11,529,100
Credit transactions on the Eurosystem			
Transactions on the Collateralised Interbank Market			
Other guaranteed deposit transactions			
Total	**11,529,100**		**11,529,100**

3 Information on operating leases

Items / Balances	*31/12/2011*	*31/12/2010*
- Within 1 year	593	702
- Between 1 and 5 years	494	832

4 Management and brokerage on behalf of third parties

Type of services	*31/12/2011*	*31/12/2010*
1. Execution of order on customers' behalf		
a) Purchases	12,629,489	13,236,355
1. Settled	*12,470,376*	*13,026,055*
2. Not settled	*159,113*	*210,300*
b) Sales	12,629,489	13,236,355
1. Settled	*12,470,376*	*13,026,055*
2. Not settled	*159,113*	*210,300*
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	485,989	139,773
1. Securities issued by the Bank		
2. Other securities	*485,989*	*139,773*
c) Third party securities deposited with third parties	428,464	82,310
d) Bank's securities deposited with third parties	10,915,983	7,911,963
4. Other transactions	**7,487,250**	**7,185,548**

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 €335,492 thousand as guarantees received against securities lending and derivative activities (€28,433 thousand in 2010). These guarantees have a total fair value of €329,615 thousand (€27,461 thousand in 2010) and remain deposited with the custodian bank, Banca Monte dei Paschi di Siena.

"Other transactions", in point 4, include volumes managed both for the activity of orders receipt and collection (totalling €762,525 thousand in 2011, against €145,575 thousand last year) and for placement with or without guarantees (totalling €6,725,001 thousand in 2011, compared to €7,039,973 thousand last year).

Part C
Notes to the Income Statement

Section 1 - INTEREST - ITEMS 10 AND 20

Interest and other income: breakdown

Items / Technical forms	*Debt securities*	*Loans*	*Other transactions*	***Total 31/12/11***	***Total 31/12/10***
1. Financial assets held for trading	211,109	120,375	5	**331,489**	**207,029**
2. Financial assets available for sale	2,790			**2,790**	**667**
3. Financial assets held to maturity					
4. Due from banks		25,849	1,459	**27,308**	**8,254**
5. Loans to customers	2,922	392,953		**395,875**	**326,599**
6. Financial assets at fair value					
7. Hedging derivatives					
8. Other assets					**14**
Total		**539,177**	**1,464**	**757,462**	**542,563**

Note:
The interest accrued during the year relating to positions classified as "impaired" amounts to €36,655 thousand (€20,984 as of 31/12/2010). Default interest was fully written down and is measured for accounting purposes only at the time of collection.

1.2 Interest and other income: other information

	31/12/2011	*31/12/2010*
1. Interest income on foreign currency financial assets	20,712	12,828
2. Interest income on financial lease transactions	-	-

1.3 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/11***	***Total 31/12/10***
1. Due to Central Banks			-	-	
2. Due to banks	(80,577)			**(80,577)**	**(46,086)**
3. Due to customers	(242,532)			**(242,532)**	**(157,389)**
4. Outstanding securities		(7,587)		**(7,587)**	**(6,694)**
5. Financial liabilities held for trading	(152,655)			**(152,655)**	**(72,431)**
6. Financial liabilities at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			(284)	**(284)**	**(37)**
Total	**(475,764)**	**(7,587)**	**(284)**	**(483,635)**	**(282,637)**

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

Types /Items	*31/12/2011*	*31/12/2010*
A. Positive differentials relating to hedging transactions		
B. Negative differentials relating to hedging transactions	(284)	(37)
C. Balance (A-B)	**(284)**	**(37)**

1.5 Interest expense and similar charges: other information

	31/12/2011	*31/12/2010*
1. Interest expense on foreign currency liabilities	(18,122)	(19,808)
2. Interest expense on liabilities for financial lease transactions	-	-

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

	Type of services / Balances	*31/12/2011*	*31/12/2010*
a)	guarantees given	2,729	1,522
b)	credit derivatives		
c)	asset management, services and consultancy:	68,837	124,821
	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	*47,269*	*111,328*
	7. order reception and transmission	*1,978*	*1,830*
	8. advisory services	*19,590*	*11,663*
	8.1. on investments	*2,144*	*1,229*
	8.2. on financial structure	*17,446*	*10,434*
	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	18	
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	42,906	47,572
	Total	**114,490**	**173,915**

Note:
The decrease in fees pursuant to sub-item c) "asset management, services and consultancy" is related to the respective sub-item under item 50 "Fee expense" (see section 2.2 below), and reflects the decrease in volumes of bonds issued by third party issuers and placed by the BMPS Group network.

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

	Type of services / Balances	*31/12/2011*	*31/12/2010*
a)	for early repayment/termination of loans and mortgage loans	23,020	24,402
b)	fees for services	2,042	2,077
d)	fees for securities lending	5,688	5,040
e)	other	12,156	16,053
	Total	**42,906**	**47,572**

2.2 Fee income: distribution channels for products and services

	Channels / Balances	*31/12/2011*	*31/12/2010*
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	47,269	111,328
	3. third party services and products		

2.3 Fee expense: breakdown

	Services / Balances	*31/12/2011*	*31/12/2010*
a)	on guarantees received	(145)	(105)
b)	on credit derivatives		
c)	on asset management and other services:	(41,466)	(106,407)
	1. financial instrument trading	*(18,584)*	*(19,482)*
	2. foreign currency trading	*(4)*	*(4)*
	3. portfolio management:		
	3.1 own		
	3.2. delegated by third parties		
	4. custody and administration of securities	*(345)*	*(237)*
	5. financial instrument placement	*(22,533)*	*(86,684)*
	6. financial promoters offering financial instruments, products and services		
d)	on collection and payment services	(20)	(24)
e)	on other services	(30,586)	(27,304)
	Total	**(72,217)**	**(133,840)**

Nota:
The decrease in fees pursuant to sub-item c) "asset management and other services" is related to the respective sub-item under item 40 "Fee income" (see section 2.1 above), and reflects the decrease in volumes of bonds issued by third party issuers and placed by the BMPS Group network.

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

	Type of services / Balances	*31/12/2011*	*31/12/2010*
a)	presentation of loan applications	(11,051)	(8,942)
b)	handling of non-performing positions	(7,064)	(6,454)
c)	expense and fees paid to Barclays, Citibank and Clearstream	(4,929)	(4,236)
e)	fees for securities lending	(1,500)	(1,235)
f)	other	(6,042)	(6,437)
	Total	**(30,586)**	**(27,304)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2011*		*31/12/2010*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	81,914	127	177,429	223
B. Financial assets available for sale	22	54	22	48
C. Financial assets at fair value				
D. Equity investments	2,689		1,793	
Total	**84,625**	**181**	**179,244**	**271**

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) 31/12/11*	*31/12/10*
1. Financial assets held for trading						
1.1 Debt securities	72,663	137,010	(206,217)	(217,763)	**(214,307)**	**(29,885)**
1.2 Equity securities	10,691	35,696	(27,336)	(164,665)	**(145,614)**	**(314,027)**
1.3 Units in collective investment undertakings	363	591	(7,297)	(2,837)	**(9,180)**	**10,868**
1.4 Loans			(498)		**(498)**	
1.5 Other						
2. Financial liabilities held for trading						
2.1 Debt securities	88,879	80,753	(9,451)	(18,792)	**141,389**	**8,149**
2.3 Payables						
2.2 Other	30	2,781	(47)	(235)	**2,529**	**(83,198)**
3. Other financial assets and liabilities:						
- Exchange differences					**664**	**61**
4. Derivative instruments						
4.1 Financial derivatives:						
- on debt securities and interest rates	3,421,538	7,883,074	(2,976,980)	(8,376,772)	**(49,140)**	**38,397**
- on equity securities and share indexes	186,241	1,045,278	(101,426)	(1,010,920)	**119,173**	**205,633**
- on foreign currency and gold					**(30,759)**	**7,978**
- other	12,695	176,446	(12,174)	(157,095)	**19,872**	**3,421**
4.2 Credit derivatives	1,754,900	626,292	(1,677,879)	(636,997)	66,316	**2,839**
Total	**5,548,000**	**9,987,921**	**(5,019,305)**	**(10,586,076)**	**(99,555)**	**(149,764)**

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

5.1 Net income from hedging activities: breakdown

	Income components / Balances	*31/12/2011*	*31/12/2010*
A.	**Income related to:**		
A.1	Fair value hedging derivatives		
A.2	Hedged financial assets (fair value)	1,441	367
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)	**1,441**	**367**
B.	**Costs related to:**		
B.1	Fair value hedging derivatives	(1,445)	(358)
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)	**(1,445)**	**(358)**
C.	**Net income from hedging activities (A-B)**	**(4)**	**9**

Section 6 - PROFIT (LOSS) ON SALE/REPURCHASE - ITEM 100

6.1 Profit (loss) on sale/repurchase: breakdown

Items / Income components	*31/12/2011*			*31/12/2010*		
	Gains	*Losses*	*Net profit (loss)*	*Gains*	*Losses*	*Net profit (loss)*
1. Due from banks						
2. Loans to customers						
3. Financial assets available for sale	841	(1,652)	(811)	2,110	(2,238)	(128)
3.1 Debt securities	*841*	*(1,652)*	*(811)*	*880*	*(2,150)*	*(1,270)*
3.2 Equity securities				*1,230*	*(88)*	*1,142*
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**841**	**(1,652)**	**(811)**	**2,110**	**(2,238)**	**(128)**
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*	*31/12/2011*	*31/12/2010*
A. Due from banks									**(80)**
- Loans									***(80)***
- Debt securities									**-**
B. Loans to customers	(7,734)	(209,347)		67,512	26,085		9,998	(113,486)	(115,295)
- Loans	*(7,734)*	*(209,347)*		*67,512*	*26,085*		*9,998*	*(113,486)*	*(115,295)*
- Debt securities									
C. Total	**(7,734)**	**(209,347)**		**67,512**	**26,085**		**9,998**	**(113,486)**	**(115,375)**

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

Transactions / Income components	*Value adjustments*		*Write-backs*		*Total*	
	Specific		*Specific*			
	Cancellations	*Other*	*From interest*	*Other write-backs*	*31/12/2011*	*31/12/2010*
A. Debt securities						
B. Equity securities		(374)			(374)	-
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total		**(374)**			**(374)**	**-**

8.3 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*	*31/12/2011*	*31/12/2010*
A. Guarantees given		(12,700)	(208)					(12,908)	**(7,542)**
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**(12,700)**	**(208)**					**(12,908)**	**(7,542)**

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel expenses: breakdown

Tipologia di spese/Valori	*31/12/2011*	*31/12/2010*
1. Employees	**(51,031)**	**(49,098)**
a) wages and salaries	(35,372)	(36,035)
b) social security charges	(9,642)	(8,721)
c) severance indemnities	(2,383)	(2,357)
d) pension costs		
e) provision for personnel severance indemnities	(82)	(62)
f) provision for pensions and similar obligations:	(1,111)	(890)
- defined-contributions	*(822)*	*(835)*
- definite benefits	*(289)*	*(55)*
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
i) other employee benefits	(2,441)	(2,426)
2. Other working personnel	**(543)**	**(558)**
3. Directors and Statutory Auditors	**(871)**	**(957)**
4. Retired personnel		
5. Recovered expenses for employees seconded at other companies	**17,472**	**17,342**
6. Expense reimbursements for third party employees seconded at the Bank	**(7,752)**	**(8,158)**
Total	**(42,725)**	**(41,429)**

Note:
Sub-item h) "costs deriving from payment agreements based on Parent Company equity instruments", equal to €1,393 thousand for 2010, 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	*31/12/2011*	*31/12/2010*
Employees:	**424**	**412**
a) executives	32	33
b) managers	239	217
c) other employees	153	162
Other personnel	**5**	**10**
Total429	**422**	

9.3 Defined-benefit company pension funds: total costs

Items / Balances	*31/12/2011*	
	Defined-benefit company pension funds	*Employee severance indemnities*
1. Welfare cost relating to current employment services (+)		
2. Borrowing costs (+)		(32)
3. Estimated return on plan assets (-)		
4. Envisaged return on any reimbursement rights recorded as assets (-)		
5. Actuarial gains and losses (±)		(50)
6. Welfare cost relating to past employment services (+)(289)		
7. Effect of any reduction or discharge		
8. Effect deriving from booking of assets		
Total	**(289)**	**(82)**

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

Items / Balances	*31/12/2011*	
	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	250	-

9.5 Other administrative expenses: breakdown

	Items / Balances	*31/12/2011*	*31/12/2010*
1.	substitute tax	-	(79)
2.	municipal property tax	(42)	(100)
3.	stamp duty	(4)	(9)
4.	other taxation	(87)	(153)
5.	rental of bank properties	(3,436)	(2,873)
6.	fees for outside professionals	(5,909)	(5,671)
7.	maintenance of furnishings and property used for business purposes	(447)	(416)
8.	postal charges	(84)	(96)
9.	telephone charges	(354)	(359)
10.	advertising	(15)	(48)
11.	sundry rents and leasing	(786)	(668)
12.	information and searches	(159)	(180)
13.	transport	(263)	(262)
14.	electricity, heating and water	(66)	(229)
15.	security	(68)	(161)
16.	reimbursement of staff vehicle and travel costs	(589)	(585)
17.	other personnel expenses	(1,745)	(1,227)
18.	contracts for cleaning of premises	(333)	(360)
19.	rental of data transmission lines	(7,226)	(7,591)
20.	printed matter and stationery	(91)	(119)
21.	insurance companies	(24)	(16)
22.	services outsourced from Group companies	(13,750)	(13,300)
23.	membership fees	(628)	(324)
24.	entertaining expenses	(122)	(132)
25.	subscriptions and purchase of publications	(54)	(63)
26.	sundry	(779)	(1,642)
	Total	**(37,061)**	**(36,663)**

Section 10 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 160

10.1 Net provisions for risks and charges: breakdown

Items /Balances	*31/12/2011*			*31/12/2010*		
	Personnel expenses	*Legal disputes*	*Other*	*Personnel expenses*	*Legal disputes*	*Other*
1. Provisions for the year		(7,068)	(8,712)		(1,222)	(8,057)
2. Write-backs		1,059	329		70	
Total		**(6,009)**	**(8,383)**		**(1,152)**	**(8,057)**

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)	
				31/12/11	31/12/10
A. Property, plant and equipment					
A.1 **Owned by the Bank**	528			528	(882)
- For use in business	*227*			*227*	*(807)*
- Investment property	*301*			*301*	(75)
A.2 **Acquired under financial lease**					
- For use in business					
- Investment property					
Total	**528**			**528**	**(882)**

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)*	
					31/12/11	*31/12/10*
A.	**Intangible assets**					
A.1	**Owned by the Bank**	-			-	(3)
	- Generated internally by the Bank					
	- Other				-	*(3)*
A.2	**Acquired under financial lease**					
	Total	**-**			**-**	**(3)**

Section 13 - OTHER OPERATING INCOME AND CHARGES - ITEM 190

13.1 Other operating charges: breakdown

Items / Balances	31/12/2011	31/12/2010
1. Amounts not receivable not attributable to own items	(35)	(73)
2. Out-of-period expense not attributable to own items	(15)	(8)
3. Amortisation of leasehold improvement costs classified among "Other assets"	(532)	(306)
4. Settlements paid for litigation	-	(5)
5. Other	(969)	(94)
Total	**(1,551)**	**(486)**

13.2 Other operating income: breakdown

Items / Balances	31/12/2011	31/12/2010
1. Amounts not payable not attributable to own items	464	45
2. Out-of-period income not attributable to own items	14	282
3. Rental income from investment properties	312	339
4. Other costs charged back	5,028	4,654
5. Other	61	158
Total	**5,879**	**5,478**

Section 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 210

14.1 Profit (loss) from equity investments: breakdown

Income components / Balances	*31/12/2011*	*31/12/2010*
A. Income	**3,899**	
1. Revaluations		
2. Gains on disposal	3,899	
3. Write-backs		
4. Other income		
B. Expense	**(40)**	
1. Write-downs		
2. Value adjustments due to impairment	(40)	
3. Losses on disposal		
4. Other charges		
Net profit (loss)	**3,859**	

Note:
The gain on disposal is fully a result of the sale of 22% of MPS Venture SGR S.p.A. in the last quarter of 2011.
The value adjustment due to impairment is from the valuation of the equity investment in Immobiliare Centro Milano. Please note that a full impairment of the equity investment was posted (totalling €40 thousand), deeming that the loss of the year from 2010 and the anticipated loss of 2011 (the relative financial statements were not yet approved by the shareholders' meeting) are objective proof of a write-off of the equity investment's value.

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	*31/12/2011*	*31/12/2010*
A. Properties		6,570
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 in 2010 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	*31/12/2011*	*31/12/2010*
1. Current taxes (-)	(49,390)	(66,575)
2. Changes in current taxes for previous years (+/-)	(478)	8,786
3. Reduction in current taxes for the year (+)		1,412
4. Change in prepaid taxes (+/-)	7,979	9,171
5. Change in deferred taxes (+/-)	49	(467)
6. Taxes for the year (-)	**(41,840)**	**(47,673)**

Note:
2011 accounting period. The item "current taxes" includes the IRES and IRAP tax burden accrued during the year (current IRAP tax was calculated at the rate of 5.57%, which includes the 0.75% increase introduced by Law Decree no. 98, of 6 July 2011, converted into Law no. 111 of 15 July 2011). One of the permanent fiscal changes which contributed to the tax rate increase is the partial deductibility of interest expense from taxable income: this increased the cost by €5,037 thousand (€3,961 thousand for IRES and €1,076 thousand for IRAP).
The item "changes in current taxes for previous years" includes the transfer to the income statement of higher taxes allocated last year due to the allocations charged to the income statement above the maximum threshold allowed by art. 106 of the Consolidated Income Tax Law and the amount paid to the tax authorities for taxes from 2007 subsequent to a legal conciliation procedure related to a tax assessment received in 2010.
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.

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

IRES

Items / Balances	*31/12/2011*		*31/12/2010*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	87,247		130,093	
B. Profit (Loss) on discontinued operations				
before taxes				
Profit (Loss) gross of taxation (A+B)	**87,247**		**130,093**	
Theoretical tax charge - IRES with application				
of the nominal rate	**23,993**	**27.50%**	**35,775**	**27.50%**
- Non-deductible portion of interest expense	3,949		2,590	
- Non-deductible write-downs and losses on equity securities			-	
- Non-deductible costs	1,733		1,641	
- Other increases	1,971		3,334	
Total tax effect of increases	**7,653**		**7,565**	
- Capital gains and revaluations on exempt equity investments		1,019		298
- Dividends	708		474	
- Change in current taxes for previous years	94		2,731	
- Other decreases	738		1,740	
Total tax effect of decreases	**2,559**		**5,243**	
IRES taxation to income statement	**29,087**		**38,097**	
of which:				
- Income taxes for the year from current operations	29,087		38,097	
- Income taxes for the year of discontinued operations				

IRAP

Items / Balances	*31/12/2011*		*31/12/2010*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	87,247		130,093	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**87,247**		**130,093**	
Theoretical tax charge - IRAP with application of the nominal rate	**3,403**	**3.90%**	**5,074**	**3.90%**
- Personnel expenses	1,666		1,616	
- Net value adjustments on receivables	4,944		4,793	
- Rate increases implemented by regions	3,692		1,801	
- Other increases	1,201		1,216	
Total tax effect of increases	**11,503**		**9,426**	
- Profits on equity investments				
- Prepaid taxes relating to previous years				
- Dividends	1,657		3,501	
- Other decreases	496		1,425	
Total tax effect of decreases	**2,153**		**4,926**	
IRAP taxation to income statement	**12,753**		**9,574**	
of which:				
- Income taxes for the year from current operations	12,753		9,574	
- 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	31/12/2011	31/12/2010
1. Weighted average of outstanding shares (+)	891,724,988	891,724,988
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**	**891,724,988**

21.2 Other information

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

(amounts in euros)

Items / Balances	31/12/2011	31/12/2010
1. Net profit (loss)	45,407,131	82,420,165
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**45,407,131**	**82,420,165**

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

(amounts in euros)

Items / Balances	31/12/2011	31/12/2010
1. Net profit (loss)	45,407,131	82,420,165
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	**45,407,131**	**82,420,165**

21.2.c Basic and diluted earnings per share

(amounts in euros)

Items / Balances	31/12/2011	31/12/2010
1. Basic earnings per share	0.05092	0.09243
2. Diluted earnings per share	0.05092	0.09243

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	Gross amount	Income tax	Net amount
10. Profit (loss) for the period	**87,247**	**(41,840)**	**45,407**
Other revenue components net of taxes			
20. Financial assets available for sale	**(571)**	**75**	**(496)**
a) fair value changes	(2,223)	597	(1,626)
b) transfer to income statement	1,652	(546)	1,106
- impairment adjustments			
- gains/losses on disposal	*1,652*	*(546)*	*1,106*
c) other changes		24	*24*
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	**(571)**	**75**	**(496)**
120. Comprehensive income (Item 10+110)			**44,911**

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. The Parent Company's Credit Governance Department defines the strategic policies for the loan portfolio, both at Group level and for the individual subsidiaries, including MPSCS. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and systems developed aim to make use of trend-related information at the level of the individual relationship, and are characterised by deep awareness and strategic management of the position (credit culture).
In 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.
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.

2. Credit risk handling policies

2.1 Organisational aspects, management gauging and control systems

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

The Bank carries out medium and long-term lending, mainly ordinary, related to extraordinary enterprise finance and corporate finance, 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 lower level appointed bodies are parameterized; these limits undergo an increase or decrease depending on the rating assigned to said counterparty, except for those assigned to the Board of Directors.
The process of assigning project ratings is currently operative (begun in May 2009) for specialised lending transactions, duly identified as IPRE (Income Producing Real Estate, Project Finance or Object Finance). On the other hand, and altogether experimentally, a mathematical economic model (so-called Expert Model) continues 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, as well as loan applications from employees 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 sets 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.
  - drafting of technical opinions by the Proposals Review Sector for all transactions proposed by the Loan Division and by the Corporate Finance Division for which the decision-making level is the General Manager or above.

In 2011, the experimental phase of the process to de-centralise assessment activities continued, only for the local offices of Padua and Milan. The objective is to gradually transfer loan application assessments to the Local Offices, without prejudice to the general credit rating analysis principles currently in force and the exclusive responsibility assigned to the Credit Assessment Department to manage the rating (ratification, confirmation or decision). The work of the Local Offices is accompanied and supported by the Assessment Department, not only as regards rating management, but also for the assessment of transactions processed by the aforementioned Local Offices, regarding which it draws up 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. Instead, the process of updating the project rating of transactions for which the Credit Assessment Department is responsible is carried out by the Credit Lines sector of that same Department.
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 Organisational 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, opinions are assigned by the main international rating agencies.

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 agreements, exposure is measured net of the collateral deposited by the counterparties if the net market value is positive. 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 organised 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).
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. Specifically, the Bank uses (bilateral) netting agreements which make it possible, in the event of default, to offset all existing credit and debt positions in its 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 analysed 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. 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	4,957	3,992	164	691	35,019,435	**35,029,239**
2. Financial assets available for sale					45,146	**45,146**
3. Financial assets held to maturity						
4. Due from banks					4,571,815	**4,571,815**
5. Loans to customers	1,646,399	775,645	173,370	148,498	11,596,785	**14,340,697**
6. Financial assets at fair value						
7. Financial assets pending sale						
8. Hedging derivatives						**-**
Total 31 December 2011	**1,651,356**	**779,637**	**173,534**	**149,189**	**51,233,181**	**53,986,897**
Total 31 December 2010	**1,402,702**	**667,693**	**197,199**	**90,009**	**43,765,442**	**46,123,045**

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);*
- *€1,869 thousand of exposures to customers for differentials of OTC derivative agreements not paid at maturity, subjected to value adjustments of €5,937 thousand, of which €2,053 thousand recording during the year;*

whilst
- *the amounts recorded in the "watch-list", "restructured exposures" and "past due loans" categories relate 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)

Portafogli/Qualità	*Impaired assets*			*Performing*			
	Gross exposure	*Value adjustments Micro*	*Net exposure*	*Gross exposure*	*Portfolio value adjustments*	*Net exposure*	***Total (net exposure)***
1. Financial assets held for trading	15,741	(5,937)	9,804			35,019,435	**35,029,239**
2. Financial assets available for sale				45,146		45,146	**45,146**
3. Financial assets held to maturity							
4. Due from banks	6,000	(6,000)	0	4,572,595	(780)	4,571,815	**4,571,815**
5. Loans to customers	3,784,005	(1,040,093)	2,743,912	11,660,341	(63,556)	11,596,785	**14,340,697**
6. Financial assets at fair value							
7. Financial assets pending sale							
8. Hedging derivatives							**-**
Total 31 December 2011	**3,805,746**	**(1,052,030)**	**2,753,716**		**(64,336)**	**51,233,181**	**53,986,897**
Total 31 December 2010	**3,222,714**	**(865,111)**	**2,357,603**		**(75,022)**	**43,765,442**	**46,123,045**

Details for performing exposure portfolios

Portfolio / Exposure category	*Subject to renegotiation (*)*	*Other exposures*	*Total*
1. Financial assets held for trading		35,019,435	**35,019,435**
2. Financial assets available for sale		45,146	**45,146**
3. Financial assets held to maturity			
4. Due from banks		4,571,815	**4,571,815**
5. Loans to customers	708,708	10,888,077	**11,596,785**
6. Financial assets at fair value			
7. Financial assets pending disposal			
8. Hedging derivatives			
	708,708	**50,524,473**	**51,233,181**

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	-	584,943	584,943	(3,298)	581,645
- with amounts past due up to 3 months	1,700	126,103	127,803	(740)	127,063
- with amounts past due from 3 to 6 months	-	-	-	-	-
Total	**1,700**	**711,046**	**712,746**	**(4,038)**	**708,708**
B. Other exposures					
- without past due amounts	-	49,757,620	49,757,620	(55,087)	49,702,533
- with amounts past due up to 3 months	21,983	742,874	764,857	(4,639)	760,218
- with amounts past due from 3 to 6 months	8,625	53,669	62,294	(572)	61,722
Total	**30,608**	**50,554,163**	**50,584,771**	**(60,298)**	**50,524,473**
Total A+B	**32,308**	**51,265,209**	**51,297,517**	**(64,336)**	**51,233,181**

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	12,044,998		(780)	12,044,218
Total A	**12,050,998**	**(6,000)**	**(780)**	**12,044,218**
B. Off-balance sheet exposures				
a) Impaired				
b) Other	11,884,452			11,884,452
Total B	**11,884,452**			**11,884,452**
Total A+B	**23,935,450**	**(6,000)**	**(780)**	**23,928,670**

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	2,511,375	(861,887)		1,649,488
b) Watch-list	923,366	(147,722)		775,644
c) Restructured exposures	195,078	(21,708)		173,370
d) Past due exposures	157,273	(8,775)		148,498
e) Other assets	22,816,591		(63,556)	22,753,035
Total A	**26,603,683**	**(1,040,092)**	**(63,556)**	**25,500,035**
B. Off-balance sheet exposures				
a) Impaired	103,095	(18,658)		84,437
b) Other	31,310,188		(3,910)	31,306,278
Total B	**31,413,283**	**(18,658)**	**(3,910)**	**31,390,715**
Total A+B	**58,016,966**	**(1,058,750)**	**(67,466)**	**56,890,750**

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	**2,097,602**	**797,337**	**219,750**	**95,026**
- of which: exposures sold but not derecognised				
B. Increases	**524,327**	**444,642**	**84,291**	**141,408**
B.1 transfers from performing loans	138,790	274,763	62,870	130,504
B.2 transfers from other categories of impaired exposures	290,625	136,968	7,635	
B.3 other increases	94,912	32,911	13,786	10,904
C. Decreases	**110,554**	**318,613**	**108,963**	**79,161**
C.1 transfers to performing loans	510	7,349	8,511	16,192
C.2 cancellations	19,295	3,419	4	84
C.3 collections	90,749	28,428	3,065	4,457
C.4 disposals				
C.5 transfers to other categories of impaired exposures		279,417	97,383	58,428
C.6 other decreases				
D. Gross closing balance	**2,511,375**	**923,366**	**195,078**	**157,273**
- 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**	**696,140**	**130,650**	**23,267**	**5,120**
	- of which: exposures sold but not derecognised				
B.	**Increases**	**274,918**	**74,038**	**10,637**	**3,986**
B.1	value adjustments	229,043	61,591	1,455	3,970
B.2	transfers from other categories of impaired exposures	45,843	12,340	25	
B.3	other increases	32	107	9,157	16
C.	**Decreases**	**109,171**	**56,966**	**12,196**	**331**
C.1	write-backs from valuation	84,547	6,580		
C.2	write-backs from collection	5,329	1,140	25	32
C.3	cancellations	19,295	3,419	4	85
C.4	transfers to other categories of impaired exposures		45,827	12,167	214
C.5	other decreases				
D.	**Closing balance of overall value adjustments**	**861,887**	**147,722**	**21,708**	**8,775**
	- of which: exposures sold but not derecognised				

The increase in impaired loans (+16.69%, see the Explanatory Notes, Section 7, part B, “Loans to customers”) demonstrates how financial tensions, which involved almost all economic sectors, have made it difficult for companies to respect bank loan repayment due dates. In order to prevent and limit transfers of loans to impaired status, the Bank continues its recovery of delinquent loans through accredited external companies and professionals, as regards both the most significant due dates and those characterised by previous late payment episodes.

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- Class 1	A+/A- Class 2	BBB+/BBB- Class 3	BB+/BB- Class 4	B+/B- Class 5	Lower than B- Class 6		
A. **Cash exposures**	522,821	10,575,591	9,753,199	63,889	7,875	3,004	16,617,875	**37,544,254**
B. **Derivatives**	8,717,999	11,205,351	6,312,770	458,969	201,572	24,754	12,053,992	**38,975,407**
1. Financial derivatives	*450,953*	*391,178*	*156,587*	*13*	*3*		*650,990*	***1,649,724***
2. Credit derivatives	*8,267,046*	*10,814,173*	*6,156,183*	*458,956*	*201,569*	*24,754*	*11,403,002*	***37,325,683***
C. **Guarantees given**							347,361	**347,361**
D. **Irrevocable commitments to grant finance**	12,452	1,440,648	66,676	579			2,432,043	**3,952,398**
Total	**9,253,272**	**23,221,590**	**16,132,645**	**523,437**	**209,447**	**27,758**	**31,451,271**	**80,819,420**

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**	622,532	1,601,259	4,944,921	2,001,958	474,420	2,928,636	24,970,528	**37,544,254**
B. **Derivatives**	406,462	259,758	101,980	88,202	1,700	7,933	38,109,372	**38,975,407**
1. Financial derivatives	*9,865*	*22,746*	*101,980*	*29,089*	*1,700*	*7,933*	*1,476,411*	***1,649,724***
2. Credit derivatives	*396,597*	*237,012*		*59,113*			*36,632,961*	***37,325,683***
C. **Guarantees given**	24,177	31,191	190,159	45,224	17,584	17,685	21,341	**347,361**
D. **Irrevocable commitments to grant finance**	126,640	139,442	859,621	144,189	11,288	77,143	2,594,075	**3,952,398**
Total	**1,179,811**	**2,031,650**	**6,096,681**	**2,279,573**	**504,992**	**3,031,397**	**65,695,316**	**80,819,420**

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

		Secured guarantees (1)			Unsecured guarantees (2)									
					Credit derivatives					Endorsement credits				
						Other derivatives								
	Value of net exposure	*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*	***Total (1) + (2)***
1. Guaranteed cash exposures	**4,313,850**		**4,323,800**											**4,323,800**
1.1 fully guaranteed	1,484,809		1,502,029											**1,502,029**
- of which impaired														
1.2 partially guaranteed	2,829,041		2,821,771											**2,821,771**
- of which impaired														
2. Guaranteed "off-balance sheet" exposures	**460,835**			**447,200**									**447,200**	
2.1 fully guaranteed	269,179			269,179										**269,179**
- of which impaired														
2.2 partially guaranteed	191,656			178,021										**178,021**
- 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

		Secured guarantees (1)			Unsecured guarantees (2)									
					Credit derivatives					Endorsement credits				
						Other derivatives								
	Value of net exposure	*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*	***Total (1) + (2)***
1. Guaranteed cash exposures	**17,315,900**	**24,318,920**	**5,974,268**	**238,745**						**5,561**	**52,364**	**33,498**	**4,909,990**	**35,533,346**
1.1 fully guaranteed	14,487,786	24,147,453	4,303,568	192,217						5,257	50,166	31,073	4,716,697	**33,446,431**
- of which impaired	*2,497,724*	*6,233,464*	*91,647*	*7,366*						*5,129*	*7,969*	*27,024*	*2,192,692*	***8,565,291***
1.2 partially guaranteed	2,828,114	171,467	1,670,700	46,528						304	2,198	2,425	193,293	**2,086,915**
- of which impaired	*191,716*	*81,311*	*45,839*							*42*	*167*	*1,098*	*43,304*	***171,761***
2. Guaranteed "off-balance sheet" exposures	**1,312,264**	**922,262**	**66,199**	**530,517**								**175,938**	**1,694,916**	
2.1 fully guaranteed	1,039,732	913,481	58,848	370,459									150,736	**1,493,524**
- of which impaired	*67,211*	*87,577*												**87,577**
2.2 partially guaranteed	272,532	8,781	7,351	160,058									25,202	**201,392**
- 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 31/12/11*	*Total 31/12/10*
Governments							
- Net exposure					5,260,685	**5,260,685**	**4,224,840**
- Specific value adjustments							
- Portfolio value adjustments					(6)	**(6)**	**(10)**
Other public entities							
- Net exposure					18,087	**18,087**	**46,034**
- Specific value adjustments							
- Portfolio value adjustments					(77)	**(77)**	**(102)**
Finance companies							
- Net exposure	3,088	49,567	36,304		7,169,314	**7,258,273**	**8,393,588**
- Specific value adjustments	(2)	(21,334)	(11,071)			**(32,407)**	**(17,362)**
- Portfolio value adjustments					(3,235)	**(3,235)**	**(5,066)**
Insurance companies							
- Net exposure					65,790	**65,790**	**96,585**
- Specific value adjustments							
- Portfolio value adjustments							
Non-financial companies							
- Net exposure	1,615,865	697,611	137,066	147,451	10,086,095	**12,684,088**	**12,377,015**
- Specific value adjustments	(840,825)	(124,730)	(10,637)	(8,718)		**(984,911)**	**(816,222)**
- Portfolio value adjustments					(57,095)	**(57,095)**	**(67,749)**
Other operators							
- Net exposure	30,534	28,467		1,047	153,064	**213,113**	**381,342**
- Specific value adjustments	(21,061)	(1,657)		(57)		**(22,775)**	**(21,594)**
- Portfolio value adjustments					(3,143)	**(3,143)**	**(1,315)**

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/11*	*Total 31/12/10*
Governments						
- Net exposure				9,340,111	**9,340,111**	**4,684,513**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				344,120	**344,120**	**281,154**
- Specific value adjustments						
- Portfolio value adjustments						
Finance companies						
- Net exposure		1,778	7,922	5,845,845	**5,855,546**	**5,062,745**
- Specific value adjustments		(1,100)			**(1,100)**	
- Portfolio value adjustments				(33)	**(33)**	**(48)**
Insurance companies						
- Net exposure				3,103,383	**3,103,383**	**1,480,223**
- Specific value adjustments						
- Portfolio value adjustments						
Non-financial companies						
- Net exposure	5,514	57,866	11,357	12,631,816	**12,706,553**	**10,804,077**
- Specific value adjustments	(5,938)		(11,620)		**(17,558)**	**(10,909)**
- Portfolio value adjustments				(3,737)	**(3,737)**	**(2,745)**
Other operators						
- Net exposure				41,003	**41,003**	**15,853**
- Specific value adjustments						
- Portfolio value adjustments				(140)	**(140)**	**(174)**

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 31/12/11*	*Total 31/12/10*
Italy							
- Net exposure	1,645,326	775,644	173,370	141,615	21,683,189	**24,419,145**	**24,539,796**
- Total value adjustments	(854,121)	(147,722)	(21,708)	(8,389)	(62,417)	**(1,094,358)**	**(920,026)**
Other European countries							
- Net exposure	4,047			6,883	974,888	**985,817**	**769,703**
- Total value adjustments	(7,766)			(386)	(981)	**(9,133)**	**(9,203)**
America							
- Net exposure	115				92,093	**92,208**	**204,363**
- Total value adjustments					(158)	**(158)**	**(189)**
Asia							
- Net exposure					96	**96**	**251**
- Total value adjustments						**-**	**-**
Rest of world							
- Net exposure					2,769	**2,769**	**5,291**
- Total value adjustments						**-**	**-**

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 exposures*	*Total 31/12/11*	*Total 31/12/10*
Italy						
- Net exposure	5,515	59,643	19,115	7,117,480	**7,201,753**	**3,705,603**
- Total value adjustments	(5,938)	(1,100)	(11,620)	(3,734)	**(22,392)**	**(12,038)**
Other European countries						
- Net exposure			164	21,840,965	**21,841,129**	**16,834,645**
- Total value adjustments				(157)	**(157)**	**(1,820)**
America						
- Net exposure				1,969,425	**1,969,425**	**1,561,018**
- Total value adjustments				(19)	**(19)**	**(19)**
Asia						
- Net exposure				122,645	**122,645**	**25,926**
- Total value adjustments						**-**
Rest of world						
- Net exposure				255,763	**255,763**	**201,373**
- 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 31/12/11*	*Total 31/12/10*
Italy							
- Net exposure					10,959,858	**10,959,858**	**7,800,413**
- Total value adjustments	(6,000)				(710)	**(6,710)**	**(6,682)**
Other European countries							
- Net exposure					857,976	**857,976**	**985,686**
- Total value adjustments					(56)	**(56)**	**(78)**
America							
- Net exposure					222,110	**222,110**	**258,962**
- Total value adjustments					(14)	**(14)**	**(20)**
Asia							
- Net exposure							
- Total value adjustments							
Rest of world							
- Net exposure					4,274	**4,274**	
- Total value adjustments							

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 31/12/11*	*Total 31/12/10*
Italy						
- Net exposure				2,413,008	**2,413,008**	**1,228,698**
- Total value adjustments						**-**
Other European countries						
- Net exposure				8,649,111	**8,649,111**	**6,018,556**
- Total value adjustments						**-**
America						
- Net exposure				718,999	**718,999**	**508,723**
- Total value adjustments						**-**
Asia						
- Net exposure					**-**	**-**
- Total value adjustments						**-**
Rest of world						
- Net exposure				103,334	**103,334**	**105,926**
- Total value adjustments						**-**

B.5 Significant risks

	31/12/2011	*31/12/2010*
a) amount of the nominal value	32,568,428	38,375,297
b) amount of the weighted value	4,305,879	5,285,858
c) number	28	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 organisational 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 and support in terms of pricing to customers who have invested in 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.

In relation to deals originated outside the MPS Group, the Desk's activities are oriented at seizing the various opportunities which the market offers, so as to maximise the portfolio's returns in terms of profit as an investor in this area. 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, together with the MPSCS Business Control Unit. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows.

The protection instruments are difficult to refer to the same seniority class of the securitised instrument; this is why it 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 2011, 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 €355.42 million in the trading portfolio (asset item 20 "Financial assets held for trading") and for an overall equivalent value of €8.99 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, including its own securitisation.

The Bank has no interests in special purpose vehicles.

In order to provide a complete disclosure, please note that the securitisation transaction in which the Bank was originator and whose total of liabilities issued (in this case, ABS securities) by the special purpose vehicle was fully subscribed will not be reported on in this section. As at 31 December 2011, the Bank has a single existing self-securitisation transaction ("Siena SME 11-1") carried out in November of this year, the details of which are provided at the end of "Section 3 - Liquidity risk" in line with the requirements of the updated Circular 262 of 18 November 2009.

QUANTITATIVE INFORMATION

As already noted, the tables below do not include transactions in which the Bank, as the originator, repurchased all securities - senior, mezzanine and junior - issued by the securitisation vehicle (called "self-securitisation").

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	**303,927**	**303,927**	**60,487**	**60,487**	**0**	**0**
a) Impaired	*14,353*	*14,353*				
b) Other	*289,574*	*289,574*	*60,487*	*60,487*	-	-
Total 31 December 2011	**303,927**	**303,927**	**60,487**	**60,487**	**0**	**0**
Total 31 December 2010	**280,943**	**277,341**	**10,696**	**10,803**	**6,025**	**5,815**

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 carried out a single transaction to self-securitise its own assets, which is not included in this section.

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	105,726		14,594			
- non-residential mortgage loans	91,739		45,893			
- bonds	101,486					
- other assets	4,976					
Total	**303,927**	**0**	**60,487**	**0**		

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

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*
HIPOCAT 01/33 TV			292			
GRAN 2004-2 2B TV 44			669			
AIREM 04/66 TV			598			
DUTCH -TV 10/42 A1	2,452					
DUTCH-TV 10/15 A2	9,781					
STORM 10/52 TV	4,914					
ARRMF-TV 11/47	9,997					
DUTCH-TV 11/43	9,876					
MANTEGNA FI01/33TV B			4,933			
MANTEGNA FI01/33TV C			4,453			
SPOLETO MTG 04/35 TV	1,219					
CORDUSIO UB 06/42 TV	2,740					
BP MORT 07/44 TV	2,264					
CASSA CENTR-TV 07/43	12,723					
SIENA MTGEA2-TV10/70	10,027					
CLARF-TV 11/60 A2	16,346					
BERCR 9 A2-TV 11/54	9,236					
ATLAM 1 A 03-36 TV	1,106					
GRAN 2044 TV			3,648			
BCCM 1 A 38 TV	3,078					
ARENA 09/41 TV	4,996					
PERMANENT M 42 TV	4,971					
TOTAL	**105,726**		**14,593**			

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*
PATRIMONIO 06/21 TV			1,328			
TITAN EUR 07/17 TV			1,128			
FIP FUND 05/23 TV	23,998					
PATRIMONIO 06/21 TV	448					
CASAFORTE 10/40 CL A	67,293					
CASAFORTE CL B 10/40			43,437			
TOTAL	**91,739**		**45,893**			

As of 31 December 2011, the transactions to be settled are the sales on the Casaforte 10/40 CL A security for a total net nominal value of €1.4 million.

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	7,118					
PATAGONIA F 1/80 ZC	80,015					
RUTLN RAT 06/13 TV	1,054					
EMPYR 06/13 TV	853					
GREYL 06/14 TV	11,461					
CLOVERIE 07/14 TV	7					
SHAMR CAP 07/12 TV	978					
TOTAL	**101,486**					

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	2,541					
PREPS-05/2 05-14 TV	2,435					
TOTAL	**4,976**					

C.1.4 Exposures deriving from securitisations broken down by portfolio and by type

Exposures / portfolio detenute	*Financial assets held for trading*	*Financial assets-fair value option*	*Financial assets available for sale*	*Financial assets held to maturity*	*Receivables*	*Total 31/12/2011*	*Total 31/12/2010*
1. Cash exposures	**355,423**		**8,991**			**364,414**	**293,959**
- "Senior"	298,951		4,976			303,927	277,341
- "Mezzanine"	56,472		4,015			60,487	10,803
- "Junior"							5,815
2. Off-balance sheet exposures	**1,380**					**1,380**	**489**
- "Senior"	1,380					1,380	489
- "Mezzanine"							
- "Junior"							

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 currently has a servicer agreement related to its own securitisation as of November 2011. The data in the table below area all related to the special purpose vehicle Siena SME 11-01.

Securitised assets (period-end figure)		***Credit collections during the year***		*Percentage share of securities repaid*					
				Senior		*Mezzanine*		*Junior*	
Impaired	*Performing*	*Impaired*	*Performing*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*
1,289	2,995,889	-	49,223	-	-	-	-	-	-

C.2 SALES

C.2.1 Financial assets sold not derecognised

Assets sold and recorded in full (carrying amount)

	Technical forms / Portfolio	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held maturity*	*Loans to banks*	*Loans to customers*	*Total 31/12/2011*	*Total 31/12/2010*
A.	**Cash assets**	**5,739,922**		**35,921**			**38,514**	**5,814,357**	
1.	Debt securities	5,733,283		35,921			38,514	**5,807,718**	**3,763,960**
2.	Equity securities	6,639						**6,639**	
3.	Collective investment undertakings								
4.	Loans								
B.	**Derivative instruments**								
	Total 31 December 2011	**5,739,922**		**35,921**			**38,514**	**5,814,357**	
	of which impaired								
	Total 31 December 2010	**3,763,960**							**3,763,960**

As at 31 December 2011, the Bank's financial statements do not include assets sold and partially recorded.

C.2.1.a Type of financial asset sale transaction

	31/12/2011	*31/12/2010*
Borrowing repurchase agreements	5,396,796	3,763,960
Securitisations		
Pool securities lending	417,561	
Disposals		
Total5,814,357	**3,763,960**	

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:

Liability / Asset portfolio	*Financial assets held detenute negoziazione*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Loans to banks*	*Loans to customers*	*Total*
1. Due to customers	**3,173,945**						**3,173,945**
a) against assets recorded in full	3,173,945						**3,173,945**
b) against assets recorded partially							
2. Due to banks	**2,222,851**						**2,222,851**
a) against assets recorded in full	2,222,851						**2,222,851**
b) against assets recorded partially							
Total 31/12/2011	**5,396,796**						**5,396,796**
Total 31/12/2010	**3,763,960**						**3,763,960**

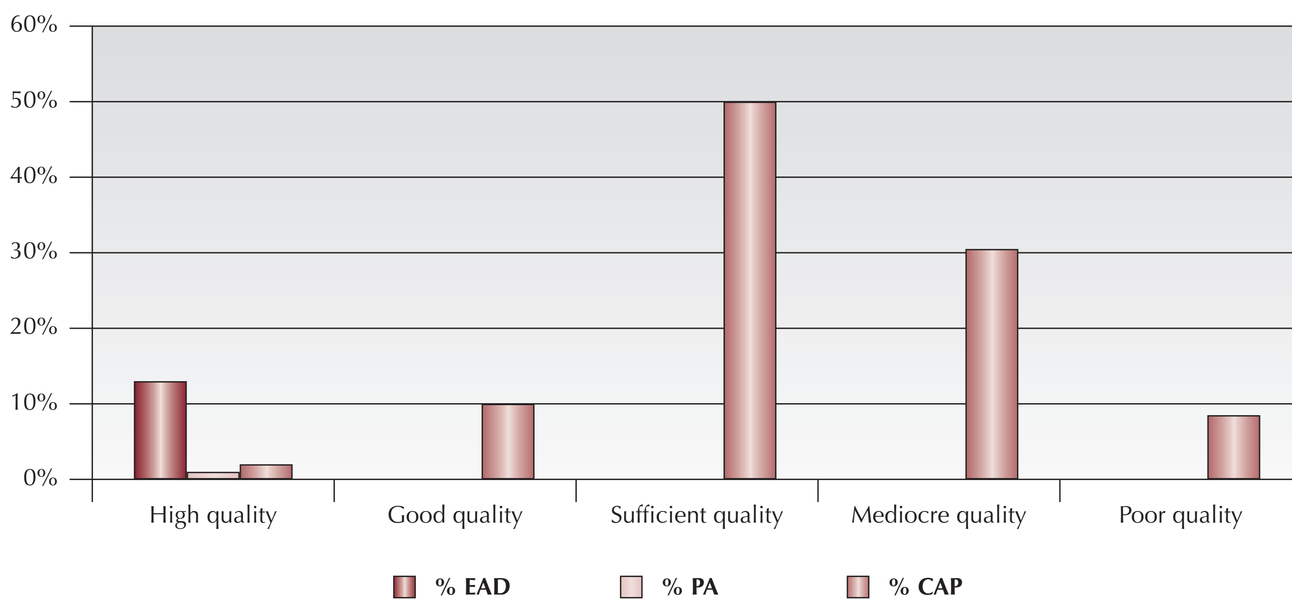
C.3 COVERED BOND TRANSACTIONS

The Bank issued no covered bank bonds.

D. CREDIT RISK GAUGING MODELS

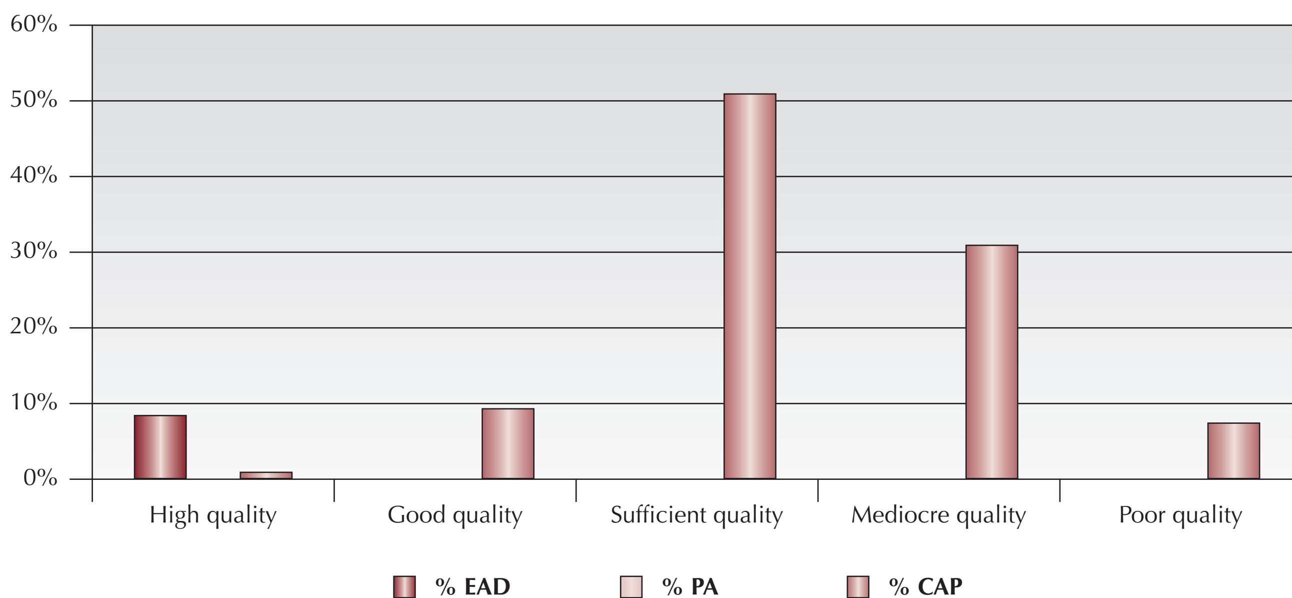
Analysis of the credit risk is carried out by means of the use of the Loan Portfolio Model developed internally within the Parent Company BMPS; as analytical output it produces the classic risk measurements of the Estimated Loss, Unestimated Loss and Economic Capital (CAP) diversified inter-risk, with a timeframe of one year and a confidence interval gauged to the target rating assigned to the 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 model provides detailed measurements for individual positions as well as the component of absorbed management capital with the indication of the impact of the diversification present within the portfolio. 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 the Bank's loan portfolio (excluding positions in financial assets). The graphic representation shows that 34% 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 2011

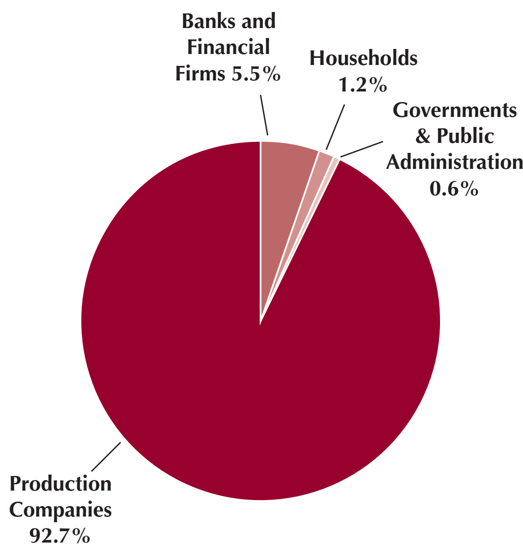


The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate and Retail portfolios (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). Note that the incidence of exposures with high and good quality as of 31 December 2011 is about 23% of total exposures.

QUALITY DISTRIBUTION OF THE PERFORMING LOAN PORTFOLIO
CORPORATE AND RETAIL SEGMENTS - MPS CAPITAL SERVICES - 31 December 2011



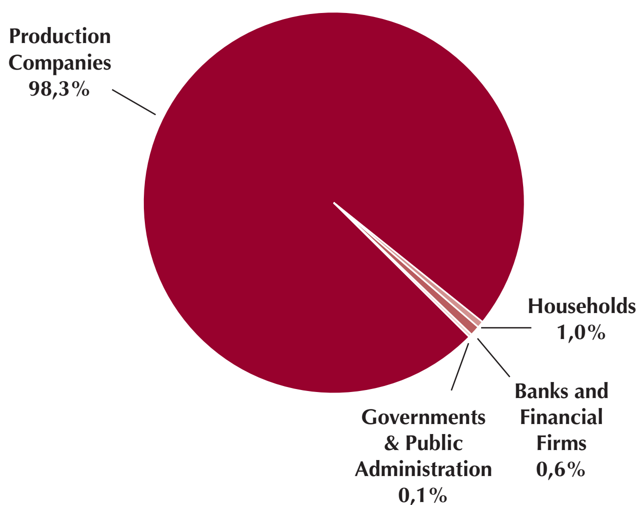
RISK EXPOSURE
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2011



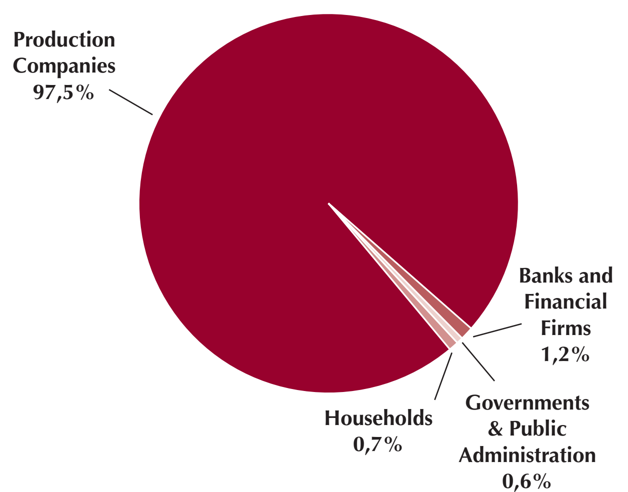
From the analysis by macro segment of loan customers, on the data obtained at the end of 2011, it emerges that the exposures at risk of the Bank are mainly directed at "Production Companies" customers (92.7% on total disbursements) and "Banks and Financial Firms" (5.5%). The remaining portion is subdivided 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 98.3% of Estimated Loss and 97.5% of Economic Capital. The "Households" segment attains is respectively at 1.0% for Estimated Loss and 0.7% for Economic Capital.

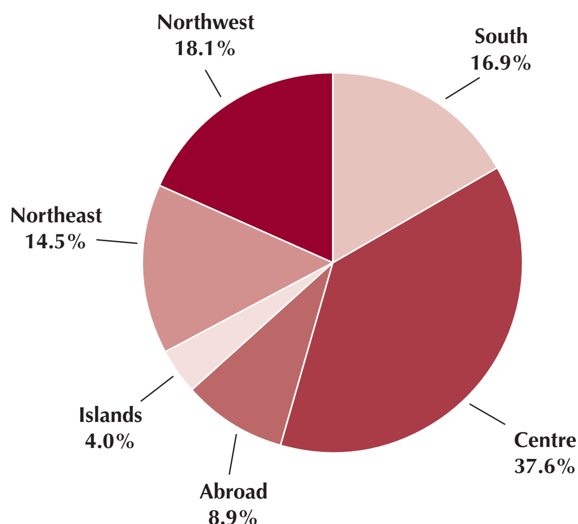
EXPECTED LOSS
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2011



ECONOMIC CAPITAL
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2011



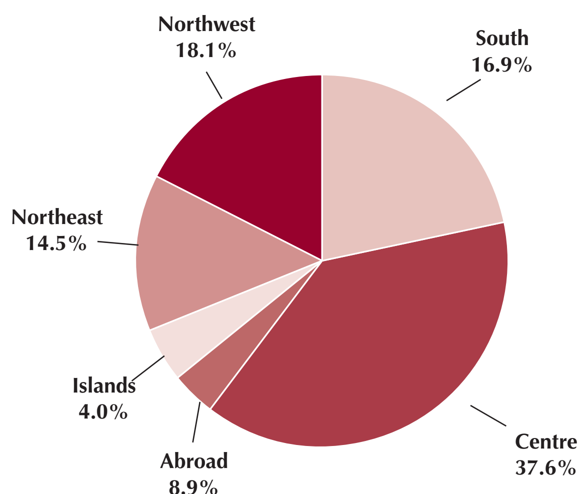
RISK EXPOSURE
(excluding intra-group operations)
MPS CAPITAL SERVICES - 31 December 2011



The analysis of the geographic distribution of the Bank's customers shows that risk exposures are mainly concentrated in regions of the Centre (37.6%), followed by the Northwest (18.1%), the South (16.9%), the Northeast (14.5%), Abroad (8.9%) and the Islands (4.0%).

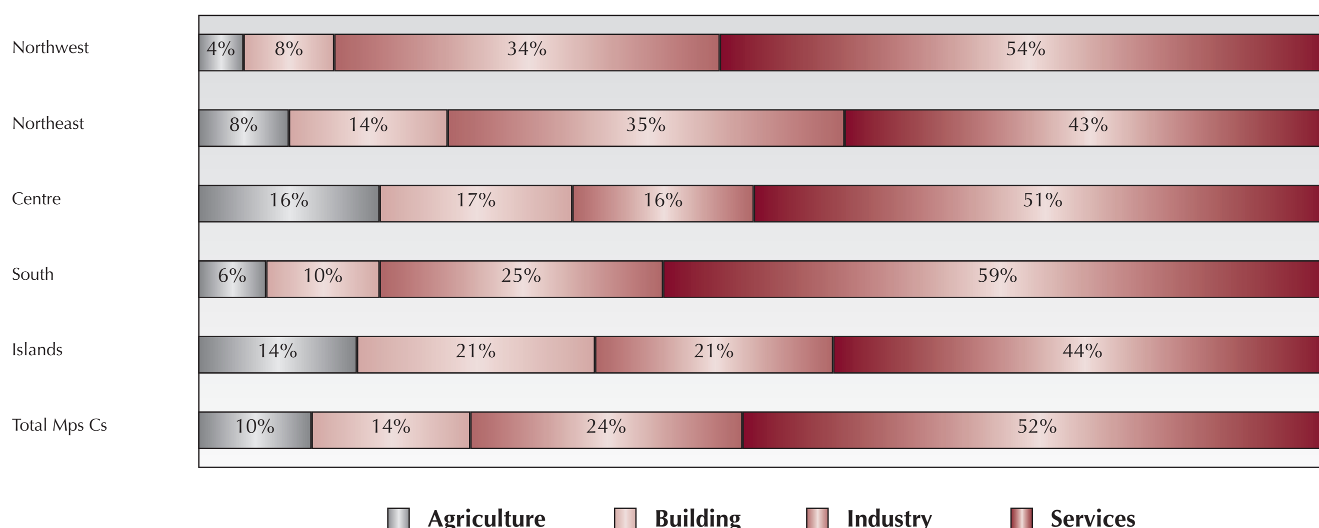
Total risk measurements (Estimated Loss + Economic Capital) are best explained in the composition of the loans more heavily present in the Centre (38.6%), followed by the South (21.9%), Northwest (17.4%), the Northeast (13.7%), the Islands (4.7%) and Abroad (3.7%).

RISK MEASUREMENTS %
(Perdita Attesa + Capitale Economico)
Situazione al 31 dicembre 2011



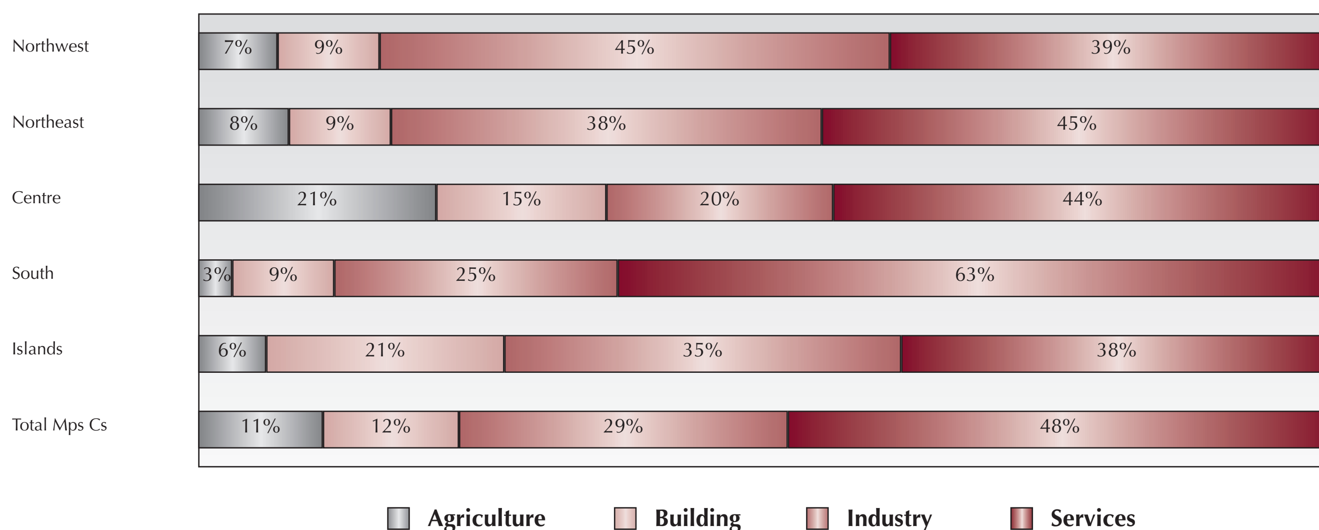
Finally, the figures below show the percentage distribution by individual geographic area of the exposure to default and the overall risk measurements (Estimated Loss + Economic Capital) only for corporate customers in Italy by sector of economic activity. The highest portion of company default exposure is in the services sector in all geographic areas. Out of the Bank's total, that concentration is 52% and is followed by industry (24%), building (14%) and finally by agriculture with 10%.

ITALY PERFORMING CORPORATE CUSTOMERS AS AT 31 DECEMBER 2011
EAD BREAKDOWN BY GEOGRAPHIC AREA AND SECTOR



Also as regards overall risk measurements, defined as the sum of Estimated Loss (PA) and Economic Capital (CAP), the highest concentration is in the services sector in all geographical areas except the Northwest, where the highest concentration is in the industrial sector (45%).

ITALY PERFORMING CORPORATE CUSTOMERS AS AT 31 DECEMBER 2011
PA+CAP BREAKDOWN BY GEOGRAPHIC AREA AND SECTOR



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 derivatives, brokered 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 Bank, as well as its entire respective 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:

- organisation/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.

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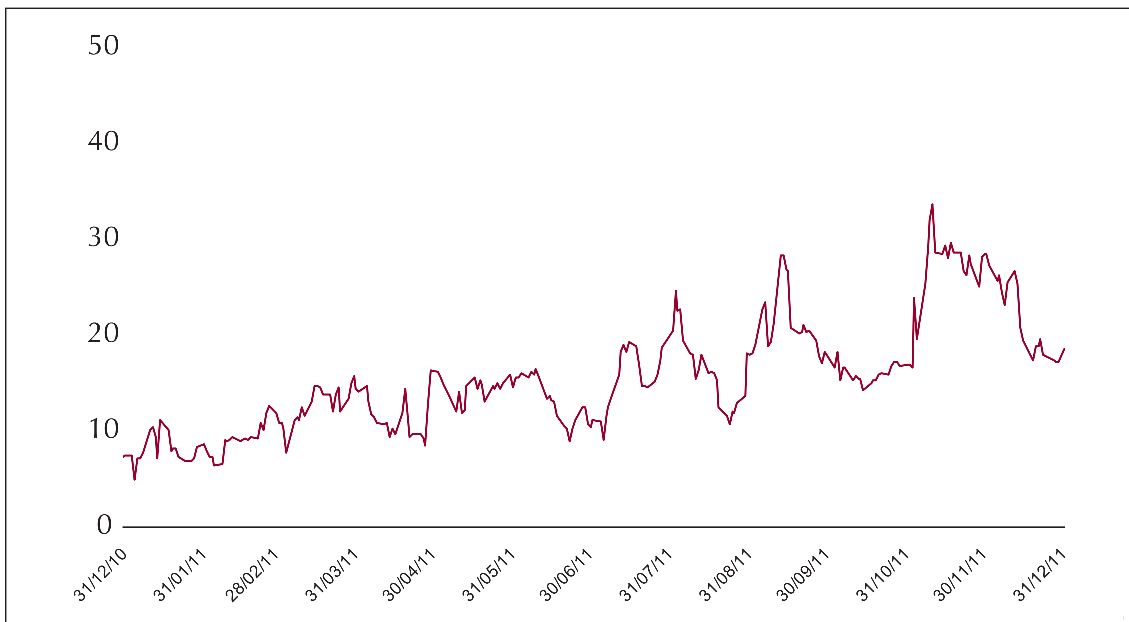
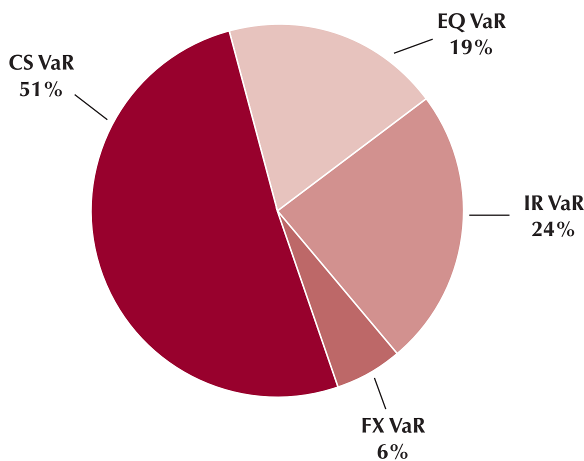
In the course of 2011, market risks of the Bank’s Supervisory Trading Portfolio tendentially increased, and there were notable fluctuations concentrated in the second half, following the accentuation of tensions in peripheral European countries and concerning Italy’s sovereign debt. After having reached the top level in the first ten days of November, at the same time as the government crisis, the subsidiary’s VaR then decreased down to levels near the yearly average due to the contraction in exposure to Italian government bonds and the reduced tensions on short term credit spreads, as a result of the ECB’s support plan for the European banking system. At the end of the year, the VaR stood at €18.58 million, above the annual average of €15.66 million.

MPS CAPITAL SERVICES: SUPERVISORY TRADING PORTFOLIO
- VaR 99% 1 day in €/mln -



In terms of VaR composition by risk factors, as of 31 December 2011 the MPSCS portfolio is mainly absorbed by the Credit Spread risk factor (CS VaR, 51%). This is followed by the interest rate risk factor (IR VaR, 24%), the equity risk factor (EQ VaR, 19%) and the exchange rate risk factor (FX VaR, 6%).

MPS CAPITAL SERVICES
Supervisory Trading Portfolio
VaR Breakdown by Risk Factor 31.12.2011



During 2011, the Bank s VaR fluctuated in a range from the minimum value of ¬ 4.97 million, recorded on 4 January, to the maximum of €33.65 million of 10 November. On average, the VaR during the year stood at €15.66 million. The absolute figure for the end of 2011 was €18.58 million.

MPS CAPITAL SERVICES
VaR PNV 99% 1 day in €/mln

	VaR	Date
End of Period	15.58	31/12/2011
Minimum	4.97	04/01/2011
Maximum	33.65	10/11/2011
Average	15.66	

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 organised 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 trading activity is carried out by the Global Markets Division, 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 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 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 overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Interest Rate	+100bp on all curves	-25.59
Interest Rate	-100bp on all curves	38.07
Interest Rate	+1% interest rate volatility	-0.11

The asymmetry between the +100bp and -100bp scenarios is due to portfolios with non linear positions on interest rate, mainly options on short futures and cap & floor.
To complete the interest rate risk analysis, the sensitivity analysis of the Bank's Trading Portfolio credit spread risk linked to the volatility of issuers' credit spreads is reported below.
The simulated scenario for the sensitivity analysis is:
• parallel shift of +1bp on all credit spreads.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Credit Spread	+1 bp on all curves	-0.72

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 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 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 overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Equity	+1% Equity prices (prices, indexes, baskets	1.58
Equity	-1% Equity prices (prices, indexes, baskets)	-1.65
Equity	+1% Equity volatility	-0.22

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 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 the Bank comprises about twenty equity investments in companies outside the Group, or rather in companies not consolidated by the Parent Company either line-by-line or proportionally, and about 82% of its value is concentrated on seven 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.

QUANTITATIVE INFORMATION

1. Banking book - internal models and other methods for sensitivity analysis

Interest Rate Risk

The sensitivity of MPSCS at the end of 2011 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 -€12.23 million (+€15.68 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 (unlike that used for the Trading Portfolio) employs simulations and uses a "Monte Carlo" approach based on the time series of market returns for listed companies and the time series of sector indexes 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 20% of the portfolio's fair value, with a concentration of the risk on the seven 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 Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Equity	+1% Equity prices (prices, indexes, baskets)	0.61
Equity	-1% Equity prices (prices, indexes, baskets)	-0.61
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

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 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 positions. The total effect is reflected by the algebraic sum of the two components.

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

A summary of the scenario analysis follows.

MPS CAPITAL SERVICES
in €/mln

Risk Family	Scenario	Effect on operating income and income for the year	Effect on shareholders' equity	Total Effect
Forex	+1% Exchange rates against EUR	1.03	0.00	**1.03**
Forex	-1% Exchange rates against EUR	-0.91	0.00	**-0.91**
Forex	+1% Forex volatility	0.07	0.00	**0.07**

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Supervisory trading portfolio: period-end and average notional values

Underlying assets / Type of derivatives	*31/12/2011*		*31/12/2010*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**257,508,177**	**202,204,961**	**274,082,929**	**189,962,501**
a) options	82,042,408	28,657,087	95,222,856	40,827,781
b) swaps	174,488,352	159,072,743	172,010,073	145,066,912
c) forward	977,417		6,850,000	
d) futures		14,475,131		4,067,808
e) others				
2. Equity securities and stock indexes	**17,810,032**	**6,535,295**	**22,683,370**	**7,078,965**
a) options	17,810,032	6,053,025	22,683,370	6,858,137
b) swaps				
c) forward				
d) futures		482,270		220,828
e) others				
3. Currency and gold	**4,497,363**		**4,892,686**	
a) options	1,860,331		2,279,041	
b) swaps	1,228,314		1,529,461	
c) forward	1,408,718		1,084,184	
d) futures				
e) others				
4. Goods				
5. Other underlying	**318,083**	**402,200**	**398,499**	**175,674**
Total	**280,133,655**	**209,142,456**	**302,057,484**	**197,217,140**
Average values	**278,443,469**	**196,487,826**	**367,123,455**	**255,624,944**

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	*31/12/2011*		*31/12/2010*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**37,500**		**37,500**	
a) options				
b) swaps	37,500		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**		**37,500**	
Average values	**37,500**		**37,500**	

A.2.2 Other derivatives
No agreements were extant on 31 December 2011 and 31 December 2010.

A.3 Financial derivatives: positive gross fair value - breakdown by product

Portfolio / Type of derivative	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**8,779,844**	**4,833,961**
a) options	1,152,066	138,440
b) interest rate swap	7,516,444	4,694,940
c) cross currency swap	60,454	
d) equity swap	30,935	
e) forward	19,945	
f) futures		581
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 derivativesa) options		
b) interest rate swap		
c) cross currency swap		
d) equity swap		
e) forward		
f) futures		
g) others		
Total 31 December 2011	**8,779,844**	**4,833,961**
Total 31 December 2010	**6,918,058**	**3,610,685**

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.4 Derivati finanziari: *fair value* lordo negativo - ripartizione per prodotti

Portafogli/Tipologia derivati	*Over the counter*	*Controparti centrali*
1. Supervisory trading portfolio	**7,984,554**	**5,068,043**
a) options	1,395,402	153,447
b) interest rate swap	6,495,817	4,914,456
c) cross currency swap	55,578	
d) equity swap	18,358	
e) forward	19,399	
f) futures		140
g) others		
2. Banking book - hedging	**1,111**	
a) options		
b) interest rate swap	1,111	
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 2011	**7,985,665**	**5,068,043**
Total 31 December 2010	**7,229,138**	**3,334,938**

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.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			2,989,215	522,585	177,417	5,900,393	1,828
- positive fair value			48,592	11,870		203,579	164
- negative fair value			-	3,881	539	27,897	-
- future exposure			29,458	3,680		23,485	12
2. Equity securities and stock indexes							
- notional value							
- positive fair value							
- negative fair value			4,998				
- future exposure							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
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 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			230,386,130	15,271,535	2,259,074		
- positive fair value			6,888,424	542,993	564,816		
- negative fair value			6,670,543	614,032	2,081		
2. Equity securities and stock indexes							
- notional value			11,001,098	2,439,881	4,369,053		
- positive fair value			251,705	88,332	34,080		
- negative fair value			222,274	61,612	235,692		
3. Currency and gold							
- notional value			4,009,352	488,012			
- positive fair value			106,099	9,484			
- negative fair value			97,946	5,133			
4. Other values							
- notional value			237,288	80,796			
- positive fair value			28,042	1,661			
- negative fair value			36,181	1,746			

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 2011.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - agreements 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			37,500				
- positive fair value							
- negative fair value			1,111				
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 5 years*	*Over 5 years*	*Total*
A. Supervisory trading portfolio	**69,026,894**	**136,044,560**	**75,062,202**	**280,133,656**
A1 Financial derivatives on debt securities and interest rates	59,408,214	124,926,129	73,173,834	**257,508,177**
A2 Financial derivatives on equity securities and stock indexes	6,469,213	9,925,141	1,415,678	**17,810,032**
A3 Financial derivatives on exchange rates and gold	2,981,517	1,043,156	472,690	**4,497,363**
A4 Financial derivatives on other values	167,950	150,134		**318,084**
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 2011	**69,026,894**	**136,082,060**	**75,062,202**	**280,171,156**
Total 31 December 2010	**75,157,971**	**144,564,312**	**82,372,701**	**302,094,984**

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 item (basket)*	*on one item*	*on several item (basket)*
1. Protection purchases	**11,829,900**	**26,467,828**		
a) credit default products	*11,829,900*	*26,467,828*		
b) credit spread products				
c) total rate of return swap				
d) other				
Total 31 December 2011	**11,829,900**	**26,467,828**		
Average values 31/12/2011	**9,915,938**	**22,371,393**		
Total 31 December 2010	**8,723,870**	**18,270,216**		
2. Protection sale	**11,755,723**	**26,327,044**		
a) credit default products	*11,602,152*	*26,327,044*		
b) credit spread products				
c) total rate of return swap	*153,571*			
d) other				
Total 31 December 2011	**11,755,723**	**26,327,044**		
Average values 31 December 2011	**9,517,183**	**22,082,840**		
Total 31 December 2010	**8,309,560**	**17,813,270**		

B.2 OTC credit derivatives: positive gross fair value - breakdown by product

Portfolio / Type of derivative	*31/12/2011*
A. Supervisory trading portfolio	2,815,025
a) credit default products	*2,661,407*
b) credit spread products	
c) total rate of return swap	*153,618*
d) other	
B. Banking book	
a) credit default products	
b) credit spread products	
c) total rate of return swap	
d) other	
Total 31 December 2011	**2,815,025**
Total 31 December 2010	**1,029,254**

B.3 OTC credit derivatives: negative gross fair value - breakdown by product

Portfolio / Type of derivative	*31/12/2011*
A. Supervisory trading portfolio	2,747,477
a) credit default products	*2,747,477*
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 2011	**2,747,477**
Total 31 December 2010	**1,046,572**

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 agreements

Agreements not 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			30,743,356	5,370,612	2,183,760		
- positive fair value			1,762,209	389,928	482,824		
- negative fair value			23,148	11,112			
- future exposure							
2. Protection sale							
- notional value			29,475,281	6,223,726	2,383,760		
- positive fair value			20,046	160,019			
- negative fair value			1,764,914	358,524	589,780		
- 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*	*Over 1 year and up 5 years*	*Over 5 years*	*Total*
A. Supervisory trading portfolio	**2,263,318**	**65,971,505**	**8,145,672**	**76,380,495**
A.1 Credit derivatives with "qualified reference obligation"	1,384,139	51,572,678	7,506,329	60,463,146
A.2 Credit derivatives with "unqualified reference obligation"	879,179	14,398,827	639,343	15,917,349
B. Banking book				
B.1 Credit derivatives with "qualified reference obligation"				
B.2 Credit derivatives with "unqualified reference obligation"				
Total 31 December 2011	**2,263,318**	**65,971,505**	**8,145,672**	**76,380,495**
Total 31 December 2010	**2,413,784**	**43,916,228**	**6,786,905**	**53,116,917**

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			916,044	201,492	254,167		
- negative fair value			675,636	61,233			
- future exposure			2,583,293	456,876	324,017		
- net counterparty risk			3,053,070	483,507	312,685		

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

Quantitative information regarding liquidity risk is shown below and is broken down based on exposures in euros, US dollars, pounds sterling, yen and others.

1 Breakdown by contractual residual maturity of financial assets and liabilities - EURO

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	**5,428,200**	**683,506**	**217,265**	**3,930,363**	**5,705,190**	**2,040,512**	**2,648,552**	**6,930,384**	**9,541,718**	**138,187**
A.1 Government securities				7,997	2,2390,700	502,075	259,737	277,075	1,759,086	
A.2 Other debt securities	1,631	3,452	1,574	24,511	181,668	181,642	384,432	2,145,699	854,877	30,078
A.3 Listed collective investment undertakings								1,704	104,795	
A.4 Loans	5,426,569	680,054	215,691	3,897,855	3,132,822	1,356,795	2,004,383	4,507,610	6,926,051	3,314
- banks	*4,298,275*	*45,788*	*142,508*	*2,689,457*	*352,341*	*472,030*	*614,050*	*87,674*		
- customers	*1,128,294*	*634,266*	*73,183*	*1,208,398*	*2,780,481*	*884,765*	*1,390,333*	*4,419,936*	*6,926,051*	*3,314*
Cash liabilities	**967,207**	**6,667,874**	**1,147,781**	**13,233,887**	**755,639**	**510,934**	**761,997**	**6,630,342**	**5,903,788**	**2,464**
B.1 Current accounts and deposits	50,348	2,500,000		2,600,000	65,000	15,000	25,290	267,573	171,225	
- banks	*47,242*	*2,500,000*		*2,600,000*	*65,000*	*15,000*	*25,290*	*267,573*	*171,225*	
- customers	*3,106*									
B.2 Debt securities				151,097		10,121	26,104	56,468		
B.3 Other liabilities	916,859	4,167,874	1,147,781	10,482,790	690,639	485,813	710,603	6,306,301	5,732,563	2,464

1 Breakdown by contractual residual maturity of financial assets and liabilities - EURO

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		1,597,190	42,359	904,576	720,822	907,429	499,292	1,342,937	3,237,741	466,071
- short positions	9	1,712,375	147,180	562,370	779,254	939,583	403,381	136,926	3,958,311	466,071
C.2 Financial derivatives without exchange of capital										
- long positions	12,435,513					1,110				
- short positions	11,768,570						1,430			
C.3 Deposits and loans to be received										
- long positions			2,500,000							
- short positions			2,500,000							
C.4 Irrevocable commitments to grant finance										
- long positions	55,789	522		13,595	277,342	513,825	227,735	27,270,133	3,836,978	70,853
- short positions	1,422,047			9,600	272,850	457,000	161,950	26,821,948	3,050,533	70,853
C.5 Financial guarantees given	19,181									

1 Breakdown by contractual residual maturity of financial assets and liabilities - US DOLLAR

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	**133,342**	**2,107**	**8,777**	**9,417**	**40,458**	**28,795**	**45,557**	**284,391**	**86,039**	**14,951**
A.1 Government securities								45	580	
A.2 Other debt securities	3		7,996	725	140	43	2,081	14,788	19,019	
A.3 Listed collective investment undertakings									14,951	
A.4 Loans	133,339	2,107	781	8,692	40,318	28,752	43,476	269,558	66,440	
- banks	*107,085*			*8,092*	*27,635*	*7,246*				
- customers	*26,254*	*2,107*	*781*	*600*	*12,683*	*21,506*	*43,476*	*269,558*	*66,440*	
Cash liabilities	**111,550**	**26,642**	**17,365**	**17,068**	**189,686**	**196,539**	**2,198**		**346**	
B.1 Current accounts and deposits	84,183	26,642	17,365	17,068	189,686	196,539	2,198			
- banks	*84,183*	*26,642*	*17,365*	*17,068*	*189,686*	*196,539*	*2,198*			
- customers										
B.2 Debt securities										
B.3 Other liabilities	27,367								346	

1 Breakdown by contractual residual maturity of financial assets and liabilities - US DOLLAR

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		13,770	162,976	451,716	438,875	112,181	179,301	239,801	5,235	31,713
- short positions		13,963	44,637	626,310	441,121	72,138	184,552	207,282	5,487	31,713
C.2 Financial derivatives without exchange of capital										
- long positions	449,042									
- short positions	384,395									
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to grant finance										
- long positions					46,371	63,331	212,201	5,981,884	1,023,573	
- short positions	18,474				46,371	63,331	212,201	5,980,017	1,006,966	
C.5 Financial guarantees given										

1 Breakdown by contractual residual maturity of financial assets and liabilities - POUND

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*	*Unspeci-fied duration*
Cash assets	**395**						**1,246**	**10,014**	**499**	
A.1 Government securities										
A.2 Other debt securities								10,014	499	
A.3 Listed collective investment undertakings										
A.4 Loans	395						1,246			
- banks	*395*									
- customers							*1,246*			
Cash liabilities	**65,985**		**1,245**							
B.1 Current accounts and deposits	65,985		1,245							
- banks	*65,985*		*1,245*							
- customers										
B.2 Debt securities										
B.3 Other liabilities										

1 Breakdown by contractual residual maturity of financial assets and liabilities - POUND

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*	*Unspeci-fied duration*
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		2,427	120	100,432	26,467	91,67	93,194	4,293		
- short positions		14		98,837	3,864	4,993	64,603	5,673		
C.2 Financial derivatives without exchange of capital										
- long positions	1,416									
- short positions	525									
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 - YEN

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	**39,941**									
A.1 Government securities										
A.2 Other debt securities										
A.3 Listed collective investment undertakings										
A.4 Loans	39,941									
- banks	*39,941*									
- customers										
Cash liabilities	**106,440**								**2**	
B.1 Current accounts and deposits	102,096									
- banks	*102,096*									
- customers										
B.2 Debt securities										
B.3 Other liabilities	4,344								2	

1 Breakdown by contractual residual maturity of financial assets and liabilities - YEN

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		649		1,683	88,550	25,853	13,271	111,452		
- short positions		397		480	141,182	22,169	108,599	132,179		
C.2 Financial derivatives without exchange of capital										
- long positions	7,509									
- short positions	9,163									
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*	*Unspeci-fied duration*
Cash assets	**49,112**	**30**				**843**	**686**	**5,448**	**7,801**	
A.1 Government securities										
A.2 Other debt securities						171		43	153	
A.3 Listed collective investment undertakings										
A.4 Loans	49,112	30				672	686	5,405	7,648	
- banks	*33,964*									
- customers	*15,148*	*30*				*672*	*686*	*5,405*	*7,648*	
Cash liabilities	**170,217**	**69**		**2,209**	**110**	**10,956**		**9**		
B.1 Current accounts and deposits	169,712	69		2,209	110	10,956				
- banks	*169,712*	*69*		*2,209*	*110*	*10,956*				
- customers										
B.2 Debt securities										
B.3 Other liabilities	505							9		

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*	*Unspeci-fied duration*
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		181,941	2,917	58,616	103,236	80,268	63,691	81,757	2	
- short positions		10,150	2,917	44,508	239,530	40,397	59,209	2,365,007	4,626	
C.2 Financial derivatives without exchange of capital										
- long positions	36,650									
- short positions	41,763									
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										

2. Self-securitisation transactions

Given that the securitisation transaction in which the Bank subscribed all securities issued by the special purpose vehicle (defined as self-securitisation) was not shown in the tables of the Explanatory Notes in Part E, section C "Securitisation and Asset Sale Transactions", pursuant to the provisions of Bank of Italy circular 262, the objectives and underlying strategies are described below, along with the details of the transaction implemented.

As part of the initiatives undertaken by the Parent Company BMPS to improve the management of liquidity risk, specific projects were launched aimed at creating and optimising the management of reserve assets and the counterbalancing capacity of the Group, as well as diversifying sources of funds and reducing their costs.

In 2011, within the scope of these projects, the viability of a self-securitisation transaction was identified (as per Law 130/99) for part of the portfolio of performing mortgage loans issued to companies by MPSCS Bank. This transaction, resolved on in September 2011, was completed the following November. Although the Bank's direct and full subscription of the notes issued by the vehicle did not enable it to obtain direct liquidity from the market, the transaction in any case provided it with securities that can be used by the Parent Company for refinancing transactions with the ECB, improving the safety margin and the entire Group's liquidity risk position. The allocable AAA rated securities are, in fact, the main core of the capacity to face short-term commitments through instruments that can be readily liquidated .

The transaction is not classified pursuant to IAS 39 §15-23 and AG 34-52 as "without recourse" disposals for accounting purposes ("no derecognition") since the Bank essentially retains all of the risks and benefits of the securitised portfolio. As a result, the securitised loans remain in the Bank's financial statements.

In brief, the following accounting treatment was used in the financial statements:

- the failure to recognise the disposal of loans for accounting purposes was extended to that of the entire securitisation transaction, which was part of a "summary" representation: the loans continue to be shown under asset item 70 "Loans to customers", while the subscribed notes, except for the surplus junior portion (essentially representing the cash reserve), will not be represented;
- that "summary" representation entailed netting all balance sheet and income statement relationships between MPSCS and SPV in MPSCS's separate financial statements.

Siena SME 11-1

On 30 November 2011, the Bank purchased the securities issued by the vehicle and thereby formalised a securitisation transaction of performing loans included within a portfolio of 3,494 loans backed by mortgages on land and/or non-residential real estate for a total amount of €3,059.1 million (net of pre-existing value adjustments), of which €2,997.2 million remains as at 31 December 2011. Those loans were all granted to companies with Italian residency.

Stichting Trek holds 90% of the special purpose vehicle Siena SME 11-1, while the Parent Company holds 10%. That arrangement enables the vehicle to remain independent.

To finance the purchase, MBS (Mortgage Backed Securities) securities were issued, in the following classes:

- class A securities (AAA rated) for an overall equivalent value of €1,244.2 million (the first repayment will be made in February 2012);
- class B securities (A2 rated) for a total equivalent value of €394.5 million;
- class C securities (Caa1 rated) for a total equivalent value of €1,395.9 million;
- class D securities (NR) for a total equivalent value of €95.7 million.

The rating agencies hired to assess those issues were Moody's and DBRS (Dominion Bond Rating Service of Toronto).

A cash reserve of €70.1 million was established (regarding the issue of class D Junior securities; the difference of €24.5 million equals the accrual component of the portfolio transferred to the vehicle), which was posted under item 70 "Loans to customers" in the financial statements.

Furthermore, the Bank is the servicer for that transaction in the collection of securitised loans.

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 organisational and cultural revolution within banks, which by way of necessity must:

- endow themselves with an internal organisation 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 operating losses accounted for in 2011 are broken down into the following risk categories identified for the purpose of Basel 2:
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 the last two years continues.

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 2006 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[2]): 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.

[1] *The Bank applies a 25% reduction of the overall capital requirement, in line with the indications provided in the aforementioned Bank of Italy circulars and with the indications received from the Parent Company BMPS, which confirms compliance with the prescribed overall consolidation requirement.*

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2011*	*31/12/2010*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	620,285	567,925
- profit	373,955	321,595
a) legal	*36,252*	*32,131*
b) required by the Articles of Association	*29,572*	*25,451*
c) treasury shares (of the Parent Company)	-	-
d) other	*308,131*	*264,013*
- other	246,330	246,330
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	(3,176)	(2,680)
- financial assets available for sale	*(3,176)*	*(2,680)*
- 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	45,407	82,420
Total	**1,167,040**	**1,152,189**

B.2 Valuation reserves relating to financial assets available for sale: breakdown

Assets / Balances	*31/12/2011*		*31/12/2010*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities	3	4,832		4,650
2. Equity securities	558	600	637	255
3. Units in collective investment undertakings	204		173	
4. Loans				
Total	**765**	**5,432**	**810**	**4,905**

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	**(4,650)**	**382**	**172**	
2. Positive changes	**2,611**	**327**	**32**	
2.1 Fair value increases	959	327	32	
2.2 Transfer to income statement of negative reserves	1,652			
- due to impairment				
- due to conversion	*1,652*			
2.3 Other changes				
3. Negative changes	**2,790**	**751**		
3.1 Fair value decreases	2,790	751		
3.2 Transfer to income statement of positive reserves				
- due to conversion				
3.3 Other changes				
4. Closing balances	**(4,829)**	**(42)**	**204**	

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, the negative reserve on securities available for sale and the other elements to be deducted 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	*31/12/2011*	*31/12/2010*
Positive elements		
Share capital	276,435	276,435
Share premium reserve	228,089	228,089
Reserves	620,285	567,925
Profit for the period	18,165	52,338
Prudent filters: increases in Tier I capital		
Total positive elements of Tier I capital	**1,142,974**	**1,124,787**
Negative elements		
Other intangible fixed assets		
Prudent filters: deductions from Tier I capital		
Negative reserves on securities available for sale		
- equity securities and units in collective investment undertakings	(81)	
- debt securities	(3,232)	(3,147)
Total negative elements of Tier I capital	**(3,313)**	**(3,147)**
Positive value gross of elements to be deducted	**1,139,661**	**1,121,640**
Total elements to be deducted from Tier I capital	**(24,496)**	**(123,849)**
Net positive value	**1,115,165**	**997,791**

2. Tier II capital

The Tier II capital includes the valuation reserves and the subordinated liabilities.

Items / Balances	*31/12/2011*	*31/12/2010*
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	136	466
- equity securities and units in collective investment undertakings	*136*	*466*
- debt securities		
Subordinated liabilities	92,000	128,000
Excess of total write-downs with respect to estimated losses (*)	14,050	
Prudent filters: increases in Tier II capital		
Total positive elements of Tier II capital	**106,186**	**128,466**
Negative elements		
Prudent filters: deductions from Tier II capital	**(68)**	**(233)**
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	(68)	(233)
- equity securities and units in collective investment undertakings	*(68)*	*(233)*
- debt securities		
Total negative elements of Tier II capital	**(68)**	**(233)**
Total		
Positive value	**106,118**	**128,233**
Excess with respect to Tier I capital		
Positive value permitted gross of elements to be deducted	**106,118**	**128,233**
Total elements to be deducted from Tier II capital	**(24,496)**	**(123,849)**
Net positive value	**81,622**	**4,384**

Note:

Within the limits set forth for banks authorised to use the AIRB systems, equalling 0.6% of the risk weighted assets for credit and counterparty risk (see Title II, Chapter 1, Second part, Section V).

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	*31/12/2011*	*31/12/2010*
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

		31/12/2011	*31/12/2010*
A.	**Tier I capital before application of prudential filters**	**1,142,974**	**1,124,787**
B.	Tier I capital prudential filters:	(3,313)	(3,147)
B.1	positive IAS/IFRS prudential filters (+)		
B.2	negative IAS/IFRS prudential filters (-)	(3,313)	(3,147)
C.	**Tier I capital inclusive of elements to be deducted (A+B)**	**1,139,661**	**1,121,640**
D.	Elements to be deducted from Tier I capital	(24,496)	(123,849)
E.	**Total Tier I capital (C-D)**	**1,115,165**	**997,791**
F.	**Tier II capital before application of prudential filters**	**106,186**	**128,466**
G.	Tier II capital prudential filters:	(68)	(233)
G.1	positive IAS/IFRS prudential filters		
G.2	negative IAS/IFRS prudential filters	*(68)*	*(233)*
H.	**Tier II capital inclusive of elements to be deducted (F+G)**	**106,118**	**128,233**
I.	Elements to be deducted from Tier II capital	(24,496)	(123,849)
L.	**Total Tier II capital (H-I)**	**81,622**	**4,384**
M.	Elements to be deducted from Tier I and Tier II capital		
N.	**Supervisory capital (E+L-M)**	**1,196,787**	**1,002,175**
O.	Tier III capital	150,000	150,000
P.	**Supervisory capital including Tier III capital (N+O)**	**1,346,787**	**1,152,175**

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 2011 the Bank had:

- a ratio between Tier I capital and risk weighted assets of 8.25%, 6.19% before the 25% prescribed reduction (as of 31 December 2010, they were respectively 9.13% and 6.85%);
- a ratio between Supervisory Capital, inclusive of Tier III, and risk weighted assets of 9.96%, 7.47% before the 25% prescribed reduction (as of 31 December 2010, they were respectively 10.55% and 7.91%).

In particular, Tier I capital amounts to €1,115 million, up by €117 million from the value as of 31 December 2010 (€998 million). The increase was generated mainly by the following events:

- partial capitalisation of the profit for 2011, i.e. €18 million;
- decrease in the items to be deducted by approximately €98 million, specifically:
  - growth in the "share interests in credit and financial entities above, equal to, or below 10% of the capital of the investee" and the portions in equity investments and SICAV, which led to a higher amount to be deducted, both from Tier I and Tier II capital, by about €13 million;
  - decrease in estimated losses compared to the consolidated figure in the 2010 financial statements by €111 million, due to "maintenance" and "updating" changes to the AIRB model.

At the end of 2011, Tier II capital totalled €82 million compared to €4 million recorded as of 31 December 2010. The €78 million increase is due to the following:

- cordance with the issuing regulations);
- decrease in the items to be deducted by approximately €113 million, specifically:
  - growth in the "share interests in credit and financial entities above, equal to, or below 10% of the capital of the investee" and the portions in equity investments and SICAV, which led to a higher amount to be deducted, both from Tier I and Tier II capital, by about €13 million;
  - decrease in estimated losses compared to the consolidated figure in the 2010 financial statements by €126 million, due to "maintenance" and "updating" changes to the AIRB model.

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 2011, Risk Weighted Assets or RWA amount to €13,517 million, versus €10,923 million as of 31 December 2010. Several factors influenced these dynamics; among them, the main ones are:

- regulatory changes regarding market risks ("CRD3") such as i) the introduction of a specific requirement for both securitisation and re-securitisation positions and for the correlated trading portfolio, ii) the change in the specific equity instruments requirement.
- increasing the floor requirements, as set forth in the regulatory provisions for banks which use the AIRB system or AMA methods, a limit below which risk weighted assets cannot decrease, at the moment, calibrated at 85% of the risk weighted assets calculated on the basis of the previous Basel 1 regulations (not present at 31 December 2010);
- increase in the general debt securities requirement generated by the increase in both directional positions and in

operationally hedged positions, of the cash and derivative type.

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 Bank, 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 Parent Company 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).
In order to ensure continuous and effective supervision of capital adequacy elements, the BMPS Group has a Capital Adequacy department. Capital management activities regard the set of policies and choices necessary to define the capital dimensions and the optimal combination of the various alternative capitalisation instruments, in order to ensure that the capital endowment and the related ratios are consistent with the risk profile assumed and respect supervisory requirements. In this context, capital management at the Group level has become increasingly fundamental and strategic, keeping in mind that the quality and size of capital resources of the individual companies (including MPSCS) of which the Group is comprised are defined as part of the more general Group targets. In the course of 2011, amongst the numerous activities carried out, the aforementioned department specifically handled:

- drawing up - with the support of the applicable departments - the ICAAP Report, aimed at assessing the Group's capital adequacy on the basis of the rules set forth by Circular 263 mentioned previously. Since ICAAP also requires a forecast capital adequacy assessment, the Group has adopted a structured capital simulation process, through which the outlook capital requirements and the relative regulatory capital ratios, the total internal capital and the outlook Available Financial Resources (AFR) are estimated. The outputs produced are also re-calculated by subjecting the input variables to stress conditions, on the basis of a hypothetical recession scenario, prepared by the applicable departments, in order to determine the overall impact on capital ratios and assess the sustainability of the related contingency plans;
- interpreting, analysing and estimating the impacts of Basel III, developing long-term forecast models which aim to highlight the contributions of the individual items subject to the reform and participating in various System initiatives on this topic.

B. QUANTITATIVE INFORMATION

Categories/Balances	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2011	*31/12/2010*	*31/12/2011*	*31/12/2010*
A. RISK ASSETS				
A.1 Credit and counterparty risk	**40,321,450**	**22,476,239**	**8,896,190**	**9,226,126**
1. Standardised method	29,197,071	11,517,312	5,847,940	5,113,874
2. Methods based on internal ratings	11,115,443	10,947,258	2,971,857	4,051,073
2.1 Basic				
2.2 Advanced	11,115,443	10,947,258	2,971,857	4,051,073
3. Securitisations	8,936	11,669	76,393	61,179
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**711,695**	**738,090**
B.2 Market risks			**468,353**	**391,613**
1. Standard method			468,353	388,583
2. Internal models				
3. Concentration risk			-	3,030
B.3 Operating risk			**39,188**	**35,508**
1. Basic method				
2. Standardised method				
3. Advanced method			39,188	35,508
B.4 Other prudent requirements				
B.5 Other calculation elements			**(137,870)**	**(291,303)**
B.6 Total prudential requirements			**1,081,366**	**873,908**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			**13,517,075**	**10,923,850**
C.2 Tier I capital/Risk-weighted assets (Tier 1 capital ratio)			**8.25**	**9.13**
C.3 Supervisory capital including TIER3 Risk-weighted assets (Total capital ratio)			**9.96**	**10.55**

Item B.5 "Other calculation elements" includes the 25% reduction in the requirements because MPSCS belongs to the BMPS Banking Group, i.e. €360,455 thousand (€291,303 thousand for 2010) as well as the amount of €222,585 thousand as an addition to the floor (an item which was not present last year).
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 2011 is 7.47% (at 31 December 2010, it was 7.91%).

Parte G
Business Combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2011, no business combination transactions were carried out regarding companies or business segments.

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

Nothing to report.

SECTION 3 - RETROSPECTIVE CORRECTIONS

No correction to report.

Parte 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

	31/12/2011	*31/12/2010*
Short-term benefits	2,865	2,747
Benefits after the termination of the employment relationship		
Other long-term benefits		
Indemnity for the termination of the employment relationship		
Share-based payments		
Other remuneration		
Total	**2,865**	**2,747**

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	8,317,254		15.26%
Total financial liabilities	15,737,737		29.47%
Total interest income	17,672		2.33%
Total interest expense	71,243		14.73%
Guarantees given	891,712		2.11%
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	401	154,762	0.28%
Total financial liabilities		122	0.00%
Guarantees given		-	-
Guarantees received	600	432,146	1.03%

2.c Transactions with other companies forming part of the Banking Group

Items / Balances	*31/12/2011*	*31/12/2010*
Total financial assets	673,040	224,007
Total financial liabilities	11,678,302	10,876,226
Total interest income	1,168	1
Total interest expense	241,648	157,206
Guarantees given	-	-
Guarantees received	19,193	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 2011)

Type of services	*Party providing service*	*Subsidiary company*	*Fees*
Accounts auditing	KPMG S.p.A.		286
Certification services	KPMG S.p.A.		12
Periodic assessments	KPMG S.p.A.		12
Total			**310**

Note:
The afore-mentioned amounts are gross of VAT and expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which exercises management and coordination activities.
The basic data of the most recent financial statements (2010) approved by the parent company are provided below.

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 €6,732,246,664.72 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 2010

Balance sheet

Assets	208,205,710	Liabilities	192,584,281
		Shareholders' equity	15,621,429
Total assets	**208,205,710**	**Total liabilities**	**208,205,710**

Income Statement

Profit /loss on current operations	625,454
Income taxes for the year	(284,711)
Profit (Loss) on discontinued operations	-
Profit for the period	**340,743**

Parte 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 2010 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. The Bank did not make any allocation for 2011.

Parte 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 2011.

ATTACHMENTS TO THE EXPLANATORY NOTES

Reclassifications made for better comparability to the Statements as of 31/12/2010

Attachment n. 1

Items	*Amounts in thousands of Euro*	*Notes*
BALANCE SHEET - ASSETS		
20. Financial assets held for trading	(3,308,759,513)	*(a)*
BALANCE SHEET - LIABILITIES	3,308,759,513	*(a)*
40. Financial liabilities held for trading		
INCOME STATEMENT		
10. Interest income and similar income	(5,040,595)	*(a)*
20. Interest expense and similar charges	1,235,154	*(a)*
40. Fee income	5,040,595	*(a)*
50. Fee expense	(1,235,154)	*(a)*

Note:

(a) Following analyses carried out on the manner of representing pool securities lending with collateral in the accounts, the Bank decided to change the recognition of those transactions as follows:
- elimination of the asset and liability items, with consistent amounts;
-maintenance of the credit and/or debt of the respective collaterals settled between the parties;
-transfer of fees from the "interest" items to the "fees" items.

Attachment No. 2

PENSION FUND OF MPS Capital Services Banca per le Imprese S.p.A.

STATEMENT OF ACCOUNT as of 31 December 2011

Pension Fund of MPS Capital Services Banca per le Imprese S.p.A.

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2011
(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.

A) "DEFINED BENEFIT" SEGMENT
The value of the Actuarial reserve as of 31 December 2011 was €5,834,354.10 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 43 members, all retired, of which 20 men and 14 women receiving a direct pension, along with 9 women receiving an indirect and survivor's pension.
The periodic benefits disbursed in 2011 amounted to €612,777.09.
During the year, it was necessary to make provisions for €289,154.19 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 2011 amounted to €30,494,251.68.
During 2011, 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 €267,977. The disbursements by way of advances on the total position accrued, concerned 17 requests for a total of €310,009 in 2011.

Furthermore during 2011, 9 positions transferred from other pension funds were acquired for a total amount of €466,991.
A total of 567 persons are enrolled in the segment of the "Fund" as of 31 December 2011, of which 555 are active and 12 are no longer active.
During 2011, the supervisory committee was re-appointed since that body's members had reached the end of their term. According to the procedures set forth, 3 members were indicated by those enrolled through an election held on 7 December 2011, while the other 3 members were appointed by the Bank's Board of Directors on 16 December.

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:

Descrizione	*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 2011 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. Further, the Manager chose to concentrate the investment in securities issued by the Republic of Italy at a fixed and floating rate with maturities of fewer than six months, especially in the second part of the year. Despite the high volatility of the short-term bond markets of Peripheral Countries due to the concerns of insolvency linked to the sovereign debt crisis, the issues chosen helped to achieve a positive performance.
The bond component of the portfolios was characterised by an essentially neutral positioning in terms of financial duration relative to the reference index. The portfolio remained constantly diversified in terms of exposure to Core and Peripheral Countries, and the selection was limited to only German and Italian government bonds. Greek, Irish and Portuguese government bonds were never purchased. Active choices were implemented in the context of choosing curve segments.
The stock component was characterised by the allocation in ETF (Exchange Traded Funds) and funds with low tracking errors for the passive component, aimed at replicating the reference index, while for the active component, actively managed funds were chosen. A cautious position was maintained in terms of weight and exposure to European equities for the entire second half; this position was initially very rewarding, and then was made neutral once again toward the end of the year.

In the medium-term analysis (5 years), the sectors which incorporate a high stock component have no or a slightly negative return due to tensions on the markets in 2008 and (partially) 2011, while the others show average returns of around 2%.

Average composite annual return for 2007/2011:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
1.500%	**0,072%**	**-0,723%**	**2,127%**	**1,746%**	**n.d.**	**3,145%**

N.B. *the C006 sector was activated only in 2009.*

However, in the last three years the lines with a higher stock component are notably positive, following the general market recovery in 2009-2010. The other lines are generally at the same levels as the five-year levels.

Average composite annual return for 2009/2011:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
5.070%	**7.143%**	**9.123%**	**2.236%**	**3.253%**	**0.929%**	**2.841%**

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*
31/12/2011	**1.161**	**1.254**	**1.342**	**1.055**	**1.092**	**1.012**	*(1)*
31/03/2011	**1.157**	**1.250**	**1.334**	**1.056**	**1.094**	**1.022**	*(1)*
30/06/2011	**1.169**	**1.259**	**1.339**	**1.063**	**1.102**	**1.024**	*(1)*
30/09/2011	**1.136**	**1.182**	**1.225**	**1.059**	**1.088**	**1.022**	*(1)*
31/12/2011	**1.156**	**1.225**	**1.290**	**1.067**	**1.100**	**1.029**	*(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*
-0.4181%	**-2.2345%**	**-3.7966%**	**1.2547%**	**0.7536%**	**1.5505%**	**2.2665%**

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 2011, there were no derivative contract transactions present in the portfolio.

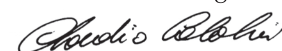
B.2.2 Criteria for estimating the charges and income

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 2011

BALANCE SHEET

(amounts in euros)

Assets	*31/12/2011*	*31/12/2010*
Deposits	19,440	456,848
Assets entrusted under management	29,911,629	27,067,493
Collective policy (guaranteed line)	122,439	56,009
Sundry receivables (*)	452,696	2,859
Total assets	**30,506,204**	27,583,209

Liabilities	*31/12/2011*	*31/12/2010*
Tax liabilities	5,152	163,535
Sundry payables (**)	6,255	82,555
Total liabilities	**11,407**	**246,090**

Assets destined for benefits	*31/12/2011*	*31/12/2010*
Fund endowment	31,070,771	25,603,981
Result of financial operations	(575,974)	1,733,138
Total assets destined for benefits	**30,494,797**	**27,337,119**

Note

(*) Sundry receivables refer to deposits of monthly contributions from December salaries (as at 31 December, the transfer to the current account had not yet been carried out).

(**) Sundry payables regard IRPEF (personal income tax) to be paid by 16 January 2011 for advances disbursed in December.

INCOME STATEMENT

Welfare operations	*31/12/2011*	*31/12/2010*
Endowments at start of year	27,337,118	23,271,320
Contributions paid by employees	564,795	553,756
Contributions paid by the company	914,498	897,731
Portions of employee severance indemnity conferred	2,365,355	2,269,413
Transfer from other pension funds	466,992	53,856
Transfer to other pension funds and redemptions	(267,978)	(1,002,523)
Disbursement of advances	(310,009)	(439,572)
Result of welfare operations	**31,070,771**	**25,603,981**

Financial operations	*31/12/2011*	*31/12/2010*
Income/ losses on assets entrusted under asset management	(524,745)	1,883,956
Interest income	2,628	795
Other income	415	29,142
Interest expense	-	-
Fee expense for asset management	(19,873)	(16,765)
Substitute tax	(5,152)	(163,533)
Other charges	(29,247)	(457)
Result of financial operations	**(575,974)**	**1,733,138**

STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2011
BREAKDOWN BY INVESTMENT LINE
(amounts in euros)

BALANCE SHEET

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Assets							
Deposits	2,151	9,493	2,617	1,270	1,917	1,992	-
Assets entrusted under management	6,343,310	9,705,404	10,005,386	1,376,541	1,450,973	1,030,015	-
Collective policy	-	-	-	-	-	-	122,439
Tax credits	-	-	-	-	-	-	
Sundry receivables	89,153	138,273	144,665	31,373	24,092	25,140	
Total assets	**6,434,614**	**9,853,170**	**10,152,668**	**1,409,184**	**1,476,982**	**1,057,147**	**122,439**
Liabilities							
Tax liabilities	-	-	-	1,940	1,181	1,779	252
Sundry payables	-	6,201	-	-	-	54	54
Total liabilities	**-**	**6,201**	**-**	**1,940**	**1,181**	**1,833**	**306**
Assets destined for benefits							
Fund endowment	6,460,206	10,058,263	10,533,440	1,391,547	1,466,247	1,040,974	120,094
Result of financial operations	(25,592)	(211,294)	(380,772)	15,697	9,554	14,394	2,039
Total assets destined for benefits	**6,434,614**	**9,846,969**	**10,152,668**	**1,407,244**	**1,475,801**	**1,055,368**	**122,133**

INCOME STATEMENT

Welfare operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Endowments at start of year	5,488,341	8,996,877	9,691,701	1,019,328	1,245,105	839,884	55,882
Contributions paid by employee	121,809	164,795	168,429	45,844	28,112	35,806	0
Contributions paid by the company	195,882	268,177	295,789	61,946	44,525	48,179	0
Portions of employee severance indemnity conferred	449,459	700,443	780,317	145,099	114,788	110,656	64,593
Transfer from other pension funds	51,454	98,091	44,290		154,892	118,265	
Transfers and redemptions	(37,399)	(16,647)	(213,551)				(381)
Disbursement of advances	(74,684)	(110,077)	(121,634)		(3,614)		
Switches between lines	265,344	(43,396)	(111,901)	119,330	(117,561)	(111,816)	
Result of welfare operations	6,460,206	10,058,263	10,533,440	1,391,547	1,466,247	1,040,974	120,094

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	30,381	14,484	(3,117)	2,346
Interest income	140	293	247	31	40	44	
Other income		7,382	21,760		0		
Interest expense					0		
Fee expense for asset management	(3,026)	(5,706)	(6,369)	(607)	(440)	(617)	
Substitute tax	(28,350)	(61,263)	(68,983)	(3,270)	(1,541)		(252)
Other charges	(77)	(79)	(76)	(75)	(75)	(75)	(55)
Result of financial operations	**229,375**	**600,489**	**867,085**	**26,460**	**12,468**	**(3,765)**	**2,039**