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

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2015

FINANCIAL STATEMENTS AT 31 DECEMBER 2015

Table of contents

Company Profile

Name	**MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A.** "Monte dei Paschi di Siena" banking Group
General Information	MPS Capital Services Banca per le Imprese SpA (MPSCS) is the Corporate & Investment Bank of the Monte dei Paschi di Siena Banking Group (BMPS Group), specialised in financial support and advice to the Corporate, Public Bodies and Institutional segment. It is registered as a Joint Stock Company in the Florence Companies Register from 4 September 2007, No. 00816350482, Registered in the Bank of Italy List of Banks with No. 4770, a subscriber to the Interbank Deposit Protection Fund and to the National Guarantee Fund. It is a signatory to the Banking and Financial Sector Code of Conduct, and accepts the Banking Conciliator - Banking Ombudsman-Jury. It is also a signatory to the interbank agreement for the establishment of the Complaints Office. MPSCS is a Company subject to the direction and coordination of Banca Monte dei Paschi di Siena SpA (BMPS). In particular the Bank is obliged to observe the rules that the Parent Company issues for the execution of the instructions provided by the Bank of Italy in the interest of the group's stability. The duration of the company is until 31 December 2050.
Year of constitution	**1954** as Mediocredito Regionale della Toscana
Share Capital	**Euro 276,434,746.28** fully paid-up.
Registered head office	**Florence** - Via Pancaldo, 4-50127
General Management	**Florence** - Via Panciatichi, 48-50127 Telephone +39 055-2498.1 - Fax +39 055-240826 Website www.mpscapitalservices.it
Global Markets Department	**Siena** - Viale G. Mazzini, 23-53100 Telephone +39 0577-294111 - Fax +39 0577-209100
Investment Banking Department	**Rome** - Via Salaria, 231 (villino 2) - 00199 Telephone +39 06-42048325 - Fax +39 06-42016914
Sales and Financial Solutions Department	**Milan** - Via Ippolito Rosellini, 16-20124 Telephone +39 02-69705571 - Fax +39 02-88233205
Market Supervisory Structures	**Milan** - Via Ippolito Rosellini, 16-20124 Telephone +39 02-88891941-30 (electronic channels, e-trade) Telephone 02-88891945/21/24 (Financial Institutions) **Siena** - Viale G. Mazzini, 23-53100 Telephone 0577-537150 - Fax 0577-209505 (Corporate) Telephone 0577-537151 - Fax 0577-209505 (Entities and Instit.)

Representative Offices
Local Offices

Turin - c/o Banca Monte dei Paschi di Siena
Via Mazzini, 14/16-10123
Telephone +39 011-8155243 - Fax +39 055-240826

Milan - c/o Banca Monte dei Paschi di Siena
Largo Cairoli, 1-20123
Telephone +39 02-88233220 - Fax +39 02-88233233

Padua - c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 17 (West Tower) - 35131
Telephone +39 049-6991659 - Fax +39 049-6992195

Mantua - c/o Banca Monte dei Paschi di Siena
Via Vittorio Emanuele II°, 30-46100
Telephone +39 0376-313563

Bologna
Viale della Repubblica, 23-40127
Telephone +39 071-2912735 - Fax +39 055-240826

Perugia - c/o Banca Monte dei Paschi di Siena
Via XX Settembre, 77-06124
Telephone +39 0577-209246 - Fax +39 055-240826

Ancona - c/o Banca Monte dei Paschi di Siena
Via 1° Maggio, 70/d - 60131
Telephone +39 071-2912735 - Fax +39 055-240826

Rome
Via Salaria (villino 2) 231-00199
Telephone +39 06-67345313 - Fax +39 06-67345330

Naples - c/o Banca Monte dei Paschi di Siena
Via Cervantes de Savaedra, 55/14-80133
Telephone +39 081-7785243 - Fax +39 055-240826

Bari - c/o Banca Monte dei Paschi di Siena
Piazza Aldo Moro, 21-70122
Telephone +39 080-5226244 - Fax +39 055-240826

Catania - c/o Banca Monte dei Paschi di Siena
Piazza della Repubblica, 32/38-95131
Telephone +39 081-7785243 - Fax +39 055-240826

Administrative offices

Rome - Via Pedicino, 5
Telephone +39 06-42048320 - Fax +39 06-42016914

Padua - c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 17-35131

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairperson	Mario SALVESTRONI
Deputy Chairperson	Paola DEMARTINI
Managing Director	Sergio VICINANZA
Director	Angelo BARBARULO
Director	Gabriele BENI
Director	Valentino FANTI
Director	Angelo MARTINELLI
Director	Arturo BETUNIO
Director	Rita PELAGOTTI

BOARD OF STATUTORY AUDITORS

Chairperson	Francesco BONELLI
Regular Auditor	Federico CAPUTI
Regular Auditor	Daniela MORONI
Alternate Auditor	Paolo BOCCI
Alternate Auditor	Vittorio MARRONI

MANAGEMENT

General Manager	Giorgio PERNICI

AUDITING COMPANY

RECONTA ERNST & YOUNG S.P.A.
Via Po, 32
00198 ROME
VAT No. 00891231003

Ratings

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

LONG-TERM DEBT RATING:	**B3**
SHORT-TERM DEBT RATING:	**Not Prime**
FINANCIAL STRENGTH RATING:	**caa2**

During the first half of financial year 2015, the international rating agency Moody's brought into operation its new banking system assessment model and completed the consequent revision of the rating levels of the main credit institutions. This entailed for the Parent Company Banca Monte dei Paschi di Siena, and consequently for the Bank, a further downgrade of two notches relative to the rating level of the long-term debt with respect to the previous assessment, although in the absence of significant changes in the main performance indicators of the Bank and the Group.
A negative outlook was assigned to the rating and it is therefore to be considered constantly under observation.
We must specify that the new classification of impaired loans that came into force starting from 2015 is very close to the definition of "problem loans" of the model used by Moody's, so this change had no impact of the determination of the Bank's rating.

Shareholding Structure

As of 31 December 2015, the Share Capital broke down as follows:

Shareholder	*Number of shares*	*Amount in units of one Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	891,019,260	276,215,970.60	99.92%
I.N.A.I.L.	239,634	74,286.54	0.03%
Other shareholders	466,094	144,489.14	0.05%
Total	**891,724,988**	**276,434,746.28**	**100.00%**

With a resolution passed on 16 September 2015 the Bank's Extraordinary Shareholders' Meeting resolved to increase the share capital by a maximum amount of € 1,200,000,000, by issuing 1,783,449,976 ordinary shares, with regular dividend and a face value of € 0.31 each, to be offered as an option to the Bank's shareholders on the basis of a ratio of 2 shares for every 1 ordinary share held, at a unit price of € 0.67285 (of which € 0.36285 by way of share premium). With a note of 22 January 2016, Reference No. 0005855/16, Consob communicated the authorisation for publication of the prospectus; the offer closed on 9/2/2016 with subsequent full subscription by the Parent Company of the unopted portion.

The operation was registered at the Companies Register on 16 February 2016.
The current share capital therefore amounts to € 829,304,238.84 and is represented by 2,675,174,964 shares with a unit par value of € 0.31.
The composition updated to 16 February 2016 was the following:

Shareholder	*Number of shares*	*Amount in units of one Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	2,674,469,255	829,085,469.05	99.97%
I.N.A.I.L.	239,634	74,286.54	0.01%
Other shareholders	466,075	144,483.25	0.02%
Total	**2,675,174,964**	**829,304,238.84**	**100.00%**

Among the "other shareholders" there are also numerous public bodies.

Equity investments in MPS Capital Services S.p.A. held by Public Administrations

Starting from 2007 various legislative changes have been made with the aim of inducing public bodies to review and rationalise their non-strategic equity investments: Italian Law No. 244 of 24 December 2007, (the so-called 2008 Budget Law); Italian Law No. 147 of 27 December 2013 (the so-called 2014 Stability Law) and finally Italian Law No. 190 of 23 December 2014 (the so-called 2015 Stability Law).
In particular, this last imposed on local authorities and other public bodies a process of rationalising the equity interests held both directly and indirectly, aimed at the disposal, by 31 December 2015, of companies and equity interests not functional to pursuance of their institutional purposes.
In order to make implementation of the disposal process possible, the 2014 Stability Law (confirmed by the 2015 Stability Law), stated that the liquidation value of the shares was to be determined by the Directors of the Bank in

accordance with the provisions of Article 2437-ter, paragraph II, of the Italian Civil Code, that is to say on the basis of an estimate that would take into account "*the amount of the company's assets and its earning prospects, as well as any market value of the shares*", "*after consulting the board of statutory auditors and the firm appointed for legal auditing of the accounts*".
The Board of Directors, at its meeting on 30/11/2015, determined the Liquidation Price as € 0.67285 per share, after acquiring the opinion of the Board of Statutory Auditors and the Firm Appointed for Legal Auditing of the Accounts; this price may be taken as a reference also as the selling price of the shares of any private minority shareholders that express their intention to dispose of their equity interest.

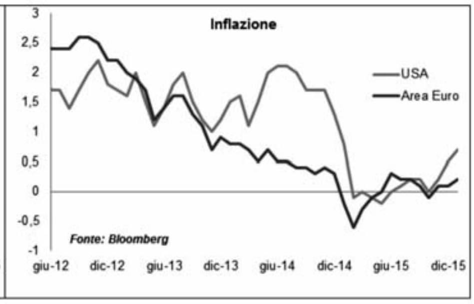
REPORT ON OPERATIONS

Reference Context

2015 was a year again characterised by the protagonism of the Central Banks and by falling official interest rates (Fig.1). The European Central Bank (ECB), after bringing the interest rate on deposits down to -20 bp in September 2014, at the beginning of 2015 launched a Quantitative Easing (QE) programme which provides for the purchase of government bonds with 2-30 year maturities on the basis of the quota of each national Central Bank in the capital of the ECB, for an amount of € 60 billion per month until September 2016. In December the Bank decided to prolong the expiry of the QE until March 2017, to include regional bonds and to reduce by another 10 bp the interest rate on deposits. The ECB also extended up to December 2017 the full allotment of the loans requested by the banking system. The Bank also signalled its willingness to make new revisions and to take new measures if the target inflation level is not achieved.

FIG.1 10-YEAR INTEREST RATE GERMANY AND USA

FIG.2 INFLATION



In the **USA** the year just ended saw the end of the Fed's monetary accommodation. In the last meeting of 2015 the Fed raised interest rates, for the first time since 2006, by 25 bp to 0.25-0.50%. The rise however occurred later than expected, with very marked emphasis placed on the graduality of future increases. In **Japan** in June the BoJ confirmed its intention to expand the monetary base at a rate of 80,000 billion yen (650 billion dollars) per year. At the end of the year it then decided to increase from January 2016 the average duration of the government bonds purchased and also that of the equity ETFs (the latter starting from April 2016), concentrating particularly on those relating to companies that invest in physical and human capital. We can also note the turbulence that affected **China** during the summer. In the light of the slowdown of the economy in progress and the flows of capital leaving the country which entailed high consumption of currency reserves, the local Authorities devalued the yuan sharply causing strong, although temporary, tensions on the global financial markets.

On the macroeconomic front, according to the IMF forecasts, 2015 should end with GDP growth of 2.5% in the USA (up from 2.4% in 2014), and 1.5% for the Eurozone (compared to 0.9% recorded in 2014). The global slowdown was determined above all by the emerging economies which suffered the drop in raw material and in particular oil prices. With reference to inflation, in 2015 there was a sharp slowdown of prices in the wake of falling oil prices (Fig.2).

As regards interest rates, in the Euro area, the year was characterised by a reduction in official rates which recorded new lows and in some cases fell into negative territory (the German curve was negative up to the 9 year maturity for some time). The 10-year German interest rate declined almost to 0% (0.07%), while the spread compared to the analogous Italian security fell below 100 bp for the first time since 2010, arriving at 88 bp. The downward movement was guided at the beginning of the year by the introduction of Quantitative Easing by the ECB. After an increase in the middle of 2015, associated mainly with the renewed tensions in Greece, towards the end of the year there was a new drop (without however reaching the lows of the start of the year) attributable to the expectation of new ECB

manoeuvres and to the postponement of the Fed rate rise to December. In the **United States**, the expectation of a rate rise conditioned the trend of official rates for the whole of 2015. The Fed rate rise was in fact expected from the monetary Authorities all year, becoming a reality only in December. In this context the 10-year interest rate recorded an increase at the beginning of the year and a decrease in the second. The rate at two years instead recorded a rising trend, accentuating in December following the rate rise decided by the Fed. Consequently, the 2-10 year spread, after rising up to 180 bp, declined towards 120 bp, from the 134 bp of December 2014.
On the currency front, 2015 was characterised by a generalised strengthening of the dollar which benefited from the expectations of a Fed rise in a context in which all the other Central Banks, the ECB *in primis*, continued with an accommodating monetary policy attitude. The currencies most penalised were those of the emerging countries owing mainly to the sharp drop in raw material prices. In the early months of the year the euro/dollar exchange rate recorded a quite marked declining phase which pushed the exchange rate into the 1.05 area, the lowest level since 2003. What affected the exchange rate was the great divergence in monetary policy between the two Central Banks with the ECB which in January announced a QE plan. March saw the beginning of a slow recovery of the single currency which, during the summer, owing also to the strong tensions on the markets, pushed up to above 1.15 before declining again during the autumn when the ECB, in its October meeting, suggested that it could foresee adopting new expansive measures.
The **yen** (Fig.4) instead followed a trend closely related to the performance of the stock market, therefore continuing to be the currency preferred by speculative operators for carry trade transactions. The currency in fact depreciated during the first half of the year, before strengthening during the summer when correction phases became present on the market. In the whole of 2015 the Japanese currency was that which fell least against the dollar.

FIG.3 EURO/DOLLAR EXCHANGE RATE

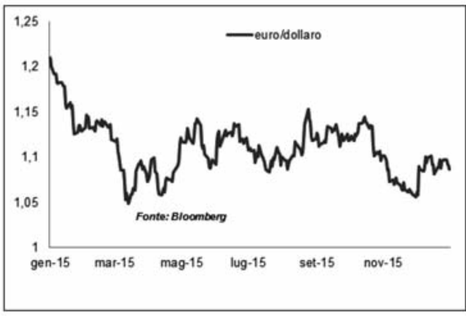


FIG.4: DOLLAR/YEN EXCHANGE RATE

2015, for the **emerging countries,** was characterised by a period of marked slowdown in growth which affected mainly Russia and Brazil: both recorded a drop in GDP of more than 3%. The marked depreciation of currencies also brought with it inflationary tendencies, forcing some Central Banks, especially Brazil's and South Africa's, to adopt restrictive monetary policies. The only economy bucking the trend was the Indian one which saw a growth rate of more than 7%.
During 2015 in **China** the slowdown of the economy continued, as it grew at the slowest rate since the crisis of 2008/09 with a change in GDP down from 7.3% in 2014 to 6.9% in 2015. To tackle this unsatisfactory trend the Central Bank (PBoC) cut interest rates six times. At the same time, given the strong pressure on the currency deriving from the outflows of capital from the country, the PBoC devalued the yuan by almost 4% during August. In November the IMF decided to include the **yuan** in the basket of SDR currencies starting from October 2016.
As regards **raw materials,** 2015 was once again an extremely negative year (Fig.5) penalised by the abundance of global supply for many commodities and by the strength of the dollar. The S&P GSCI Excess Return index lost more

than 30% for the second consecutive year, reaching a record low. The worst sector was energy, which was affected by the collapse of the oil price caused by the high supply surplus and by the "discount war" on prices launched by OPEC against the USA and Russia. Despite the declining oil prices, the American Shale Oil industry resisted better than was expected and, at the same time, the other main producers increased production so as not to lose market shares. In December OPEC even removed the limit (quota) on the production of its members. Brent fell from 57$/b at the end of December 2014 to 37$ at the end of 2015. It was a difficult year also for industrial metals, which were affected by the economic slowdown in China (the world's largest consumer). Many metals went down almost to the levels of 2008/09. Nickel even fell to a 12-year low. Precious metals also closed down with gold falling to the lowest for more than 5 years below 1100$/ounce. Metal was penalised by the strength of the dollar and by the expectations, later fulfilled, in December, of the first Fed rate raise since the subprime crisis. Finally it was a negative year also for the agricultural sector owing to favourable weather conditions for the harvests of many crops with the effect of increasing the supply on the markets and reducing prices.

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

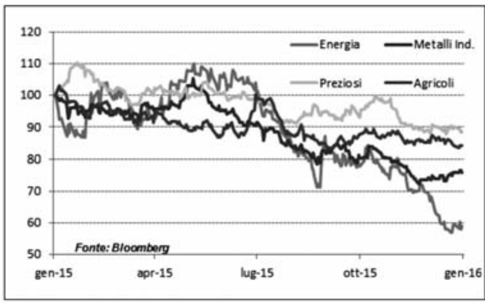
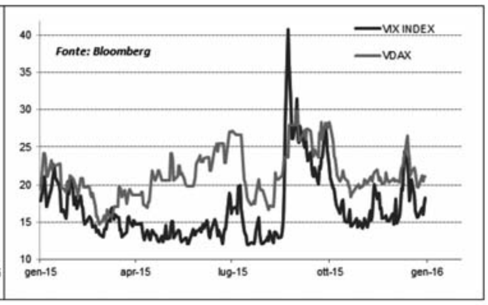


FIG.6 VIX VS VDAX



With reference to **stock markets,** 2015 was a year characterised by a marked selectivity at the geographical level in local currency. In Europe the Milanese market (+12.7%) was the best among the main ones, followed by Frankfurt (+9.6%) and Paris (+8.5%). London fell (-4.9%) as did Madrid (-7.1%), the latter penalised by the electoral uncertainty. The Euro Stoxx general index (+8%) also closed positively, reaching temporarily in April its highest point since 2008, just after the start of the ECB's QE. The trend was mixed in the USA where compared to a slight drop for the S&P500 (-0.7%) and the Dow Jones 30 (-2.2%), a rise was recorded for the Nasdaq Composite (5.7%). During the year the Dow Jones 30 and the S&P500 however recorded new record highs in May, while the Nasdaq Composite recorded one in July. The emerging index MSCI Emerging Markets went badly (-17%) falling to the lowest point since 2009. There was very high volatility on the Chinese stock market with Shanghai ending the year up (+9.4%), but the rise was the result of the good trend of the first six months because the second half of the year was very volatile. The Brazilian market was very weak (-35.5%).

As regards **volatility on equity indices,** 2015 was on average more volatile compared to 2014 both in the United States and in the Euro area. The German volatility index *VDAX* recorded an average figure of 21.5%, compared to 15.6% in the previous year. The US *VIX* index was less volatile compared to the Euro Area, but with growing volatility, coming out at an average of 16.7% from 15.6% in 2014. The *VIX* hit the peak for the year (on closure) in August at a level of 40.7%, while the *VDAX* reached the peak of 29.9% on 1 September (Fig.6).

Significant Aspects of Operations

The "Business Units" (hereinafter BUs), unchanged with respect to the previous year and based on which the supervision and operational monitoring of the fixed courses of the Business Plan is articulated, are:

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

"Ordinary Finance" BU

As regards the "Ordinary Finance" BU, both agreements and disbursements were less (respectively: -58.8% and -40.7%) than envisaged in the budget, as a result of the Bank's gradual strategic repositioning on structured, extraordinary and project finance.

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2015*	*Budget as at 31/12/2015*	*Percent deviation*
Operations agreed	123.7	300.0	(58.8%)
Operations disbursed	177.9	300.0	(40.7%)

In relation to the Subsidised Finance segment, the Bank is continuing its operations as a "managing party" of the main national public incentives for industrial research and development on behalf of the Ministry of Economic Development (MED) and the Ministry of Education, Universities and Research (MEUR).

In the regard we can note in particular during the year:

- performance of the activities related to the projects presented to make use of the Sustainable Growth Fund (SGF): 27 initiatives on the "*Horizon 2020*" tender, 1 on the 2014 "*Eurotrans Bio*" tender and 7 on the negotiable tenders "Sustainable Industry" and "Digital Agenda" for a total amount of investments in research and development of more than € 100 million;
- the management activity of research projects which come under the MEUR making use of the Research Subsidies Fund (RSF) and PON funds for the regions in the Convergence Objective and under the MED making use of the Technological Innovation Fund (TIF);
- the continuation of the period of issuing balance and adjustment liquidation certificates (BALCs) for the completion of the subsidy proceedings pursuant to Italian Law 488/92;
- the activity related to the Guarantee Fund for SMEs, which sees us involved in the promotion and development of the subsidy instrument and in assisting authorised intermediaries and beneficiary companies.

"Corporate Finance" BU

The activity of the "Corporate Finance" BU, unlike what was recorded by Ordinary Finance, began to react positively to the first signs of an end to the crisis which has now affected the country and the international context for years. The indications coming from the Parent Company as regards the commercial policy also enabled a recovery in the activity of granting loans to companies and/or initiatives of particular interest and significance.
These new conditions ensured that the activity generically attributable to "project finance" was able to achieve and exceed the targets set in the budget, both in terms of contracts signed (+97.5%) and in terms of disbursements (+48.2%), results that seem very auspicious for a recovery of economic activity after years of recession.

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2015*	*Budget as at 31/12/2015*	*Percent deviation*
Operations agreed	987.3	500.0	97.5%
Operations disbursed	740.8	500.0	48.2%

A summary of the activities performed by the single departments into which the "Corporate Finance" BU is divided is presented below:

- **Project Financing** - The activity continued in the sectors of infrastructures, renewable energies and utilities; the activity of structuring operations involved both mandates acquired during the year and mandates acquired previously which, owing to their complexity, need a long time to be finalised.
  We present below the most significant operations dealt with in 2015:
  - loan for the completion of Line 5 of the Milan Underground with an intervention in a pool for a total of € 580 million with Cassa Depositi e Prestiti and 9 national and international Banks and, for the first time in the context of a project operation in Italy, the subscription of a bond issue, the so-called "Project Bonds" (€ 150 million in the context of the total intervention) with the presence of 7 Institutional Investors (insurance policies, foreign funds). The Bank's quota amounted to approximately € 36.7 million;
  - loan for the renovation and expansion of two specialist hospital structures situated in Verona with an intervention in a pool with Unicredit for a total of € 51.9 million; the Bank's quota amounted to approximately € 26 million;
  - loan for the creation of a photovoltaic park on land in the province of L'Aquila for 20 MWe of power with an intervention in a pool with Natixis and Banca Popolare Emilia Romagna for a total of € 62.2 million; the Bank's quota amounted to approximately € 20.7 million and in the pool we also play the role of Agent Bank;
  - loan for the creation of a thermoelectric power station fired by wood biomass in the province of Pavia for 17.5 MWe of power with an intervention in a pool with Banca Popolare di Milano for a total of € 53.8 million; the Bank's quota amounted to approximately € 26.9 million and in the pool we also play the role of Agent Bank.

- **Real Estate** - The Real Estate operations department showed operators' interest in new financing opportunities, mostly attributable to refinancing of property portfolios held by banking Groups; in this area during 2015 the refinancing of the very many assets of the Banco Popolare Group was completed. These are located mainly in the largest Italian cities, held by a closed-end real estate fund and administered by an asset management company. The intervention in a pool with Unicredit, BNPP and Banco Popolare was for a total of € 434.5 million; the Bank's quota amounted to approximately € 94 million.

- **Structured & Shipping Finance -** Operations were focused on the infrastructure and utility sectors; we can note the following significant operations:
  - during the first quarter the loan in a pool for a total of € 24.9 million in favour of gas network management companies; the Bank's quota amounted to € 8.5 million;
  - during the second quarter the loan in a pool for a total of € 143 million in favour of a company operating in the water sector in Tuscany; the Bank's quota amounted to € 34 million, with the role of Agent Bank.

- **Syndication** - In the context of loans in bank-led pools, it is worth mentioning, during the first quarter, the structuring of an operation related to an important renewal project in the tourist hotel sector in Sicily promoted by a foreign investor.

In the second quarter the mandate was also acquired for the structuring and syndication of a loan for the purpose of opening a centre for the production of robotic devices for the monitoring of gas and oil pipelines, by a foreign investor.
In the context of the arranging activity, carried out on behalf of the Parent Company, we can note that, during the first quarter, an operation was successfully structured and syndicated for a company specialised in the production of small components and synthesised gears.

- **Acquisition Financing** - The Bank, confirming its competitive positioning in the activity of acquisition/leveraged financing in the Mid Corporate segment, continued the activity of origination and structuring of acquisition operations in support of counterparties with primary standing, focusing on industrial integrations carried out by corporate operators and also maintaining a strong presence in the leverage market.
  Among the most important operations organised during the year as the MLA, we can note:
    - acquisition of a leading Italian operator (market leader in the engineering, creation and marketing of production/packaging plants and lines for pasta, snacks, flours and cereals) by a pan-European private equity fund (LBO);
    - acquisition of a rapidly growing Italian operator (manufacture and marketing of footwear, clothing and accessories - in the Personal Luxury Goods segment - with its own brand) by a pan-European private equity fund (LBO);
    - acquisition of a chain operating in the mass retail segment (mainly food) by a leading industrial operator in the same market (Corporate Acquisition).

“Global Markets” BU

As far as the “Global Markets” BU is concerned, 2015 saw an activity of substantial maintenance of the good competitive position achieved on the secondary market of government securities and debt securities of mainly Italian issuers.
The positive trend of the spreads and of the European stock markets enabled good secondary activity also on structured securities issued during previous years, but this phenomenon was not associated with a marked reduction of volumes as regards primary activity and placing on the network, which felt the competitive pressure of asset management instruments.
The volatility of exchange rates and the interest rates at minimum levels facilitated an increase, compared to 2014, in volumes on hedging in derivatives for corporate customers.
The performance of managed portfolios with a view to proprietary risk-taking was positive.
In particular the sharp decline of yields on European government bonds following the QE plan made official by the ECB at the end of January enabled an excellent result in terms of Profit & Loss through cashing in most of the positions held in the short-term portfolio and closing a number of tactical positions on the volatility of the banking sector.
In the middle of the year the uncertainty over Greece remaining in the eurozone produced a significant rise in yields on the whole curve, enabling repositioning of the short-term portfolio; the turbulence of the market recorded in August produced significant revenue thanks to strategies which, with a view to portfolio insurance, counted on worsening of the risk appetite.
Risk management continued to produce revenue constantly for the rest of the year, also on the Forex and Commodity fronts.
In this context commercial flows were one of the factors that contributed most to the overall result. On structured insurance (*bancassurance*) products, the reduction in the total placed was offset by excellent repurchase flows. At the same time, the volumes of “investment certificates” continued their growth trend.
In terms of diversification of the product portfolio, considerable demand from customers for structured bond issues in USD saw the development of several “lightly structured” IR-linked products, issued both by BMPS and by third

parties.

In addition, thanks to the favourable market conditions during the year, a considerable increase occurred in hedging derivatives on interest rates due in part also to the notable increase in the hedging component of disbursements linked to the Specialized Lending segment. This latter segment was positively affected by the execution of a number of loans in Project Financing pools of the system.

On the corporate segment the implementation of various plans continued. Some of these are necessary at the legislative or market level, and will make it possible to have better timing and execution abilities in the future.

The strategy of expanding the presence on the various electronic market venues saw on the one hand an increase in volumes on those already covered (DDT, BondVision, TLX), and on the other hand entry onto other platforms on which the Bank was not yet active.

The mix of client-driven activities, primary risk management and flows on the various markets in which the Global Markets Department participates as market maker, together with profitable proprietary risk-taking, confirm the economic consistency of the business model, observable in the results achieved.

“Investment Banking” BU

As regards the “Investment Banking” activity, the most significant operations, carried out in relation to the bond market during 2015, were the syndicated issue of a BTP at 15 years for the Italian Republic, for a total of € 8 billion, and the two Covered Bank Bond issues made by the Parent Company, for a total of € 1.75 billion, in which the Bank played the role of Joint Lead Manager and Joint Bookrunner.

During the same period the Bank, in keeping with its business model, focused on the Small Mid Corporate segment, handled in a capacity as Arranger the placing and listing on Borsa Italiana’s ExtraMOT-Pro market of two mini-bonds for a total of € 15 million by two corporate issuers active in the Oil & Gas Services and Automotive sectors, and, in relation to the equity segment, the listing on the AIM Italia market of Clabo SpA with the role of Global Coordinator and Bookrunner.

The Bank also continued to perform the activity of Nominated Advisor on behalf of the companies Poligrafici Printing SpA and TBS Group SpA, listed on Borsa Italiana’s AIM Italia market.

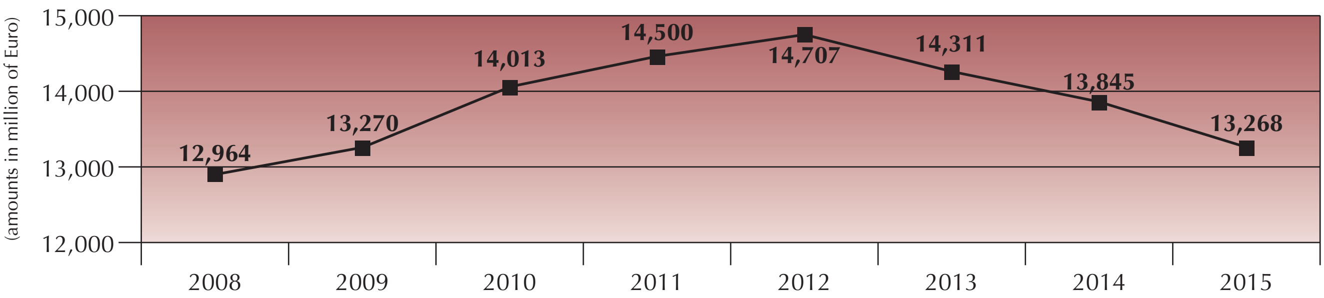
We can note finally that in June the Bank was involved, in the role of Solicitation Agent, in the Consent Solicitation operation promoted by the Parent Company for the modification of the Covered Bank Bond programme by the vehicle MPS Covered Bond 1. The operation, approved by the bondholders’ meeting on first convocation, guarantees to BMPS a prospective improvement of the rating of the issues made as part of the said programme and the consequent possibility to continue to count on an important funding instrument in the near future.

Credit Aggregates

TOTAL LOANS

The amount of loans to customers, determined according to operating criteria, at 31 December 2015 was € 13,268 million, slightly down compared to the € 13,845 million recorded at the end of the previous year (-4.17% on an annual basis).

CHANGE IN TOTAL LOANS
("operational view")



Below is the reconciliation of the operating data at 31 December 2015 with the balance of the asset item 70 "Loans to customers". The reconciliation amounts, shown in millions of Euro, derive from a different classification of the accounting data with respect to the operational disclosure:

RECONCILIATION BETWEEN "OPERATIONAL" VIEW AND ACCOUNTING DATA:

(amounts in millions of Euro)

Operational amount	**13,268**
Spreads on derivatives (1)	(42)
Operating receivables (2)	21
Prepaid expenses and accrued income (3)	18
Collateral credits (4)	386
Valuation reserve on receivables (5)	(3,367)
Accounting amount	**10.284**

(1) Receivables for spreads on derivatives recognised for accounting purposes under "Assets held for trading";
(2) Receivables deriving from "subsidised" activities, which are managed separately from "loans";
(3) Items for operating purposes included under "non-interest bearing receivables and payables"
(4) Items for collateral not connected to financing activities and operationally attributable to "global market" activity;
(5) Provisions for impairment of receivables.

Commercial flows

For 2015 the macroeconomic scenario, both Italian and European, showed a GDP growth trend that came out at very limited levels, although still in line with or above the forecasts of Governments and international analysts. In addition, the trend in prices, another fundamental element in the analysis of prospective economic scenarios, remained very slow, although at the end of 2015 our country seems to have finally left “deflationary” territory and this despite the drop in the oil price which, on more than one occasion, fell to record lows for the decade.

The continuation therefore of a slow growth trend inevitably made it more difficult to arrive at a real and proper turnaround that would have evident positive effects also on prospects for the recovery of problem loans.

In reality it is the entire Eurozone which, while showing substantially positive trends in almost all the main macroeconomic indicators, seemed incapable of expressing appreciable and above all lasting growth rates, a situation which ended up rebounding negatively also on the Asian markets, first of all China, which experienced “slowed” trends after years of stable growth in two figures.

This uninspiring scenario led to substantial stagnation of the economy which ensured that neither demand for investment assets nor that for consumer goods grew, at the systemic level, to an extent such as to constitute the hoped-for driver of a possible more robust recovery.

These trends, in any case a positive sign, translated into growth in the demand for credit, which reached higher levels than in the previous year, and new loan agreements, which in the year just ended exceeded 1,100 million, an increase of 146.3% compared to the volumes recorded in the previous year.

Also as regards loans disbursed we can note a very sharp increase: disbursements, in 2015, exceeded € 900 million, an increase of more than 130% compared to 2014.

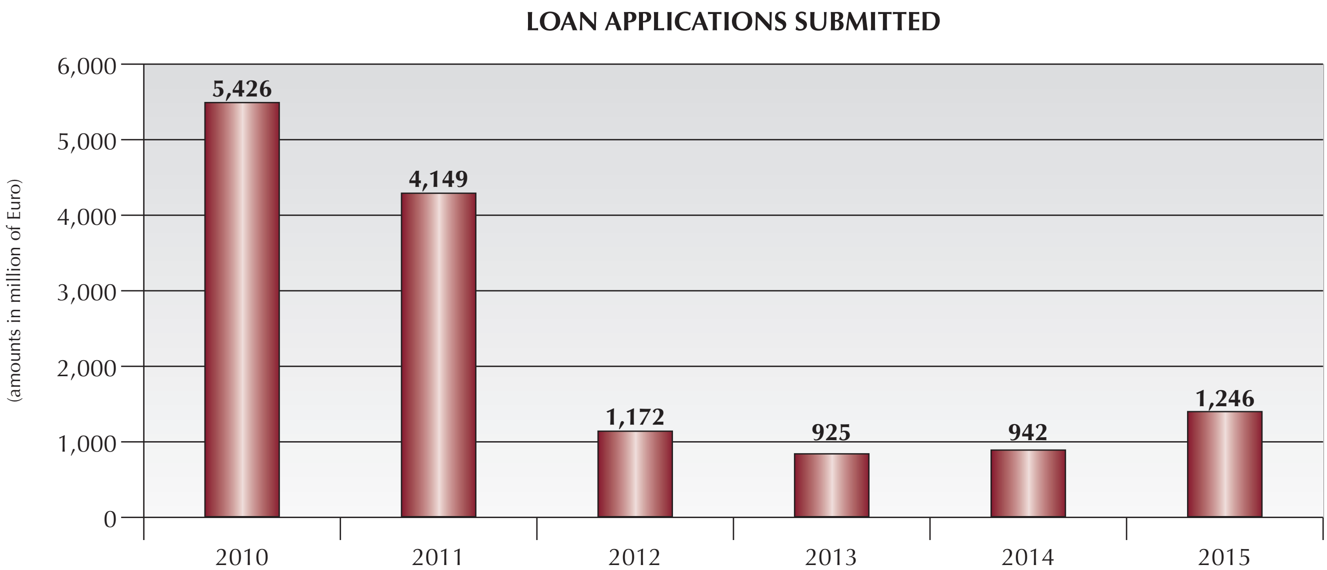
The table below analyses commercial flows for 2015, with reference to:

- loan applications submitted
- loans approved
- loan contracts signed
- loans disbursed

LOAN APPLICATIONS SUBMITTED

(amounts in millions of Euro)

	2015	*2014*	*Changes*	
			Absolute	*%*
Number	199	213	(14)	(6.6)
Amount	1,246	942	304	32.3

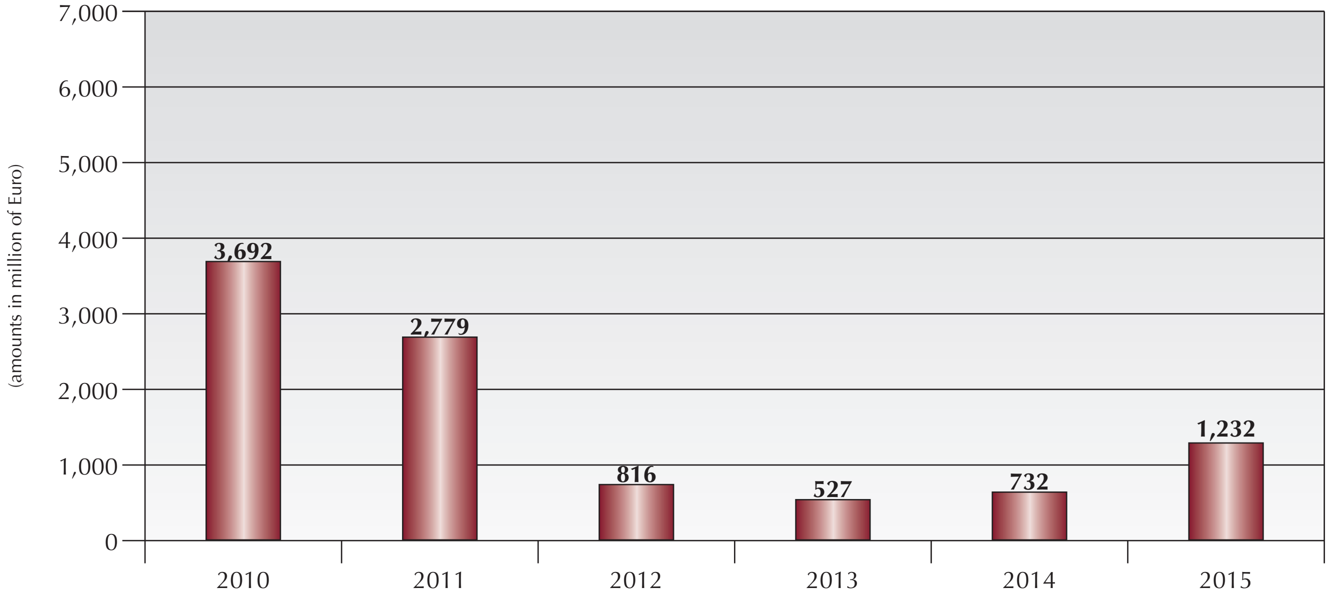


LOANS APPROVED

(amounts in millions of Euro)

	2015	*2014*	*Change*	
			Absolute	*%*
Number	178	185	(7)	(3.8)
Amount	1,232	732	500	68.3

LOANS APPROVED



The following table shows the ratio between loans agreed and applications presented:

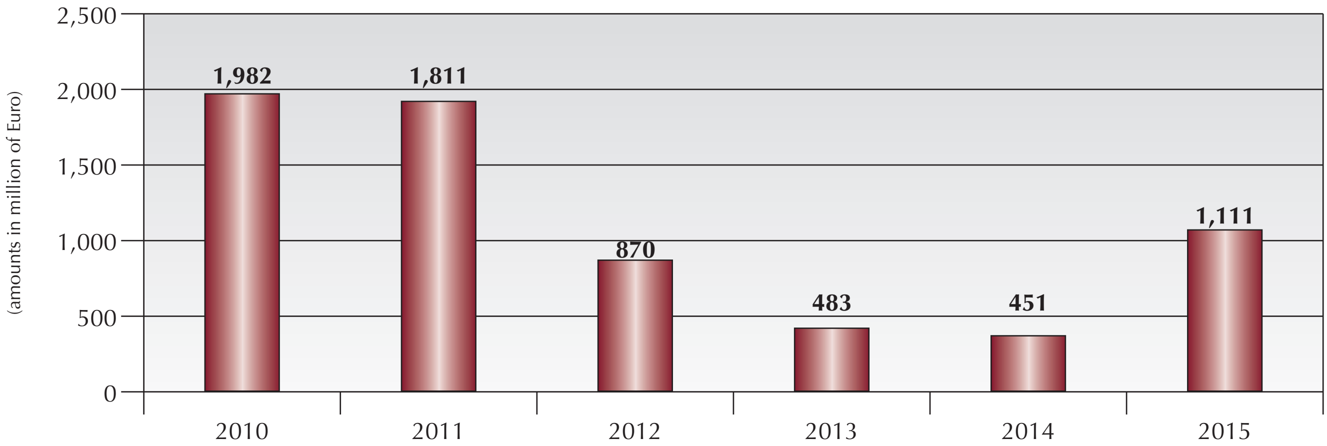
	2015	*2014*	*2013*	*2012*
Number	89.4%	86.9%	79.9%	82.2%
Amount	98.9%	77.7%	57.0%	69.6%

LOAN CONTRACTS SIGNED

(amounts in millions of Euro)

	2015	*2014*	*Changes*	
			Absolute	*%*
Number	216	188	28	14.9
Amount	1,111	451	660	146.3

LOAN CONTRACTS SIGNED



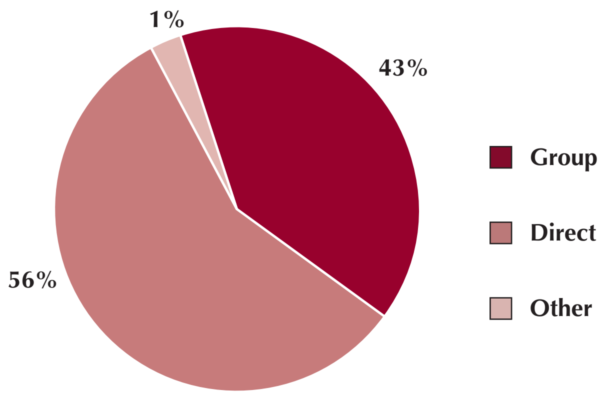
LOANS DISBURSED

(amounts in millions of Euro)

	2015	*2014*	*Changes*	
			Absolute	*%*
Number	434	426	8	1.9
Amount	919	399	520	130.3

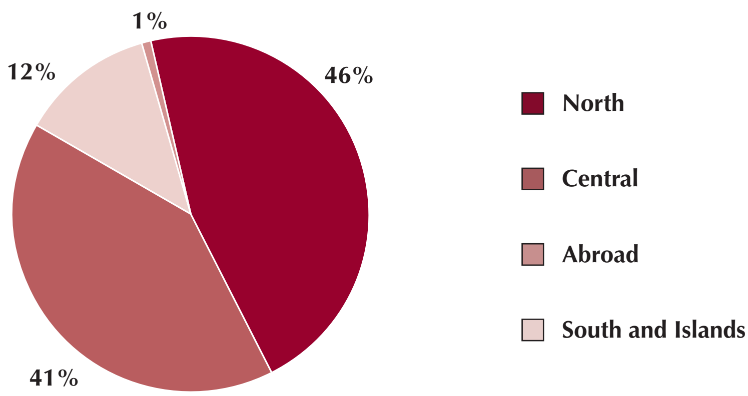
During financial year 2015, the Bank disbursed a total of just over € 919 million. For a complete analysis we must stress that also contributing to this result were disbursements linked to investments to be made of a multi-year period, in accordance with precise terms for implementation set at the time in the production development plans. In these cases the disbursements are made in several tranches, according to the "state of progress" of the projects financed.

LOANS DISBURSED - Breakdown by channel



As regards geographic distribution of commercial flows, we can note that northern Italy is the destination for the largest part of the sums disbursed with 46% of the total (compared to 28% the previous year) and that the percentage going to central Italy remained substantially stable, coming out at 41% compared to 38% in 2014.
The percentage relating to the South and the Islands decreased instead (12% compared to 33% in 2014), in any case in an overall situation of portfolio diversification, with a view to/target of maximum risk containment.
Finally the foreign proportion remained negligible totalling a modest 1% as in 2014.

LOANS DISBURSED - Geographical breakdown



IMPAIRED EXPOSURES

Starting from 1 January 2015 a new notion of impaired assets became applicable. This was adopted by the Bank of Italy in the 7th update of 20 January 2015 of Circular 272 "Account Matrix", following transposition of the new definitions of Non-Performing Exposures (NPEs) introduced by the implementing technical standards related to consolidated supervisory statistical reporting, harmonised and defined by the European Banking Authority (EBA) and approved by the European Commission on 9 January 2015.
Impaired financial assets are divided into the categories: "bad loans", "probable defaults" and "past-due and/or over-the-limit impaired exposures" and include cash assets (loans and debt securities) and "off-balance-sheet" assets (guarantees issued, irrevocable and revocable commitments to grant finance) other than financial instruments allocated to the items "Financial assets held for trading" and "Hedging derivatives".
The notions of substandard exposures and restructured exposures were therefore abrogated and included in the aggregate "probable defaults", with the exception of objective substandard positions (€ 180,798 thousand at 31 December 2014) included among impaired past-due exposures.

The figures for 31 December 2014 are provided, for the sole purposes of presentation and comparison, according to the new classification of impaired assets.
The tables below show the distribution of impaired assets at 31 December 2015 by portfolio (amounts in thousands of Euro).

On-balance sheet exposure	*Gross exposure*	*Analytical adjustments*	*Flat-rate adjustments*	*Net exposure*
Loans to banks				
Loans to customers	8,072,674	(3,257,795)	(29,207)	4.785.672
Total	**8,072,674**	**(3,257,795)**	**(29,207)**	**4,785,672**

Off-balance sheet exposure	*Gross exposure*	*Analytical adjustments*	*Flat-rate adjustments*	*Net exposure*
Guarantees given (*)	123,497	(12,304)	(236)	110,957
Commitments to disburse funds and other commitments	225,926			225,926
Total	**349,423**	**(12,304)**	**(236)**	**336,883**

(*) Non-impaired exposures were subject to collective adjustment for a total of € 1,740 thousand.

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

		Specific adjustments			
Type of impaired on-balance-sheet assets	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Flat-rate adjustments*	*Net exposure*
Bad loans	4,705,075	(2,247,589)	(211,348)		2,246,138
Probable defaults	3,217,286	(676,548)	(121,211)	(5,313)	2,414,214
Impaired past-due exposures	150,313	(1,099)		(23,894)	125,320
Total	**8,072,674**	**(2,925,236)**	**(332,559)**	**(29,207)**	**4,785,672**

The balance of impaired on-balance-sheet assets, net of value adjustments and discounting, came out at € 4,785,672 thousand; the change compared to the amount as of 31 December 2014 (€ 4,733,397 thousand) was € 52,275 thousand (+1.10%).
Bad loans deriving from loans to customers increased from € 2,104,903 thousand as of 31 December 2014 to € 2,246,138 thousand as of 31 December 2015, an increase of € 141 thousand (+6.71%). The average writedown of bad loans stands at 52.26% (49.82% as at 31 December 2014). Gross and net bad loans account for 34.47% and 21.84%, respectively, of gross and net loans to customers (29.56% and 18.94% in 2014).
Probable defaults increased from € 2,220,245 thousand as of 31 December 2014 to € 2,414,214 thousand as of 31 December 2015, an increase of € 193,969 thousand (+8.74%). The average write-down of probable defaults came out at 24.96% (26.54% at 31 December 2014). Gross and net probable defaults account for 23.57% and 23.48%, respectively, of gross and net loans to customers (21.30% and 19.99% at the end of 2014).
Past-due loans increased from € 408,249 thousand as of 31 December 2014 to € 125,320 thousand as of 31 December 2015, a reduction of € 282,929 thousand (-69.30%). The average write-down of past-due loans stands at 16.63% (18.15% as at 31 December 2014). Gross and net past-due loans account for 1.10% and 1.22%, respectively, of gross and net loans to customers (3.52% and 3.67% at the end of 2014).
It must be stressed that, during the early months of 2015, the Supervisory Authority conducted an audit on the loan exposures of the Group and, in particular, of the Bank, in relation to the Residential Real Estate, Institutional, Project Finance and Shipping Portfolios, not included in the Asset Quality Review carried out during 2014.
In this context adjustments were communicated for Credit File Review, statistical projections and collective adjustments implemented in March for approximately € 21.8 million, with two customers declassified to substandard.
The total net value adjustments for impairment of loans accounted for in item 130a) “net value adjustments for impairment of loans” of the income statement amounted to € 193,417 thousand and were made up as follows: analytical writedowns of € 466,612 thousand; writebacks following valuation of € 130,047 thousand; writebacks following collection of € 13,408 thousand; writedowns for discounting to the present of € 185,039 thousand; writebacks for discounting to the present of € 24,645 thousand; release of interest of € 122,415 thousand; writebacks deriving from the reduction of flat-rate writedowns - a reduction offset by the analytical writedowns made on almost all probable defaults - of € 189,011 thousand, of which 3,027 thousand with no impact on the income statement because they were used to cover losses. Ascertained losses for writeoffs, with impact on the income statement of the period (also accounted for in item 130a) amounted to € 18,265 thousand; losses from sales of receivables of € 1,310 thousand were also recorded. These are posted under item 100 of the income statement “Gains/losses on sales or repurchases of: a) receivables”.
Overall, the stock of flat-rate adjustments on impaired loans came out at € 29,207 thousand (of which: € 5,313 thousand to cover probable defaults; 23,894 thousand against exposures past due by more than 90 days).
Against the guarantees given and the commitments a writedown of € 14,279 thousand is recognised, among “other liabilities”, (€ 12,303 thousand of analytical adjustments and € 1,976 thousand of portfolio value adjustments); in the current year, under item 130d) “net value adjustments/writebacks for impairment of other financial transactions” net writebacks of € 2,671 thousand were recorded.
Non-impaired loans are subject to analytical adjustments for default interest of € 96 thousand and portfolio adjustments of € 79,786 thousand.
Total analytical writedowns amounted to € 3,257,891 thousand, while the total amount of flat-rate writedowns was € 108,993 thousand.

Deposits

During the year the contraction of lending activity continued, with the effect of determining an overall reduction in funding.
The medium- to long-term loans taken out with the Parent Company in 2015, of € 3,624 million, were therefore mostly to "replace" funding reaching maturity or paid back early in order to keep the mismatch of structural liquidity in balance between lending and funding.

The exposure related to loans came out at € 15,665 million (18,360 million at 31 December 2014), divided as follows: € 547 million on demand (€ 329 million at 31 December 2014), € 5,435 million short term (€ 7,461 million at 31 December 2014) and € 9,683 million medium and long term (€ 10,570 million at 31 December 2014).
It must be stressed that the aggregate "Loans from the Parent Company - on demand and short term" shown in the table below, includes a time deposit of € 3,326 million (€ 4,147 million at 31 December 2014) made by the Parent Company to guarantee customers lending securities. Net of this item the aggregate recorded a decrease of € 988 million, going down from € 3,643 million at the end of 2014 to € 2,655 million at 31 December 2015.

The table below shows the breakdown of deposits (items 10, 20 and 30 of the Liabilities) by type as of 31 December 2015, compared with the situation at the end of the previous year:

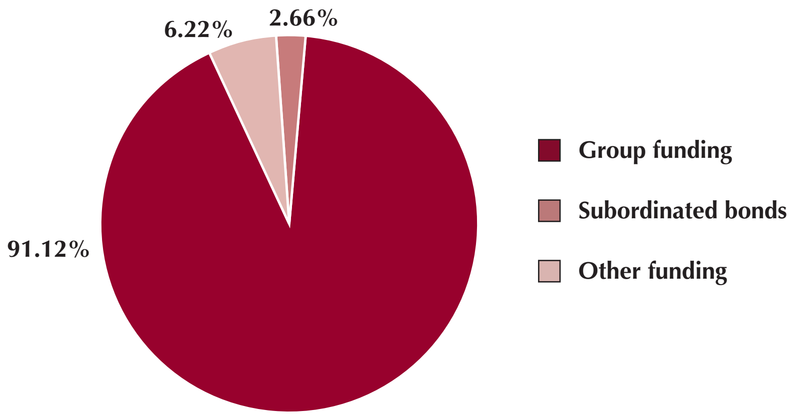
(amounts in millions of Euro)

	31/12/2015	*31/12/2014*
Loans from the Parent Company:		
- on demand and short term	5,982	7,790
- medium and long term	9,683	10,570
Other payables to the Parent Company:		
Bonds:		
- non-subordinated	-	-
- subordinated	457	467
Other payables to Banks and Customers	1,069	1,210
TOTAL	**17,191**	**20,037**

The item "Loans from the Parent Company - on demand and short term" includes, for accurate matching with accounting items, also short-term deposits for € 870 million (€ 1,650 million as at 31 December 2014), as supplementary funding for the typical activity of the "Global Markets" BU (see paragraph below "Main financial aggregates").

As the next chart shows, the Bank's funding is strongly concentrated on the Parent Company (91.12% of the total):

BREAKDOWN OF DEPOSITS AT 31/12/2015



Main financial aggregates

With regard to the activity of the Global Markets BU, the main trends that characterised the commercial volumes of 2015 are analysed in detail below and summarised in the following table:

- the volumes deriving from hedging of interest rate risk with Corporate customers, followed by the Customer Desk, were € 1,374 million compared to € 822 million in 2014, an increase of 67.2%. This increase was due in part to the favourable market conditions and in part to the considerable increase in the hedging component of disbursements associated with the Specialized Lending segment;
- the positive performance of the volumes of interest rate derivatives with institutional counterparties, +166.9% compared to the previous year, is mainly related to the increase in hedging transactions on the government bond portfolio of institutional counterparties, which occurred as a consequence of QE;
- volumes generated by foreign exchange hedges with Corporate customers totalled approximately € 2,060 million, up 35.4% compared to 2014. The increase was mainly related to the strong volatility of the market;
- volumes of commodity hedges with corporate customers came out at € 871 million, in line with the results of 2014;
- volumes traded on the secondary market of Banking, Corporate, Emerging, Sovereign and ABS securities (Secondary Credit), presented a decrease of approximately 47% compared to 2014, owing to a progressive illiquidity of the said segment accompanied by a notable price volatility. It is also worth noting the transfer of the part of the business to the electronic execution method, which showed growing volumes (+26.3%);
- volumes generated by the intermediation activity on the secondary market of government bonds and on auctions decreased compared to the previous year by approximately 16%, with a gradual transfer in this case too to the electronic execution method, up significantly (+174.6%) thanks also to the greater presence of the Central Banks as purchasers of government bonds in implementing the ECB's monetary policies. The increase in volumes was also related to the effect deriving from the role of top market maker played by the Bank which confirmed also for 2015 the role of best specialist in Government Securities in the MEF league table. It should be noted that there was a great participation of institutional customers in the auctions;
- volumes generated by the placing with institutional investors and corporate customers of primary market securities recorded a slight increase compared to 2014 (+3.7%) improving the excellent results obtained in the previous year. This thanks both to the important syndicated operation of the Treasury on the Btp 1.65% 2032 and to the two issues of Banca MPS covered bonds placed in October and November.

Product	2015 Volumes	2014 Volumes	% Change
Customer desk interest rate hedging	1,374	822	67.2%
Institutional interest rate hedging	1,695	635	166.9%
Exchange rate hedging	2,060	1,521	35.4%
Commodity hedging	871	815	6.9%
Secondary credit	3,370	6,307	(46.6%)
Secondary government bonds and auctions	26,582	31,517	(15.7%)
Primary	5,338	5,147	3.7%
Gov. electronic channels	24,793	9,030	174.6%
Secondary Credit electronic channels	3,719	2,944	26.3%
Total	**69,802**	**58,738**	**18.8%**

Note:
these are commercial volumes determined according to operating criteria aimed at representing the trend of the volumes moved during the year.

As regard the financial aggregates, we can note that, compared to the year 2014, the net amounts in securities held for trading recorded an increase above all in relation to the segment of Italian government bonds: these latter, in detail, were owned at 31/12/2015 for a nominal € 6,076,292 thousand (compared to € 4,556,633 thousand at 31/12/2014). In the Liabilities, technical overdrafts at 31/12/2015 amounted to a nominal € 2,299,386 thousand compared to € 2,606,564 thousand at 31/12/2014.

For a complete analysis of the "Sovereign Risk", please see the Part E, section A "Credit Risk" of the Notes to the Statements, below.

Trading portfolio	*31/12/2015*	*31/12/2014*	*Changes from 12/2014*	
Sub-item - long position securities			*Absolute*	*%*
Government and public agency securities	6,640,123	5,142,465	1,497,658	29.12
Bonds and other debt securities	2,533,528	2,673,971	(140,444)	(5.25)
Equity securities - shares	50,261	57,568	(7,308)	(12.69)
Equity securities - UCITS/funds	3,742	2,923	819	28.02
Total securities	**9,227,653**	**7,876,927**	**1,350,726**	**17.15**

Trading portfolio	*31/12/2015*	*31/12/2014*	*Changes from 12/2014*	
Sub-item - short position securities			*Absolute*	*%*
Government and public agency securities	2,833,013	3,260,828	(427,814)	(13.12)
Bonds and other debt securities	49,988	69,281	(19,293)	(27.85)
Equity securities - shares	4,052	13,511	(9,459)	(70.01)
Equity securities - UCITS/funds	77,937	177,578	(99,640)	(56.11)
Total securities	**2,964,990**	**3,521,197**	**(556,207)**	**(15.80)**
Net total of portfolio of securities held for trading (long-short)	**6,262,662**	**4,355,730**	**1,906,932**	**43.78**

Also in relation to repurchase agreement operations, we can note an increase in the short net position in being at 31 December 2015 compared to 2014:

Trading portfolio	*31/12/2015*	*31/12/2014*	*Changes from 12/2014*	
Sub-items - loans			*Absolute*	*%*
Repurchase agreements	8,279,428	6,297,678	1,981,750	31.47
Total loans	**8,279,428**	**6,297,678**	**1,981,750**	**31.47**

Trading portfolio	*31/12/2015*	*31/12/2014*	*Changes from 12/2014*	
Sub-items - borrowings			*Absolute*	*%*
Repurchase agreements	17,015,707	13,289,141	3,726,566	28.04
Total borrowings	**17,015,707**	**13,289,141**	**3,726,566**	**28.04**
Net loans (borrowings) (assets-liabilities)	**(8,736,279)**	**(6,991,463)**	**(1,744,816)**	**24.96**

Investments made for the longer period can be broken down into:

- loans & receivables, namely unlisted bonds, issued by corporate companies; at 31/12/2015 an amount of € 1,048 thousand was recognised as probable defaults (€ 2,114 thousand at 31/12/2014). The change in the year was in part due to the partial waiving of the receivable represented by the security IT0004566466 "IMM CE MIL 09/30 0.5", the remaining portion of which was then written off completely. The total writedowns booked during the year amounted to € 583 thousand;
- financial assets available for sale namely: i) unlisted debt securities for a value of € 53,149 thousand (70,054 thousand at 31/12/2014) and ii) equity securities and UCITS units for a total amount of € 10,597 thousand (18,882 thousand at 31/12/2014). For more details on these exposures and on the related changes in the year please see Part B, section 4 "Assets available for sale - Item 40" of the Notes to the Statements.

Moving on to examine operations in derivatives, specifically credit derivatives, from comparison with the nominal amounts at 31 December 2015 and those of the previous year, a significant decrease can be seen, in both purchases and sales. This contraction was due, as well as to the natural maturity, during the year, of contracts in being at 31 December 2014, to the portfolio compression activity which had begun already in 2014. This activity consists of consensual termination of contracts with opposite signs with the same counterparty without modifying the overall risk profile and with no impact on the income statement but with benefits in terms of reduction in operational risks and administrative management, as well as reduction of absorptions for Add Ons. For further details on the contraction of protection purchases with Sovereign underlyings please see the analysis of the so-called "Sovereign Risk" in Part E, section A "Credit risk", of the Notes to the Statements, below.

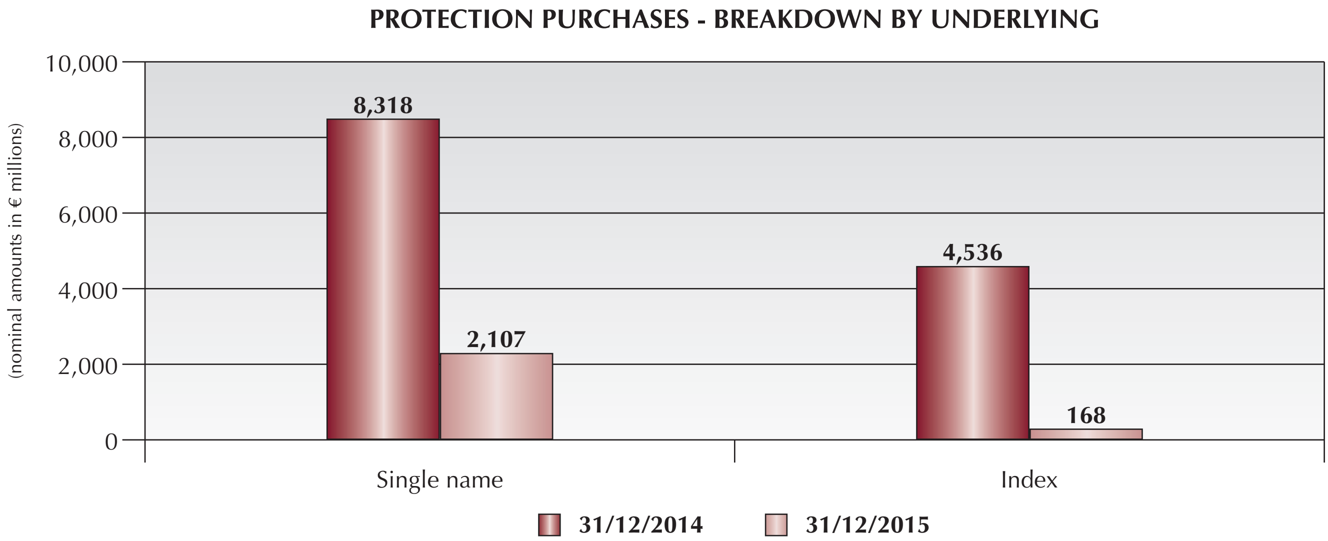
The single name derivatives mainly refer to government, bank and insurance securities. Operations are mainly carried out with banking counterparties or with financial companies

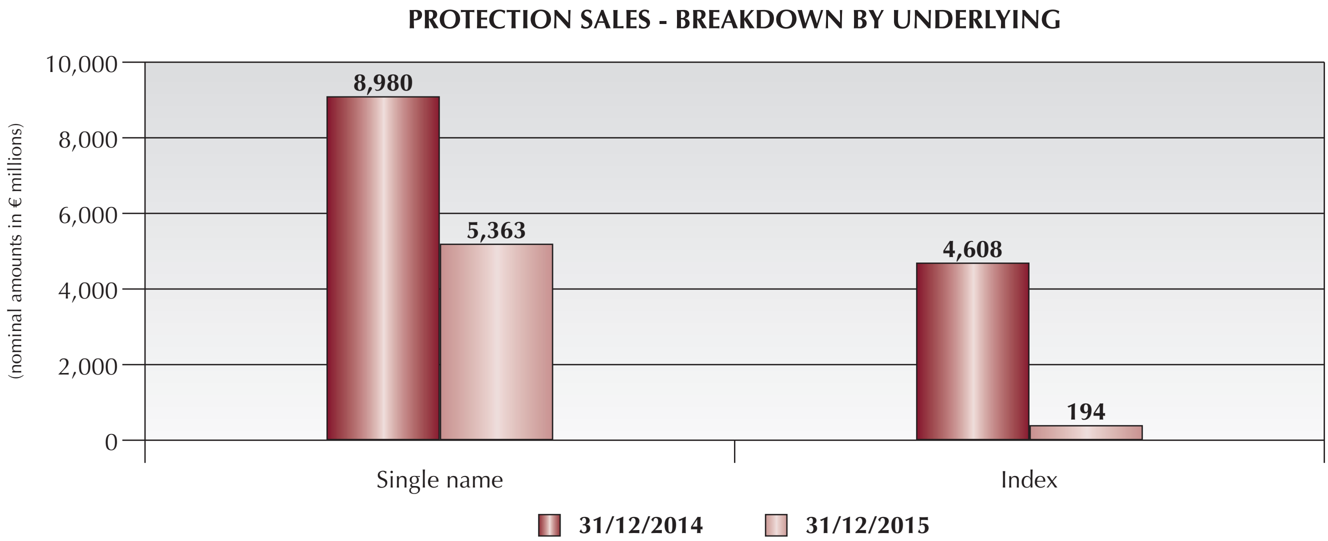
(nominal amounts in € thousands)

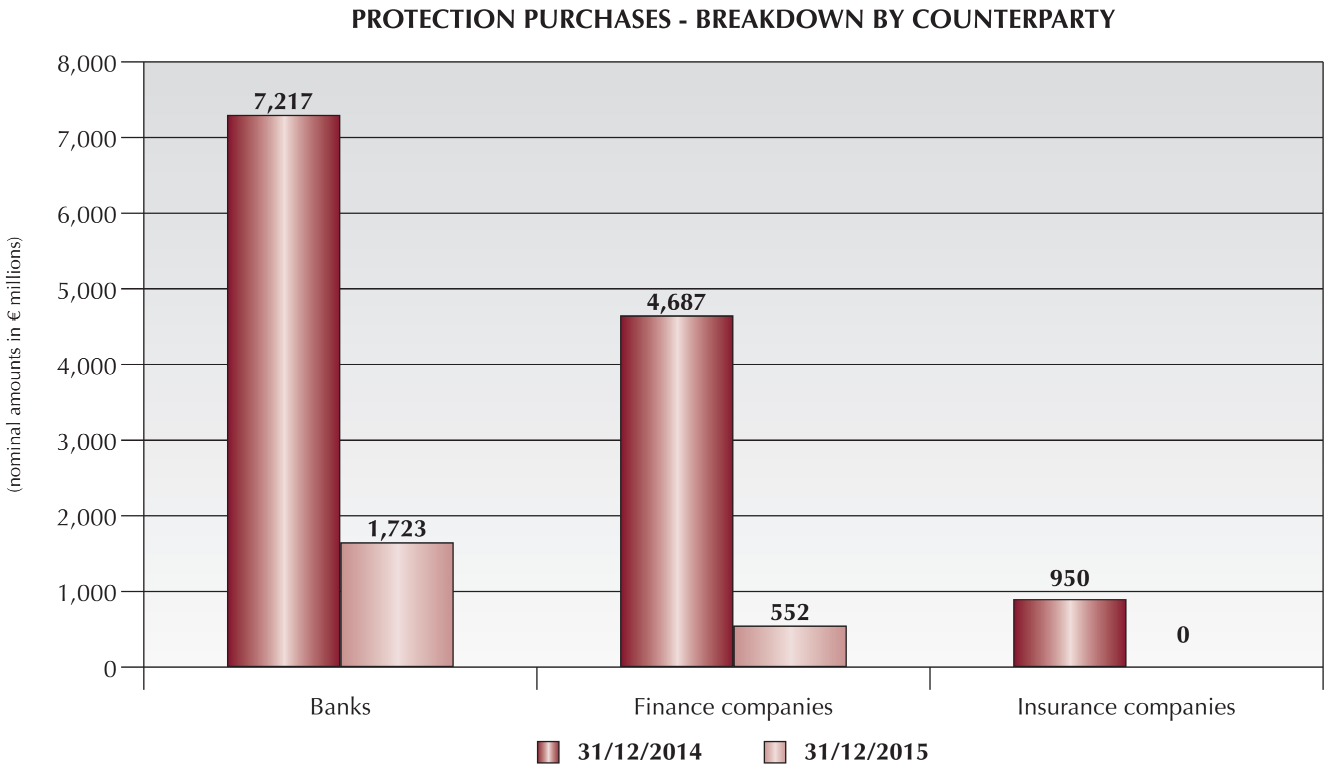
Credit derivatives	*31/12/2015*	*31/12/2014*	*Changes from 12/2014*	
			Absolute	*%*
Protection purchases	2,274,843	12,853,796	(10,578,953)	(82.30)
Protection sales	5,556,141	13,587,996	(8,031,855)	(59.11)

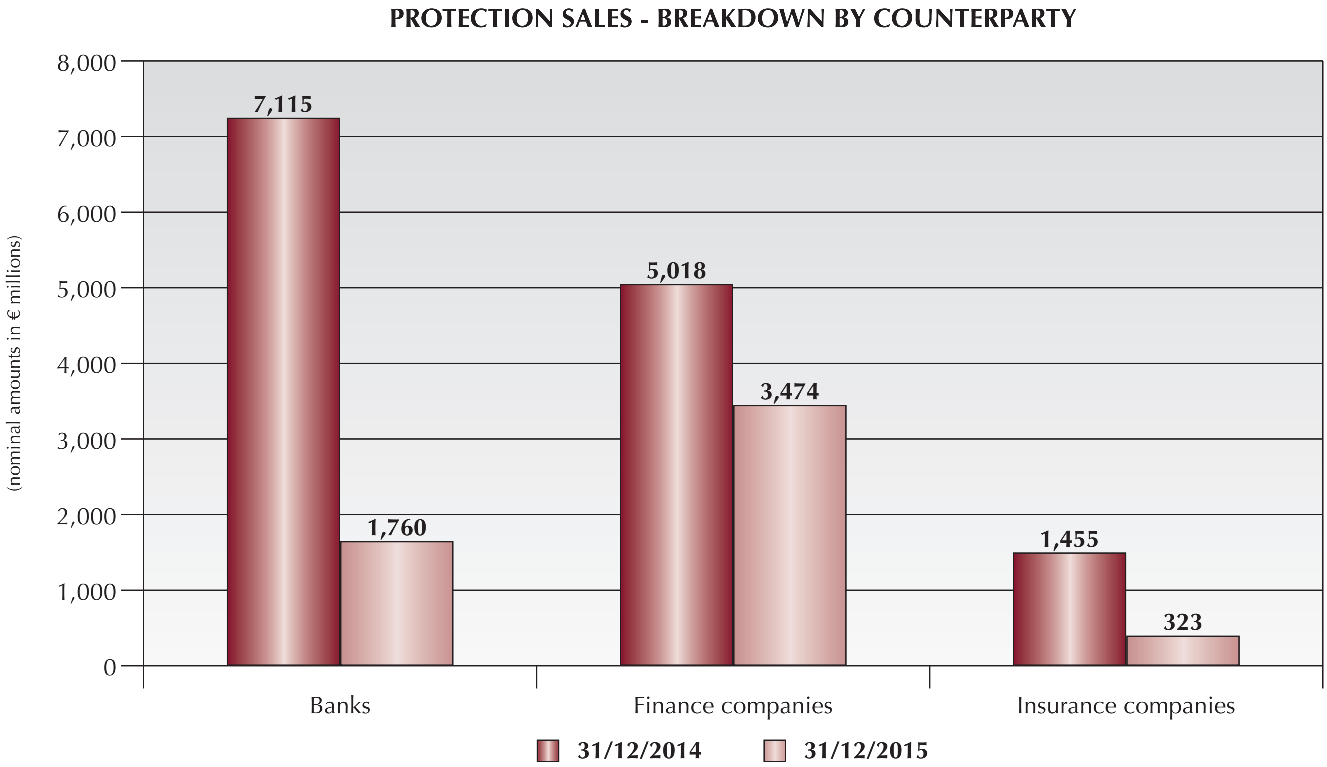
Credit derivatives single name underlying asset	*Protection purchases %*	*Protection sales %*
Corporate	15	6
Sovereign	44	78
Bancassurance	41	16

Credit derivatives Counterparty type	*Protection purchases %*	*Protection sales %*
Banks	75.73	31.67
Financial companies	24.27	62.52
Insurance companies	0.00	5.81


PROTECTION PURCHASES - BREAKDOWN BY UNDERLYING
(nominal amounts in € millions)
10,000
8,000
6,000
4,000
2,000
0
8,318
2,107
4,536
168
Single name
Index
31/12/2014
31/12/2015


PROTECTION SALES - BREAKDOWN BY UNDERLYING
(nominal amounts in € millions)
10,000
8,000
6,000
4,000
2,000
0
8,980
5,363
4,608
194
Single name
Index
31/12/2014
31/12/2015





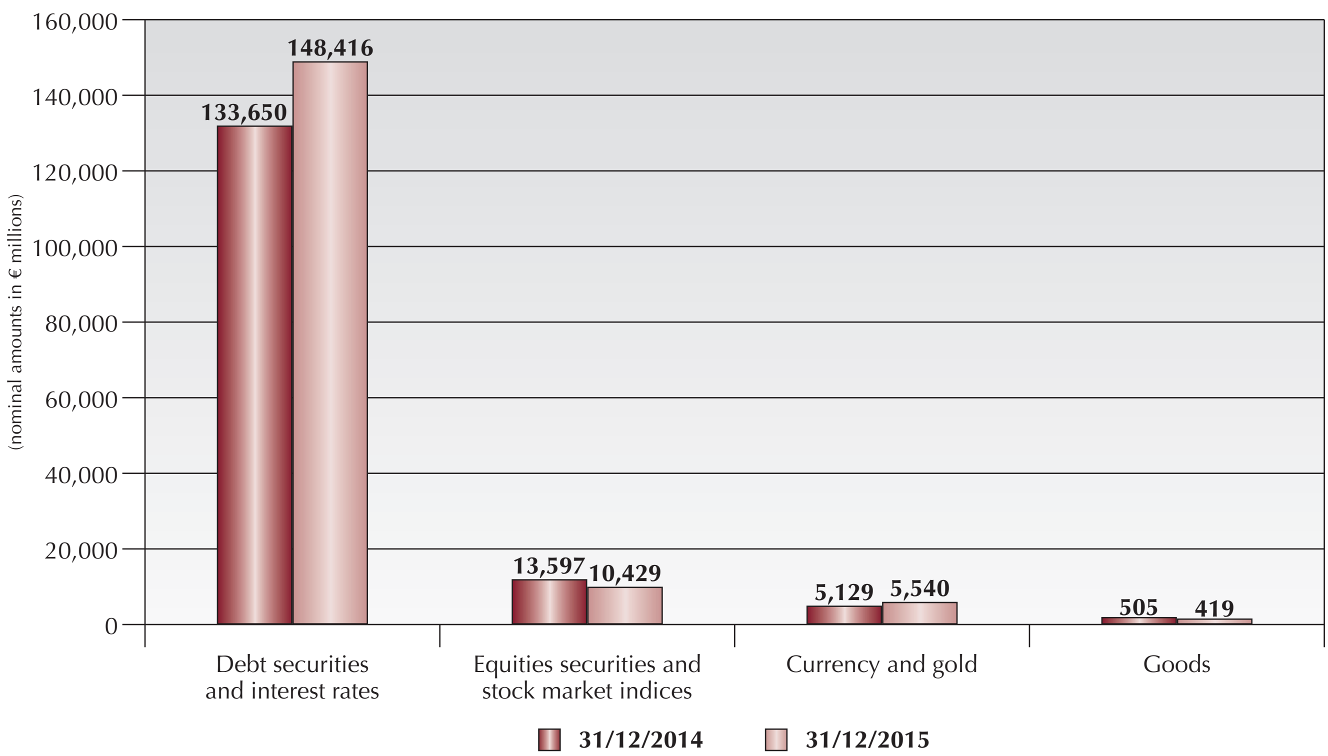
For additional quantitative information, please see Section 2.4 of Part E of the Notes to the Statements.

In relation to financial derivatives we can note an increase in the nominal values, although a small one, in the segment of Over The Counter (OTC) derivatives which in percentage terms are the largest proportion of the portfolio. The amounts are presented below:

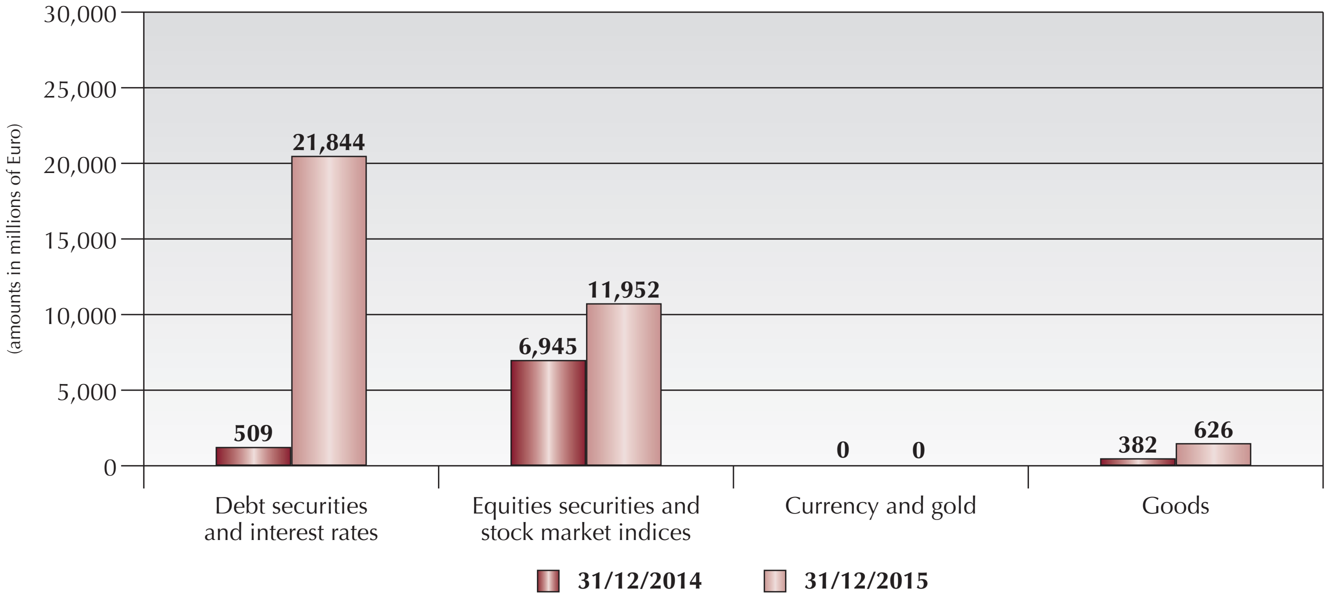
(nominal amounts in € thousands)

Financial derivatives	*31/12/2015*	*31/12/2014*	*Change from 12/2014*	
			Absolute	*%*
Over the counter	164,803,886	152,880,457	11,923,429	7.80
Central counterparties	34,421,762	7,835,934	26,585,828	339.28
Total	**199,225,647**	**160,716,391**	**38,509,257**	**23.96**

NOTIONAL VALUES OF OTC DERIVATIVES - BREAKDOWN BY UNDERLYING



NOTIONAL VALUES OF DERIVATIVES WITH CENTRAL COUNTERPARTIES BREAKDOWN BY UNDERLYING

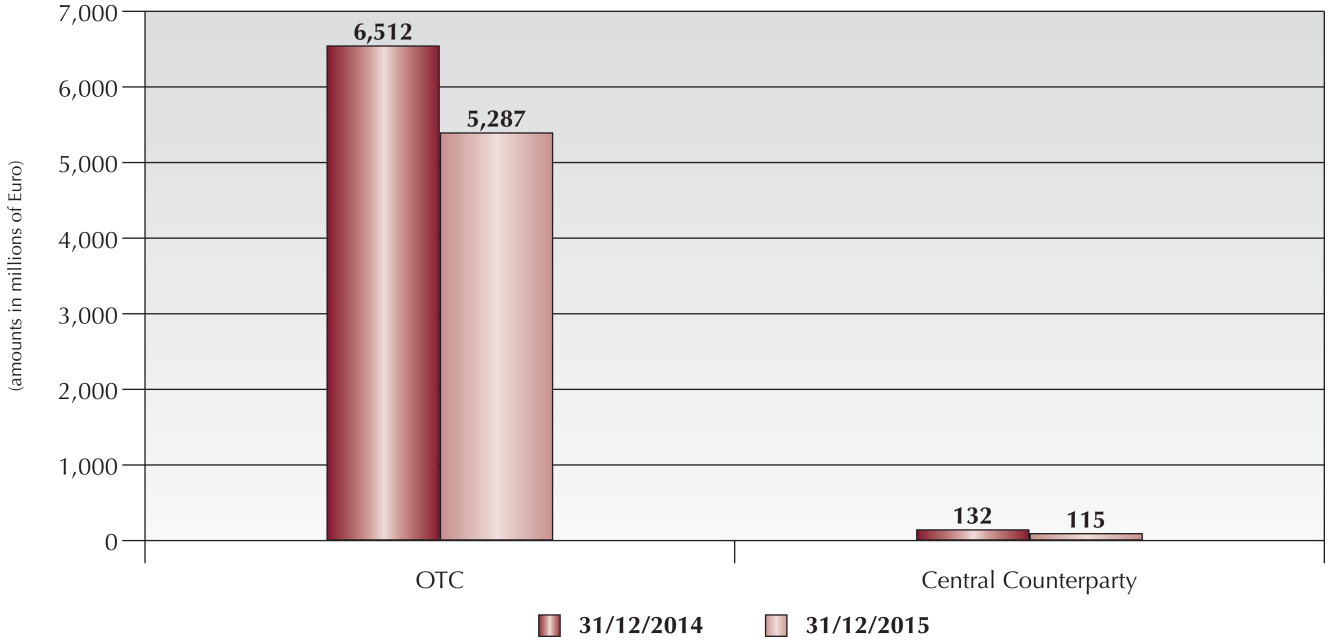


The overall evaluations as at 31 December 2015, compared with the figures for the previous year, are shown below. Naturally, listed future-style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

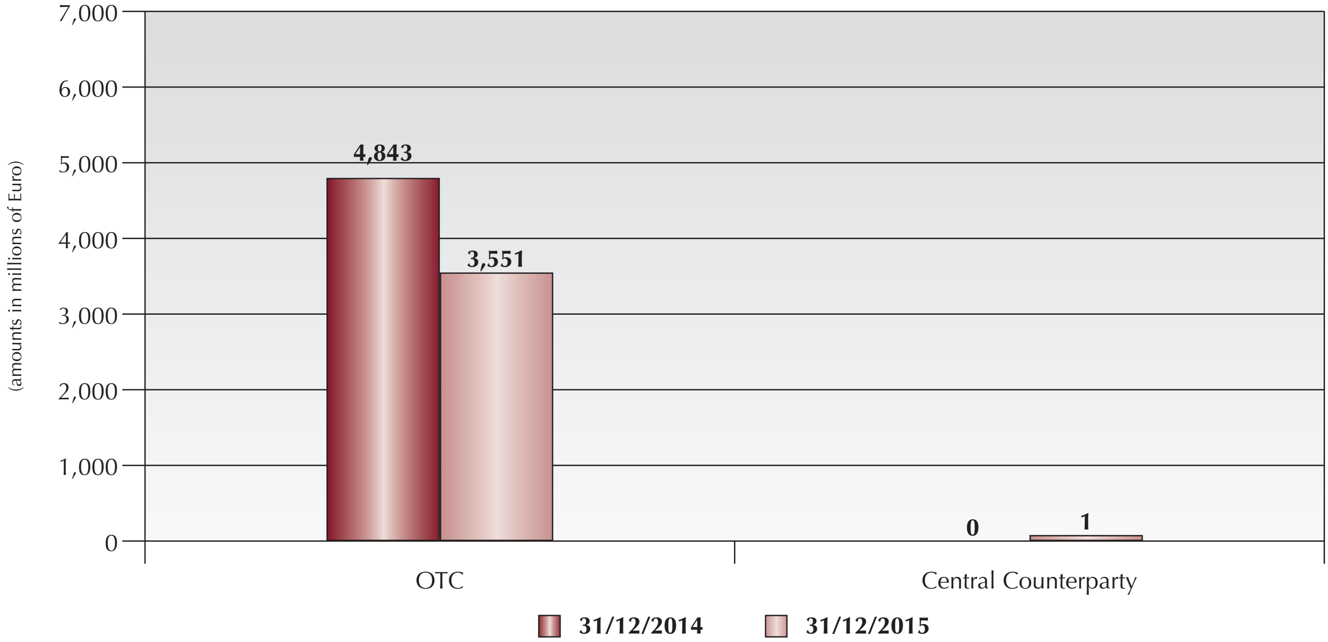
(amounts in thousands of Euro)

Financial derivatives	*31/12/2015*	*31/12/2014*	*Change from 12/2014*	
Valuation (fair value)			*Absolute*	*%*
Positive (of which Assets item 20)	5,401,767	6,644,641	(1,242,874)	(18.70)
Negative (of which Liabilities item 40)	(3,551,741)	(4,843,320)	(1,291,579)	(26.67)

POSITIV FAIR VALUE

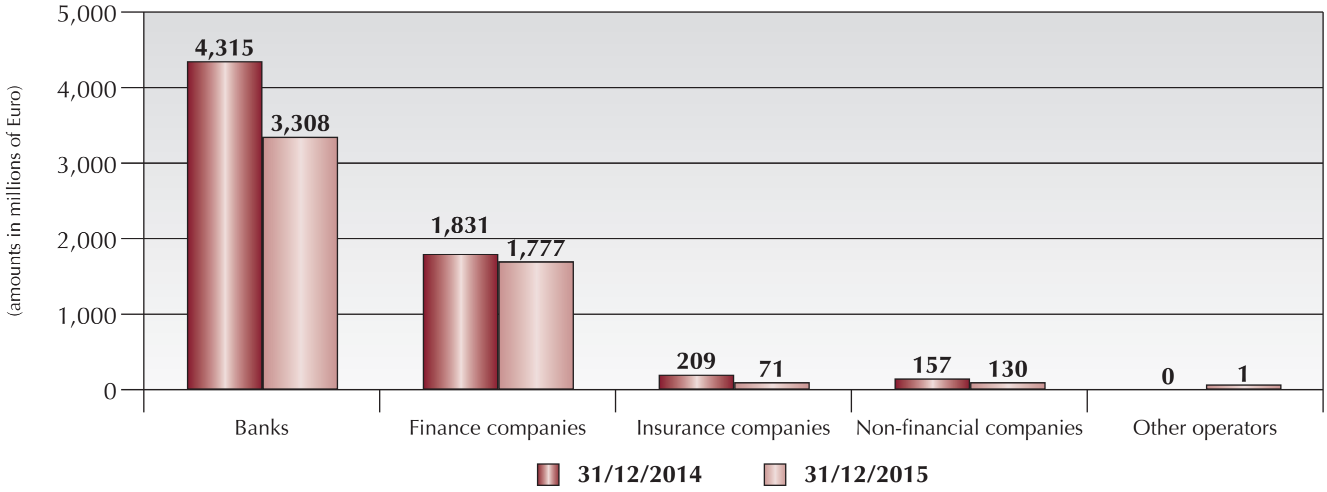


NEGATIV FAIR VALUE

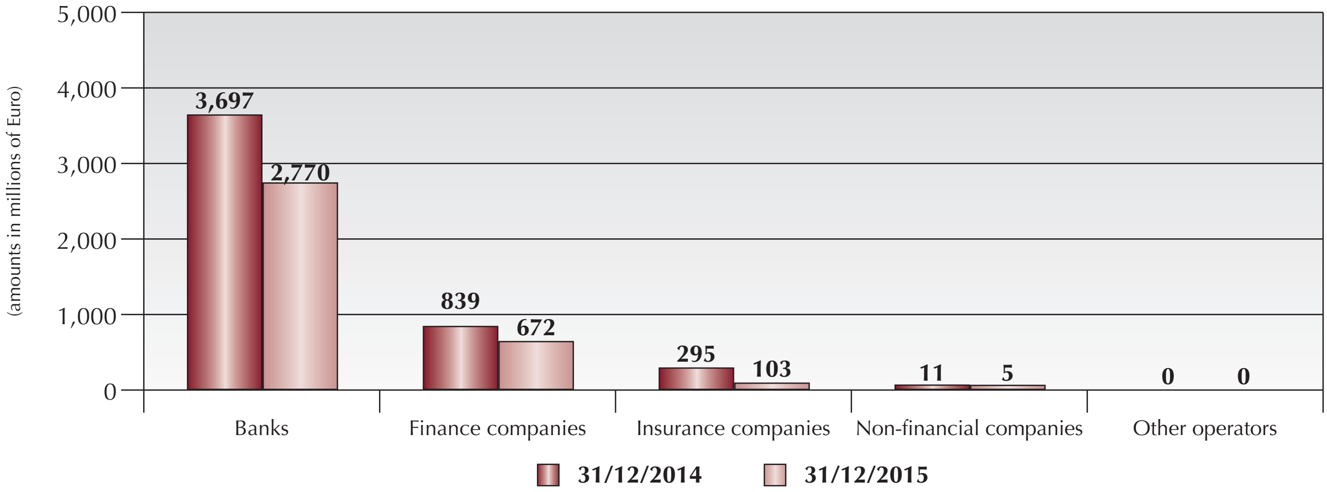


The "Central Counterparty" section includes exposures in terms of fair value of listed derivatives, quoted on regulated markets. Under the terms of the application of IAS 32 para. 42, the exposures were netted and expressed in total terms in the positive Fair Value section. The same treatment was reserved for exposures in OTC derivatives centralised at the London-based LCH.Clearnet. In particular, as regards exposures in relation to LCH, we can note that the net market value at 31/12/2015 was € (22,767) thousand, compared to a net market value at 31/12/2014 of € 11,496 thousand. For further information on Clearing please see Section 2.1 of Part B of the Notes to the Statements.
OTC derivatives, which represent the largest proportion of total exposure, are mainly traded with banks and financial companies.

OTC POSITIVE FAIR VALUE - BREAKDOWN BY COUNTERPARTY



OTC NEGATIVE FAIR VALUE - BREAKDOWN BY COUNTERPARTY



For additional quantitative information on the composition of the fair values of OTC derivatives by counterparty and by underlying, please see Section 2.4 of Part E of the Notes to the Statements. In particular, in the section referred to, the amount and type of OTC derivative contracts, whether subject to netting agreements or not, are illustrated. Given that almost all the Bank's counterparties operate with netting agreements (the total of the non-netted positive fair value is € 158 million, representing 3.04% of the total), which usually contemplate the reciprocal payment of guarantees to mitigate the risk deriving from net exposure, below we provide a quantitative summary of the values of the exposures which are subject or not subject to netting agreements.

OTC DERIVATIVE CONTRACTS - NETTING AGREEMENTS

(amounts in millions of Euro)

Positive measurement of	*31/12/2015*	*no netting*	*netting*
Derivatives of debt securities and interest rates	4,830	137	4,694
Derivatives of equity securities and indexes	233	21	211
Derivatives of currency and gold	173	-	173
Credit derivatives	65	-	65
Commodities derivatives	51	-	51
Total	**5,352**	**158**	**5,194**

(amounts in millions of Euro)

Negative measurement of	*31/12/2015*	*no netting*	*netting*
Derivatives of debt securities and interest rates	2,811	3	2,808
Derivatives of equity securities and indexes	513	-	513
Derivatives of currency and gold	192	-	192
Credit derivatives	71	-	71
Commodities derivatives	35	-	35
Total	**3,622**	**3**	**3,619**

Equity Investments

The total amount was € 10.7 million, compared to € 20.3 million at 31 December 2014. The reduction was mainly due to writedowns for impairment made during the year (for a total of € 9.9 million).
During financial year 2015 investments were made in cinema productions for a total of € 2.5 million and refunds of € 0.7 million were received.
Disinvestments were also made for a total amount of € 5 million of assets already reclassified at 31.12.2014 as in the "non-current assets held for sale" portfolio (IFRS 5)[1].
Equity investments are classified in the following accounting items: "Financial assets available for sale - Item 40" and "Equity investments - Item 100". The main equity investments are shown below for each category:

(amounts in thousands of Euro)

Company	*% Stake*	*Book value*
40. Financial assets available for sale		**9,043**
Interporto Toscano Amerigo Vespucci S.p.A.	19.00%	901
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	15.00%	779
Other		-
100. Equity investments		**1,680**
TOTAL EQUITY INVESTMENTS		**10,743**

A few brief notes are provided below on the main investee companies:

Interporto Toscano Amerigo Vespucci S.p.A. - Leghorn. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalvetti (Leghorn). The majority of share capital is held by public entities and administrations (Tuscany Regional Authorities, Provincial Authorities and local municipalities, Chambers of Commerce (CCIAA) of Leghorn and Pisa). The Bank holds approximately 19% of the capital and Banca Monte dei Paschi di Siena S.p.A. holds approximately 21.8% of the capital.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. - Florence. The company manages four closed-end mutual funds, Fondo Centroinvest, Fondo Toscana Venture, Fondo Toscana Innovazione and Fondo Rilancio e Sviluppo. The other shareholders of the asset management company are: Fidi Toscana (31%), Cassa di Risparmio di Firenze S.p.A. (15%), Gepafin S.p.A. (14%) 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%).

[1] *On 3 February 2015 the contract was signed for the sale of Agricola Merse S.r.l. at a price of € 5 million with payment of the price within 12 months from the transfer date. The price was collected in full on 30/11/2015.*

Main economic aggregates and operating indicators

ECONOMIC AGGREGATES

The Bank closed the financial statements at 31 December 2015 with a net profit of € 6.1 million. The main income statement aggregates are shown below compared with the figures for the previous year:

Income statement	*31/12/2015*	*31/12/2014*	*Changes*	
			in absolute value	*in %*
Net interest income	**173.76**	**168.08**	**5.68**	**3.38**
Net fee and commission income	11.14	32.18	(21.04)	(65.38)
Other revenues from financial operations	128.81	126.60	2.21	(1.75)
Net interest and other banking income	**313.71**	**326.86**	**(13.15)**	**(4.02)**
Net value adjustments for impairment	(200.62)	(1,136.98)	936.36	82.36
of which: Net value adjustments on receivables	*(193.42)*	*(1,109.89)*	*916.47*	*82.57*
Net income from financial management	**113.09**	**(810.12)**	**923.21**	**(113.96)**
Operating costs	(107.15)	(59.98)	(47.17)	78.64
of which: personnel expenses	*(30.73)*	*(32.95)*	*2.22*	*(6.76)*
of which: other administrative expenses	*(87.27)*	*(39.36)*	*(47.91)*	*121.72*
Net operating profit (loss)	**5.94**	**(870.10)**	**876.04**	**(100.68)**
Profit (loss) on equity investments	(1.33)	(3.08)	1.75	(56.82)
Profit (Loss) on current operations				
Gross of taxes	**4.61**	**(873.18)**	**877.79**	**(100.53)**
Income taxes for the period	1.49	285.68	(284.19)	(99.48)
Tax rate	*32.7%*	*44.9%*		*(27.17)*
Profit (Loss) for the period	**6.10**	**(587.50)**	**593.60**	**(101.04)**

In brief, **Net interest income** recorded growth of 3.37% compared to financial year 2014, owing mostly to the lower cost of funding following the manoeuvre to rebalance the mismatching of structural liquidity carried out at the beginning of 2015 and to the payment by the Parent Company of € 1,199 million for a future capital increase, allocated to reserves and not interest-bearing.

The item **Net fee and commission income** fell sharply - 65.38%, a significant portion of which (-9.4 million) was due to the reduction in fee income for early resolution (as a result of the lower transfers to bad loans recorded in 2015 compared to the previous year, which had been significantly affected by the results of the AQR); other factors were: the increase in fee expenses related to the trading of financial instruments (higher costs of € 4.5 million); the cost of guarantees given by BMPS in order to transfer to the same part of the risk related to certain Large Exposures which, at 30 June 2015, exceeded the limits on risk concentration, while awaiting completion of the capital increase process (€ 2.9 million) and finally the higher costs for the management and recovery of bad loans (€ 2.2 million). On the contrary, there was a good result (€ +4.2 million) for advisory services, in particular for arranging on operations in pools of which the Bank was lead manager.

The trend of **Other revenues from financial operations** is stable.

As a result of the performance of these components, the **Operating income** came out at € 313.71 million, down by 4.02% compared to the result of the previous year.

Net gains (losses) on financial operations changed from € -810.12 million in 2014 to € 113.09 million in 2015, an increase of € 923.21 million: this performance depended essentially on lower **Writedowns on loans** made in the

year (€ 193.42 million) compared to those recorded in financial year 2014 (€ 1,109.89 million) which reflected the effects of the Comprehensive Assessment coordinated by the ECB.
In relation to the aggregate **Operating costs** (which includes, besides Administrative expenses, also Net provisions for risks and charges, Net value adjustments on property, plant and equipment and intangible assets and Other operating income/charges), an increase of 78.64%, equal to € 47.17 million was recorded, compared to 2014. The change is attributable almost entirely to the contribution paid by the Bank to the National Resolution Fund, established by the Bank of Italy with Order No. 1226609/15 of 18.11.2015 in application of Italian Legislative Decree No. 180 of 16 November 2015. This decree transposed into our legislation the BRR Directive (59/2014) which provides for the obligation for the EU countries to establish, starting from 2015, one or more national funds for the resolution of banking crises.
The intervention of the Fund, in the framework of the Resolution Programme of the crises of Banca delle Marche SpA, Banca Popolare dell'Etruria e Lazio SCpA, Cassa di Risparmio della Provincia di Chieti SpA and Cassa di Risparmio di Ferrara SpA (all already in receivership), cost the Bank a total of € 47.3 million, divided between the ordinary (€ 11.8 million) and extraordinary contribution (€ 35.5 million), the latter equal to 3 years of the ordinary contribution. Net of this cost, other administrative expenses would have been in line with financial year 2014 and **Operating costs** would have been stable offsetting the lower positive contribution of Net provisions for risks and charges (€ -3.3 million compared to financial year 2014) with the savings recorded for personnel expenses (down € 2.2 million compared to the previous year) and with the positive net change in other operating income/charges, up by € 1.8 million on the previous year.
The **Net operating profit (loss), owing to the combined effect of the trends examined**, recorded a profit of € 5.9 million, compared to a loss of € 870 million recorded in the previous year.
A more or less equivalent performance was shown by **Profit (Loss) from current operations before tax**, with a profit of € 4.6 million compared to € -873.2 million in 2014.
Finally, thanks to the positive contribution of current and deferred taxes, the **Profit for the period**, net of taxation, came out at € 6.1 million, compared to a loss of € 587.5 million in the previous year.

OPERATING INDICATORS

	31/12/2015	31/12/2014	Changes in %
Credit quality indices (%)			
Net bad loans / Loans to customers	21.84	18.94	15.31
Net probable defaults / Loans to customers	23.48	19.99	17.46
Profitability indices (%)			
R.O.E. on shareholders' equity (1)	0.51	(66.33)	(100.77)
R.O.E. on end-of-period equity (2)	1.01	(50.29)	(102.01)
R.O.A. on total assets	0.01	(1.37)	(100.73)
Net interest income / Operating revenues (3)	153.65	(20.75)	(840.48)
Net fees / Operating revenues (3)	9.85	(3.97)	(348.11)
Operating costs /Operating revenues (3)	(94.75)	7.4	(1,380.41)
Net value adjustments on loans / Loans to customers	(1.88)	(9.99)	(81.18)
Capital ratios (%)			
CET1 and Tier 1 capital ratio (5)	3.23	3.83	(15.67)
Total capital ratio (5)	5.46	6.75	(19.11)

Note:

[(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 year in question.

[(2)] ***R.O.E on end-of-period equity:***

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:***

these are the same as "results of financial and insurance operations"..

[(4)] ***Operating costs:***

the proportion for 2015 net of the contribution to the National Resolution Fund was -52.93%.

[(5)] ***Capital ratios:***

considering in the calculation of pro forma Regulatory Capital the payments made by the Parent Company for a future capital increase, allocated to Reserves but not eligible until the capital increase is registered at the Companies Register (this occurred in February 2016) the CET1 ratio and the Tier1 ratio would come out at 13.955% and the Total capital ratio at 17.147%.

Risk governance

The MPS Group pays maximum attention to the process for identifying, monitoring, measuring, controlling and mitigating risks.
The risk governance strategies are defined in keeping with the Group's business model, with the medium-term objectives of the Business Plan and with the external constraints of a legislative and regulatory nature.
The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's Board of Directors. In particular the Board of Directors defines and approves periodically the strategic guidelines on the subject of risk governance and expresses quantitatively the overall level of risk propensity of the whole Group, in keeping with the annual Budget and the multi-year projections.
During 2015, the MPS Group made further changes to the overall internal framework of reference for determining its risk propensity: the Risk Appetite Framework (RAF).
The RAF has the objective of ensuring consistency in the continuum between the Group's effective risk profile and the risk appetite resolved *ex-ante* by the Board of Directors, taking into account any risk tolerance thresholds and in any case within the maximum permissible limits (risk capacity) which derive from regulatory requirements or from other constraints imposed by the Supervisory Authorities.
The RAF takes into consideration all the Group's main strategic areas:

- Pillar 1 and 2 Capital Adequacy;
- Short and long-term Liquidity Profile;
- Level of Financial Leverage;
- Risk-Adjusted Performance, Reputation and Positioning.

The overall RAF system is structured for the Group's main Business Units and Legal Entities, also in terms of operating limits on the various business segments, and formalised in governance policies and management processes on the various business risks.
The Risk Appetite Process is structured in such a way as to be consistent with the ICAAP and ILAAP processes and with the Planning and Budget and Recovery processes in terms of governance, roles, responsibilities, metrics, stress test methods and monitoring of the key risk indicators.
The Group's risk governance is guaranteed in a centralised manner by the Board of Directors of the Parent Company, which is also responsible for supervising the updating and issuing of internal policies and regulations, with a view to promoting and guaranteeing an ever-increasing and more capillary diffusion of risk culture at all levels of the organisational structure. Awareness of risks and correct knowledge and application of the internal processes and models overseeing these risks - above all those validated for regulatory purposes - constitute the fundamental prerequisite for effective, healthy and prudent business management.
The incorporation in the remuneration and bonus policies for the personnel of the macro-indicators of risk and risk-adjusted performance, in keeping with the RAF, represents a further lever for promoting awareness of the appropriate behaviour by all resources and the growth of a healthy risk culture.

During 2015 the Group was engaged in numerous planning activities related to the improvement of the risk management system, above all with reference to credit and liquidity risks, set up of the ILAAP and Recovery processes, as required by the relevant European legislation, with the consequent methodological and applicative implementations in the risk management, reporting, planning and information disclosure systems.

The MPS Group is one of the Italian banks that are subject to the ECB's Single Supervisory Mechanism. During 2015 the Group actively supported discussions with the Joint Supervisory Team (JST) of ECB-Bankit, also through the creation of an organisational unit (Staff Regulatory Relationship) reporting directly to the MD, responsible for maintaining institutional relations with the Supervisor.

The equity position

Total risk-weighted assets (RWAs) at 31 December 2015 amounted to € 11,288 million, 57.3% represented by credit and counterparty risk, 29.48% by market risk, and the remainder by operational risks (7.57%) and by the risk of Credit Value Adjustment (CVA, 5.65%).
Calculating the ratio between Own Funds, of € 616,505 thousand, and RWA, the Common Equity Tier 1 ratio (Common Equity Tier 1 capital/Risk-weighted assets) and the Tier 1 ratio (Total Tier 1 Capital/Risk-weighted assets) come out at 3.23% while the Total capital ratio (Total Own Funds/Risk-weighted assets) is 5.46%.
Own Funds, at 31 December 2015, therefore present a total deficit of € 383 million, taking into account also the Capital Conservation Buffer requirement (0.625%), with respect to the regulatory thresholds.
However we must point out that, including in the calculation of the Regulatory Capital - exclusively *pro forma* - the payments for a total of € 1,199,042 thousand made during 2015 by the Parent Company for a future capital increase (accounted for in Reserves, but not eligible for Regulatory purposes until the conclusion of the recapitalisation process, which occurred in February 2016), the Regulatory Capital would rise to € 1,935,451 thousand and the capital ratios would be the following:

- CET1: 13.955% (compared to a minimum level of 5.125%: 4.5% + capital conservation buffer 0.625%);
- Tier1: 13.955% (compared to a minimum level of 6.625%: 6% + capital conservation buffer 0.625%);
- Total Capital Ratio: 17.147% (compared to a minimum level of 8.625%: 8% + capital conservation buffer 0.625%)

with a surplus of capital assets of approximately € 961,886 thousand, capable of guaranteeing the performance of operations ensuring at the same time the maintenance of an adequate capital buffer also with the prospect of the growing impacts of the phase-in provided for by Basel 3, as well as the coverage of potential adverse trends, at the moment not foreseeable, which could emerge in coming years.

Human Resources

STAFF TREND

The bank's workforce at 31 December 2015 was as follows

	(a) MPSCS employees	(b) MPSCS employees at Group companies or subsidiaries	(c) Group company employees at MPSCS	Work force (a-b+c)
Executives	24	6	6	**24**
Managers	292	119	38	**211**
Professionals	218	111	17	**124**
Total	**534**	**236**	**61**	**359**

Work force	*31/12/2015*	*31/12/2014*	*Changes*	
Comparison 2015/2014			*Absolute*	*%*
Executives	24	21	3	14.29%
Managers	211	214	(3)	(1.40%)
Professionals	124	130	(6)	(4.62%)
Total	**359**	**365**	**(6)**	**(1.64%)**

The changes in the workforce in the year are presented below:

Workforce trend	*2015*	*2014*
Opening number	**365**	**384**
Increases	**14**	**43**
due to hiring	7	12
due to ceased secondments to the Group	5	16
due to secondments from the Group	2	15
Decreases	**20**	**62**
due to resignations	5	7
due to access to the Solidarity Fund	3	5
due to secondments in the Group	12	50
Closing number	**359**	**365**

DISTRIBUTION BY AGE

The following information pertains to the “workforce” situation at 31 December 2015:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	
Women	10	23	71	31	135	44.3
Men	14	39	103	68	224	45.4
Total 2014	**24**	**62**	**174**	**99**	**359**	**45.0**
Proportion	6.69%	17.27%	48.46%	27.58%		

PERSONNEL TRAINING

Training in 2015 focused on specialist and/or obligatory activities addressed to all categories of employees, in particular in the context of the MPS ACADEMY:

- People: professional development with a view to management;
- Business: development of professional skills for entry into/consolidation of roles with particular attention to the Global Markets, Corporate Finance and Investment Banking Departments;
- Compliance and Safety: coverage of the training obligations connected with compliance and safety with particular focus on Anti-money laundering, Transparency and Administrative Liability.

Participation in external specialist courses was also authorised in several cases, held by consultants of proven professional qualification. The total training provided amounted to 4,708 hours, of which 2,704 in classrooms and 2,004 on-line.

The main subjects dealt with were:

- English on the telephone;
- Bankruptcy law;
- Shipping Finance;
- Anti-money laundering and International Terrorism;
- Effective communication;
- Rescue plans;
- Rules on the subject of usury.

EMPLOYMENT AND TRADE UNION RELATIONS

In the company there is a model of trade union relations oriented to logics of transparency, reciprocal respect and sense of responsibility, in order to safeguard a corporate climate of positive collaboration and to promote an increasingly active involvement of the trade unions.

Organisational and Technological Trends

In 2015 the Bank was again very busy on the front of the evolution of technological processes and infrastructures. The specific nature of the corporate finance market imposes constant updating in order to *maintain compliance and guarantee the competitive position.*

The main deliverables completed during the year were the following:

1) Projects associated with observance of the law

1.1) Consolidation of the contract documents and processes regarding outsourcing of the business functions and logical security of the Information Systems on the basis of the rules of Bank of Italy Circular No. 285;
1.2) Adjustment of the processes and technologies in support of the management of impaired loans on the basis of the provisions of the 7th update of Bank of Italy Circular 272;
1.3) Transposition of legislation and updating of processes, provision of training and launch in use of the technological infrastructures for acquiring customers' questionnaires on the basis of the FATCA (Foreign Account Tax Compliance Act) legislation;
1.4) Analysis and, at the completion stage, implementation of the processes regarding the issue of Complex Financial Products according to the provisions on the subject in the Consob/ESMA Communication of December 2014;
1.5) Definition of the processes necessary for observance of the so-called Volcker Rule.

2) Projects associated with the business

2.1) Registration on new financial instrument trading platforms (HI MTF, BrokerTec, Tradeweb Govies section, MTA of Borsa Italiana, MTS/Bond Vision for Covered Bonds);
2.2) Structuring of the group processes for the issue of Minibonds (debt securities issued by unlisted capital companies as part of the MPSponsor Minibond project);
2.3) Murex 3.1 - during July 2015 the go-live was carried out successfully in relation to migration to the latest release of the finance core application. Further investments are continuing to expand the platform on the subject of CVA (Credit Valuation Adjustment), Structured Bond management and interfaces with info providers.

3) Organisational efficiency

3.1) Establishment of the Staff structures for the Corporate Finance, Investment Banking and Credit Departments;
3.2) Adjustment of the processes and structure of the Credit Departments to keep up with the legislative changes on the subject of non-performing loans;
3.3) Appointment of a local contact point overseeing the matters outsourced to the banking Parent Company on the subject of Risk Control, Internal Validation, Credit Recovery and Supervisory Reports;
3.4) Making the processes of disbursement and loan management operations between the Corporate Finance and Credit Departments more efficient;
3.5) Modification of the reporting line of the E-Trade & Execution Office which passes under the coordination of the Global Markets Department.

Internal Audit

The Internal Audit Office constitutes the corporate Internal Audit Unit, as defined in the section on the Internal Controls System of Bank of Italy Circular No. 285/2013, to which the set of supervisory rules on the subject of organisation and controls previously contained in Circular No. 263/2006 has been transferred. The Office reports hierarchically to the Body with the Function of Strategic Supervision (Board of Directors) and has the task of verifying in an independent manner, with a "third level" viewpoint, the regularity of operations and the trend in risks, and of assessing the workings of the overall Internal Controls System (I.C.S.).

The Unit also operates under the coordination of the Parent Company's Unit with the same name (the Internal Audit Department), in observance of the "Audit Standards of the Montepaschi Group" and of the related code of conduct issued by the same, in accordance with a specific annual audit plan (agreed with the said Internal Audit Department) approved by the Board of Directors, after examination by the Body with an Auditing Function (Board of Statutory Auditors).

The activity plan, in contemplating also a specific section which indicates the strategic objectives of the multi-annual activity to be carried out within a preset time cycle, takes into account the need to carry out the audits provided for in specific external and/or internal prescriptions, the indications of the Board of Auditors, of the Oversight Committee pursuant to Italian Legislative Decree 231/2001 and, if expressed and agreed, of the Bank's other Audit Units. Actions on significant components in the area of operations and corporate structures, on compliance with internal and external regulations, on subjects of a transversal nature or with a view to assurance of the Top Management and Auditing Bodies are obviously also planned, depending on the resources available.

The set of actions planned and carried out also includes the activity of accompaniment/validation, implemented in particular providing collaboration to the organisational unit and to the Bank's other structures for the issue of regulations related to the business processes, with particular attention to the related responsibilities and controlling oversight.

The Audit Unit reports systematically on the activities performed and the critical issues that have emerged in the context of audits, through a reporting system in keeping with the guidelines issued with regard to the aforementioned Audit Standards and with the legal provisions. The ordinary actions are reported through the use of a template which describes the results of the audits carried out, the analysis process performed, the main critical issues that have emerged and the "grade" assigned to the action. Notes containing the criticisms and observations formulated are transmitted to the operating units audited, ensuring that over time the anomalies found are removed (follow up activity).

For the Top Management and Auditing Bodies summary quarterly reports on the final results of the work done by the Office are also prepared, while the report relating to the assessment of the Internal Controls System, including also an overall final report on the activities carried out, is presented to the Board of Directors on an annual basis. The Office also prepares specific reports for the Oversight Committee pursuant to Italian Legislative Decree 231/2001, at least once a year, on the auditing activity carried out on current operations exposed to the "231 risk".

The Internal Audit Office performed its auditing activity in accordance with the actions provided for in the 2015 Audit Plan approved by the Board of Directors at its meeting on 17 December 2014, performing also a number of unplanned tasks at the request of the Internal Audit Department, of other Parent Company units, of the corporate Compliance Unit or for needs otherwise identified.

In accordance with the objectives set, the audits performed in financial year 2015 by the Internal Auditing Unit as usual regarded the subjects for which there are specific auditing obligations and, in a transversal manner, the Bank's various businesses. Overall the audits carried out did not find significant critical aspects.

As regards the Finance/investment services area, the audits regarded the correct performance of the first level controls by the "Credit Trading", "Equity, Foreign Exchange & Commodity Derivatives" and "Fixed Income" Offices, the process of managing transactions in OTC derivatives which present unpaid spreads, observance of the hedging purposes of OTC derivatives for the Bank's corporate customers, the correct performance of the operations and first level controls

of the “Government & Money Market” Office, a specific follow up action after the previous activities regarding the “Systematic Internaliser - DDT” (as part of the auditing on so-called important outsourced activities, under the terms of the supervisory provisions, Bankit Circular No. 285/2013).
In the Credit area a number of activities not envisaged in the plan were carried out at the request, as mentioned, of the Internal Auditing Department and of other units of the Parent Company.
On the subject of audits on regulated and compliance processes, two activities were carried out on the process of anti-money laundering management: the first referred, in particular, to the operation, efficiency and effectiveness of the model adopted by the Anti-money laundering Unit; the second following specific indications on the subject from the Oversight Committee pursuant to Italian Legislative Decree 231/2001.
The activities related to the transversal processes regarded the working of the system for governing and managing operational risks, the application of the legislation on “Business Continuity Management - BCM” (with particular regard to the adequacy and compliance of the Business Continuity Plan), the effectiveness of the Risk Management Unit - outsourced to the Parent Company - in providing opinions on the consistency of Most Significant Operations (MSOs) with the “Risk Appetite Framework” and finally the process adopted for the management of complaints presented by customers (this latter action requested by the Board of Auditors).
The result of the audits performed during the year 2015 by the Internal Audit Office contributed to the confirmation of the substantial adequacy of the Bank’s Internal Control System, an assessment in which, besides, the judgements on the subject that have been formed over time by the other corporate units involved in the I.C.S..

Compliance

The activity carried out by the Compliance Office in 2015 regarded the issues described in the 2015 Compliance Plan; in particular, the conformation activity regarded the adoption within company regulations and processes, of the main changes in legislation, identified as necessary within the said Compliance Plan.
Particular attention was also paid to monitoring the activities and controls carried out by the Specialist Controls established in 2014 under the terms of the 15th update of Bank of Italy Circular No. 263/2006 *("Circular 263")* and which were the subject of specific company regulations issued during 2015, as described below.
We must specify that, with the 11th update of 21 July 2015 of the Bank of Italy, the set of supervisory rules on the subject of organisation and controls was transferred into Circular No. 285. These were previously contained in the aforementioned Circular No. 263 (in fact, in Circular No. 285, in Part 1, Title IV, new sections were inserted on "*The internal controls system*" (Section 3), "*The information system*" (Section 4), "*Business continuity*" (Section 5) and "*Governance and management of liquidity risk*" (Section 6)).
In terms of organisational structure we can note that, during the year, the Office underwent a number of changes in its composition because there was a turnover involving 2 permanent resources and the addition of 2 resources training as interns. In total the Compliance Office is made up of 6 permanent resources (including the Manager), 1 temporary resource (with contract expiring) and 2 resources training as interns. These resources are distributed in the three sectors into which the Office is divided: Banking Services Sector, Investment Services Sector and Anti-money laundering Sector
The analyses carried out show an essential compliance for topics with a significant impact; this compliance can also be seen in the results of the assessment model adopted, with improvement areas, described more fully below, as regards investment services and anti-money laundering.
In relation to the compliance of investment services, activity continued on discussing with the Parent Company, with the assistance of the Bank's Organisation Office, the new Mandate Contract which will govern the Bank's operations with the Parent Company's customers not only as regards OTC derivatives but also as far as the activity in securities and foreign exchange is concerned (both spot and forward outright).
In addition the update of the internal regulation on OTC derivatives is about to be issued; this describes the new procedures on the subject of EMIR, FATCA, implementation of GPS (Gestione Prodotti Strutturati - Structured Product Management, the application used to perform operations in derivatives with corporate customers) and the organisational changes that have occurred in relation to the marketing of such instruments.
As regards the "Trade Execution" contract, on 30 September 2015 the Board of Directors of the Parent Company approved the *"Group's New Strategy for the Management, Transmission and Execution of Customers' Orders"* (known as the *Best Execution Policy*) which, in brief, "identifies MPS Capital Services as the Group's structure responsible for ensuring Best Execution on all the markets of reference […]". Therefore, on the basis of the aforementioned decisions, the Bank's Commercial Unit sent to the attention of the competent corporate Parent Company Units the *"Proposal for the provision of the service of collecting, transmitting and executing the Group's customer orders on financial instruments"*. This proposal contains among other things, as an annex, the drafts of the Trade Execution Agreement and the Internal Regulation Document *"Order Transmission and Execution Policy"*.
As regards the activity of providing investment services performed out of Italy, and in particular that related to placing the so-called Minibonds, the Bank's commercial Units, through the General Management, presented to the Parent Company's Corporate & Investment Banking Department the proposal to request activation of the "Services Passport Notification" procedure at the Bank of Italy on the Bank's behalf.
As already noted in the Compliance Report for the year 2014, we must emphasise that, on 22 December 2014, Consob issued the Communication on the Distribution of Complex Financial Products to Retail Customers. Among the actions in progress on the subject, we can note the analysis related to work on updating the Product Design and Product Testing processes that involve the Bank directly. This analysis, in which several of the Bank's Business and Governance units take part is also supported by the consultancy firm Deloitte.

The Compliance Office also follows the subject of Market Abuse. The activities carried out, as usual, were aimed at monitoring possible suspect transactions in respect of Market Abuse, to be reported to the competent Supervisory Authority (Consob), by verifying the transactions proposed by the MAD procedure (Market Abuse Detection), and the trading desk activities and personal trades carried out in relation to the financial instruments of issuers on the Watch List and on the Restricted List.
On the subject of Transactions with Related Parties, on 27 February 2015, the Bank's Board of Directors endorsed the Group's Global Policy; subsequently, with an internal regulation of 5 October 2015, the Bank was made compliant with the organisational model defined at the Group level, proceeding to a revision of the duties on the subject of *"Transactions with Related Parties and Obligations with Bank Representatives"*, and assigning the responsibilities for managing the pertinent information flows to the Legal Office.
Among the activities envisaged in the Compliance Plan and worked on during 2015, in addition, we can note that the activity of the Workgroup on the subject of FATCA continued. This was set up in June 2014 and is coordinated by the manager of the Compliance Office (the Bank's Point of Contact on the subject). In particular we can note that, during the year, several updates of the internal regulation (*Management of Prescriptive Procedures for FATCA - Foreign Account Tax Compliance Act*) were carried out with the aim of clarifying the various operational aspects including the identification of pre-existing customers rather than the use of the *Siron Fatca* application, released also for the Bank.
As regards, instead, the compliance of banking services, the activity of supporting the Specialist Controls of respective supervision continued and, following the controls performed, a number of suggestions were provided to supplement the regulation in order to improve the existing procedures. Examination of the complaints received also made it possible to carry out particular studies on the management of settlement agreements, on reports to the Central Credit Register, on the existing contractual forms and on the associated insurance policies as well as on the regulations on transparency. Specific supporting activity was carried out in the second half of the year for the update of the regulations on Transparency (*"Rules for Transparency of Banking Transactions and Services"*), which had become necessary following the recent Bankit order of July 2015, with which the Banks had to be compliant by 1 October 2015. A further contribution was therefore given for the updating of the internal rules on *Complaints* and on *Privacy*, documents which are currently being drafted.
All the drafts of internal regulations with a direct impact on the Banking Services Sector were also reviewed, before their publication and distribution to all the Bank's structure.
Particular attention was also paid to the Specialist Control on taxation with which there is close collaboration, also in order to discuss the various legislative changes in the sector with an impact on the Bank's operations (by way of example, we can mention: the reports on the transformation of DTAs into tax credits, the evolution of the rules on *"Aid for Economic Growth"* -AEG) and the recent tax reform pursuant to the Legislative Decrees associated with Italian Delegation Law No. 23/2014).
In the period in question, in the context of Banking Services, the legislative developments connected with the changes pursuant to Italian Legislative Decree 231/01 were monitored. During the first half of 2015, in particular, these saw the introduction among the new *"231 Risks"*, of that of self-laundering, as well as the further ones specifically related to the list of predicate crimes of *"corporate administrative liability"*. A period of coordination with the Parent Company is currently in progress, aimed at establishing the opportune timing for the related activities of risk self assessment on the subject of the *"231"*.

As regards complaints, up to 31 December 2015, the following were presented:
- on the subject of investment services, 6 complaints of which 2 related to trading of a subordinated bond issued by BMPS (accepted) and 4 relating to OTC derivatives (rejected);
- on the subject of banking services, 65 complaints of which 47 relating to Usury and Transparency/Compound Interest, 10 related to reports to the Central Credit Register (of which one accepted), and 8 relating to "Other reasons".

Environmental Issues

There are two types of impacts of the Bank's activities on the environment: direct and indirect. Direct impacts are linked to operations, and relate to consumption of paper, water and energy, and to the production of waste and greenhouse gases, while indirect impacts are attributable to activities of suppliers and customers, for the environmental risk of activities financed, the improvement in ecological efficiency encouraged through specific financing and for polluting activities of suppliers or of the products purchased.
During the year activities related to maintaining the environmental management system continued. In particular, in May, internal audits were carried out in preparation for the audit of the external body, at the offices of: Florence, Via Pancaldo; Rome, Via Salaria; Milan, Via Rosellini; Padua, Piazzetta Turati.
In June 2015, the RINA Services certification Agency carried out its usual annual visit to confirm the ISO 14001 certification. The field of application of the management system includes: loan disbursement; corporate finance and structured finance services; investment services and activities on the capital market; consultancy and services to the Public Administration for the concession of public subsidies.
The audit was completed positively with the notification of 4 recommendations for improvement, which are being managed.

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 financial year. Part H "Transactions with Related Parties" in the Notes to the Statements gives a breakdown of the existing relations with Group companies as of 31 December 2015. The most important aspects are commented on below.
Given that the guidance, control and support provided by the Parent Company over the Bank's 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, in accordance with the guidelines (directives, policies, process regulations) issued by the Parent Company and promptly brought to the attention of the Bank's Board of Directors.
The outsourcing of activities to other MPS Group organisations and companies has enabled the Bank to maximise synergies and economies. 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 - SLAs).
As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the financial markets carried out as part of the Bank's strategic mission, set forth in detail in the paragraphs above;
- the agreement on the subject of regulating relations with the Group companies regarding the repurchase on the secondary market of innovative finance products designed by the same and placed with customers through the Group's commercial networks;
- the granting of short and medium/long-term loans by Banca MPS aimed at funding the Bank's normal activity; all carried out in keeping with and observing the objectives and limits set by the Parent Company in the context of the centralised management of liquidity risk and interest-rate risk;
- Bad loan recovery activities and the delegated management of the related expense items, entrusted to the Parent Company's Credit Recovery Area, and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to the Bank;
- the secondment of employees of the Bank to the Parent Company and its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised supervision of Risk Management by the Parent Company's Risks Department;
- the activity to supervise publicity, communications and image through the Banca MPS Communications Area;
- 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 Back Office and Middle Office administrative activities of the finance area centralised respectively at the Specialised Business Services Area (SBSA) and at the Finance, Cash and Capital Management Area of the Parent Company (activities are in progress for completion of the SLA);
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Purchasing and Cost Optimisation Service;
- conferment to the Parent Company's CFO Department - Equity investments and M&A Area - Real Estate Investments and Disinvestments Staff (formerly MPS Immobiliare) of the activities connected to the disposal/sale of properties still owned by the Bank;
- conferment of the delegated management of the expense items of the real estate sector to the Parent Company's Real Estate Operational Management Service;
- the support provided by the Parent Company's Prevention, Protection and Environment Service, regarding workplace health and safety, as well as the sustainable development of the activities of the Bank, with reference to the possible consequences in terms of the environment;
- the lease of premises owned by the Group.

Significant Subsequent Events and Outlook on Operations

No significant changes in the Bank's operations were noted during the year and also in the first few months of 2016 activities continued as in the past and in line with the directives of the current Group business plan.

In February 2016 the share capital increase operation resolved by Extraordinary Shareholders' Meeting of 16 September 2015 was completed; the Bank therefore has capital assets adequate to ensure correct performance of its activity and compliance with the civil-law and supervisory obligations.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2015 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 cash flow statement and the Notes to the Statements, 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 2015 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2015

- to the ordinary reserve (1/20)	Euro	305,010.10
- to the reserve required by the Articles of Association pursuant to Article 26 (1/20)	Euro	305,010.10
- to the extraordinary reserve	Euro	5,490,181.88
PROFIT FOR 2015	Euro	**6,100,202,08**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2015*	*31/12/2014*	*Change*	
				Absolute	*%*
10.	Cash and cash equivalents	276	100	176	176.00%
20.	Financial assets held				
	for trading	22,976,953,761	21,345,813,527	1,631,140,234	7.64%
40.	Financial assets available				
	for sale	63,746,179	88,937,105	(25,190,926)	(28.32%)
60.	Loans to banks	8,867,669,296	9,843,127,880	(975,458,584)	(9.91%)
70.	Loans to customers	10,283,219,788	11,109,185,194	(825,965,406)	(7.43%)
100.	Equity investments	1,680,147	3,005,545	(1,325,398)	(44.10%)
110.	Property, plant and equipment	13,592,713	13,974,881	(382,168)	(2.73%)
130.	Tax assets	498,245,998	491,780,357	6,465,641	1.31%
	a) current	*239,794,368*	*16,266,124*	*223,528,244*	*1374.19%*
	b) prepaid	*258,451,630*	*475,514,233*	*(217,062,603)*	*(45.65%)*
	of which Italian Law No. 214/2011	*245,821,368*	*465,634,003*	*(219,812,635)*	*(47.21%)*
140.	Non-current assets and				
	discontinued operations	-	5,000,000	(5,000,000)	*(100.00%)*
150.	Other assets	31,004,757	29,682,378	1,322,379	4.46%
	Total Assets	42,736,112,915	42,930,506,967	(194,394,052)	(0.45%)

Balance Sheet

	Liabilities and Shareholders' Equity	*31/12/2015*	*31/12/2014*	*Change*	
				Absolute	*%*
10.	Due to banks	16,545,403,857	19,329,300,546	(2,783,896,689)	(14.40%)
20.	Due to customers	189,180,278	240,019,923	(50,839,645)	(21.18%)
30.	Outstanding securities	456,992,255	467,300,665	(10,308,410)	(2.21%)
40.	Financial liabilities held for trading	23,602,970,075	22,141,067,641	1,461,902,434	6.60%
100.	Other liabilities	107,869,561	111,544,683	(3,675,122)	(3.29%)
110.	Severance indemnities				
	for personnel	2,949,740	3,219,214	(269,474)	(8.37%)
120.	Provisions for risks and charges:	28,026,000	34,729,256	(6,703,256)	(19.30%)
	a) pensions and similar obligations	*5,365,819*	*5,902,070*	*(536,251)*	*(9.09%)*
	b) other provisions	*22,660,181*	*28,827,186*	*(6,167,005)*	*(21.39%)*
130.	Valuation reserves	(8,519,364)	(2,764,146)	(5,755,218)	208.21%
160.	Reserves	1,300,616,334	689,068,355	611,547,979	88.75%
170.	Share premiums	228,089,231	228,089,231		
180.	Capital	276,434,746	276,434,746		
200.	Profit for the period	6,100,202	(587,503,147)	593.603.349	(101.04%)
	Total Liabilities and Shareholders' Equity	42,736,112,915	42,930,506,967	(194.394.052)	(0.45%)

Income Statement

	Items	*31/12/2015*	*31/12/2014*	*Change*	
				Absolute	*%*
10.	Interest and similar income	381,741,848	489,736,382	(107,994,534)	(22.05%)
20.	Interest expense and similar charges	(207,985,096)	(321,652,448)	113,667,352	(35.34%)
30.	**Net interest income**	**173,756,752**	**168,083,934**	**5,672,818**	**3.37%**
40.	Fee income	69,770,900	87,181,311	(17,410,411)	(19.97%)
50.	Fee expense	(58,631,841)	(55,003,935)	(3,627,906)	6.60%
60.	**Net fee and commission income**	**11.139.059**	**32.177.376**	**(21,038,317)**	**(65.38%)**
70.	Dividends and similar income	3,678,842	5,151,226	(1,472,384)	(28.58%)
80.	Net trading gains (losses)	126,677,346	132,824,318	(6,146,972)	(4.63%)
90.	Net hedging gains (losses)	44,003	(15,897)	59,900	(376.80%)
100.	Gains (losses) on disposal or repurchase of:	(1,590,392)	(11,358,652)	9,768,260	(86.00%)
	a) loans	*(1,309,736)*	*(2,305,694)*	*995,958*	*(43.20%)*
	b) financial assets available for sale	*(280,656)*	*(9,052,958)*	*8,772,302*	*(96.90%)*
	c) financial assets held to maturity				
	d) financial liabilities				
120.	**Net interest and other banking income**	**313,705,610**	**326,862,305**	**(13,156,695)**	**(4.03%)**
130.	net value adjustments/write-backs due to				
	impairment of:	(200,615,723)	(1,136,976,888)	936,361,165	(82.36%)
	a) loans	*(193,417,259)*	*(1,109,891,753)*	*916,474,494*	*(82.57%)*
	b) financial assets available for sale	*(9,869,145)*	*(17,335,135)*	*7,465,990*	*(43.07%)*
	c) financial assets held to maturity				
	d) other financial transactions	*2,670,681*	*(9,750,000)*	*12,420,681*	*(127.39%)*
140.	**Net income from financial management**	**113,089,887**	**(810,114,583)**	**923,204,470**	**(113.96%)**
150.	Administrative expenses	(117,994,843)	(72,312,422)	(45,682,421)	63.17%
	a) personnel expenses	*(30,726,440)*	*(32,952,787)*	*2,226,347*	*(6.76%)*
	b) other administrative expenses	*(87,268,403)*	*(39,359,635)*	*(47,908,768)*	*121.72%*
160.	Net provisions for risks and charges	5,667,005	9,012,068	(3,345,063)	(37.12%)
170.	net value adjustments/write-backs				
	on property, plant and equipment	(382,169)	(428,065)	45,896	(10.72%)
190.	Other operating income/charges	5,555,773	3,740,428	1,815,345	48.53%
200.	**Operating costs**	**(107,154,234)**	**(59,987,991)**	**(47,166,243)**	**78.63%**
210.	Profit (loss) on equity investments	(1,325,398)	(3,085,280)	1,759,882	(57.04%)
250.	**Profit (Loss) on current operations**				
	Gross of taxes	**4,610,255**	**(873,187,854)**	**877,798,109**	**(100.53%)**
260.	Income taxes for the period				
	from current operations	1,489,947	285,684,707	(284,194,760)	(99.48%)
290.	**Profit (Loss) for the period**	**6,100,202**	**(587,503,147)**	**593,603,349**	**(101.04%)**

Basic and Diluted Earnings per Share

	31/12/2015	*31/12/2014*
Basic earnings per share		
- from current operations	0.00684	(0.65884)
- on discontinued operations		
Diluted earnings per share		
- from current operations	0.00684	(0.65884)
- on discontinued operations		

Statement of Comprehensive Income

	Items	31/12/2015	31/12/2014
10.	**Profit (Loss) for the period**	**6,100,202**	**(587,503,147)**
	Other income components net of taxes		
	without transfer to income statement		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	191,187	(779,719)
50.	Non-current assets held for sale		
60.	Portion of equity investment revaluation reserves		
	booked to shareholders' equity		
	Other income components net of taxes		
	with transfer to income statement		
70.	Foreign investment hedging		
80.	Exchange differences		
90.	Cash flow hedging		
100.	Financial assets available for sale	(5,946,405)	23,457,586
110.	Non-current assets held for sale		
120.	Portion of equity investment revaluation reserves		
	booked to shareholders' equity		
130.	**Total other income components net of taxes**	**(5,755,218)**	**22,677,867**
140.	**Comprehensive income (Item 10+130)**	**344,984**	**(564,825,280)**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2014 - 31/12/2015

				Allocation of the result of the preceding financial year		*Changes for the period*	*Shareholders' Equity transactions*							
	Balances as at 31/12/2014	*Changes in initial balances*	*Balances as at 01/01/2015*	*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*	*Comprehensive income 31/12/2015*	*Shareholders' equity as at 31/12/2015*
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 premiums	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**689,068,354**		**689,068,354**	**(587,503,147)**		**1,199,051,127**								**1,300,616,334**
a) profit	***442,738,110***		***442,738,110***	***(366,715,849)***		***9,459***								***76,031,720***
b) other	***246,330,244***		***246,330,244***	***(220,787,298)***		***1,199,041,668***								***1,224,584,614***
Valuation reserves	**(2,764,147)**		**(2,764,147)**										**(5,755,217)**	**(8,519,364)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**(587,503,147)**		**(587,503,147)**	**587,503,147**									**6,100,202**	**6,100,202**
Shareholder's equity	**603,325,037**		**603,325,037**	**0**		**1,199,051,127**							**344,985**	**1,802,721,149**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2013 - 31/12/2014

				Allocation of the result of the preceding financial year		*Changes for the period*								
							Shareholders' Equity transactions							
	Balances as at 31/12/2013	*Changes in initial balances*	*Balances as at 01/01/2014*	*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*	*Comprehensive income 31/12/2014*	*Shareholders' equity as at 31/12/2014*
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 premiums	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**640,420,355**		**640,420,355**	**48,647,999**										**689,068,354**
a) profit	***394,090,111***		***394,090,111***	***48,647,999***										***442,738,110***
b) other	***246,330,244***		***246,330,244***											***246,330,244***
Valuation reserves	**(25,442,014)**		**(25,442,014)**										**22,677,867**	**(2,764,147)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**48,647,999**		**48,647,999**	**(48,647,999)**									**(587,503,147)**	**(587,503,147)**
Shareholder's equity	**1,168,150,317**		**1,168,150,317**	**0**									**(564,825,280)**	**603,325,037**

Statement of Cash Flows (indirect method)

(amounts in Euro)

		31/12/2015	31/12/2014
A.	**OPERATING ACTIVITIES**		
1.	**Operations**	**(677,037,631)**	**(421,934,649)**
	- result of the period (+/-)	6,100,202	(587,503,147)
	- gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value	(933,833,920)	(859,685,582)
	- net value adjustments/writebacks due to impairment	238,955,622	1,144,845,939
	- net value adjustments/write-backs on property, plant and equipment and intangible assets	382,169	428,065
	- net provisions to risks and charges and other costs/revenues	(5,586,159)	(9,012,068)
	- taxes not paid	(1,489,947)	(281,068,488)
	- other adjustments	18,434,402	170,060,632
2.	**Cash flows absorbed by financial activities:**	**847,196,855**	**(453,491,954)**
	- financial assets held for trading	(721,341,265)	2,492,570,496
	- financial assets available for sale	7,277,457	134,756,439
	- loans to banks	967,399,235	(3,653,868,100)
	- loans to customers	588,237,124	843,591,570
	- other assets	5,624,304	(270,542,359)
3.	**Cash flows generated by financial liabilities:**	**(1,374,200,716)**	**873,160,485**
	- due to banks:	(2,776,522,900)	11,300,636,336
	- due to customers	(50,825,999)	(8,350,049,576)
	- outstanding securities	(10,000,000)	390,000,000
	- financial liabilities held for trading	1,478,925,277	(2,699,544,399)
	- other liabilities	(15,777,094)	232,118,124
	Net cash flows absorbed/generated by operating activities	**(1,204,041,492)**	**(2,266,118)**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**5,000,000**	**4,281,193**
	- sale of equity investments	5,000,000	2,670,085
	- dividends from equity investments		1,611,108
	- sale of property, plant and equipment		
	- sale of intangible assets		
2.	**Cash flows absorbed by:**	**0**	**(2,015,047)**
	- purchase of equity investments		(2,010,190)
	- purchase of property, plant and equipment		(4,857)
	- purchase of intangible assets		
	Net cash flows absorbed/generated by investing activities	**5,000,000**	**2,266,146**
C.	**FUNDING ACTIVITIES**		
	issue/purchase of treasury shares		-
	issue/purchase of equity instruments	1,199,041,668	-
	distribution of dividends and other purposes		
	Net cash flows absorbed/generated by funding activities	**1,199,041,668**	**0**
D	**(A+B+C) NET CASH FLOWS ABSORBED/GENERATED DURING THE PERIOD**	**176**	**28**

The cash flow statement 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

Items	*31/12/2015*	*31/12/2014*
Cash and cash equivalents at the beginning of the period	100	72
Total net cash flows absorbed/generated during the period	176	28
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at the end of the period	276	100

NOTES TO THE FINANCIAL STATEMENTS

Part A
Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 - STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These Financial Statements, in application of Italian 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 31 December 2015.
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, business performance 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 this judgement, the Company Management referred to and considered the applicability of the following sources, in decreasing order of importance:
• the rules and application guidelines contained in the accounting standards and in the related interpretations dealing with similar or related cases;
• the definitions, recognition criteria, and measurement concepts in accounting for assets, liabilities, revenues and costs contained in the Framework.

In expressing judgements, the Company Management may also consider:
• the rules most recently issued by other entities responsible for establishing 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 Italian Legislative Decree No. 38 of 28 February 2005, whenever, in exceptional cases, the application of a provision of the International Accounting Standards were to be incompatible with the true and accurate representation of the equity, financial and income situation, this provision would not be applied. The Notes to the Statements provide explanations for these derogations and their influence on the presentation of the equity, financial and income position.
In the financial statements, any profits deriving from such derogation would be recorded in a reserve which could 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 issued by the International Financial Reporting Interpretations

Committee (IFRIC), endorsed by the European Commission and subject to mandatory application in 2015. Additionally, the provisions of Bank of Italy Circular No. 262 as amended by the fourth revision of 15 December 2015 were applied. These govern the format and rules for the preparation of bank financial statements.
The company's financial statements include:
• balance sheet
• income statement
• statement of comprehensive income
• statement of changes in shareholders' equity
• cash flow statement
• Notes to the Statements
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 the 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.
In the Notes, all of the information required by the international accounting standards and the provisions contained in Bank of Italy Circular 262 is provided, in addition to further non-obligatory information considered necessary to provide a true, correct, relevant, reliable, comparable and comprehensible representation.
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 Notes to the Statements.
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 Circular 262.
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 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 the financial statements.
Revenues are reported in the income statement and the related section of the notes without a +/- sign, while costs are indicated in brackets.
The statement of comprehensive income, starting from the profit (loss) for the year, presents the income components recognised against the valuation reserves, net of the related tax effect, in accordance with the international accounting standards. Comprehensive income is presented providing separate evidence of the income components which will not in future be recognised in the income statement and of those which, on the contrary, may subsequently be reclassified in the profit (loss) for the period if certain conditions are fulfilled.
The statement of changes in shareholders' equity shows the breakdown and movement of shareholders' equity during the reporting and previous periods, divided into share capital (ordinary shares and other shares), capital and profit reserves, reserves from the valuation of accounting assets and liabilities, equity instruments and operating results. Treasury shares in the portfolio are recognised as a reduction of shareholders' equity.

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified by the effects of operations of a non-monetary nature. Cash flows are divided into those deriving from operating activities, those provided by investing activities and those produced by funding activities. In the statement, cash flows provided during the year are indicated without a sign, while those used are indicated in brackets.
In compliance with Article 5 of Italian 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 Notes to the Statements are in thousands of Euro. Tables that do not contain any figures are omitted in the notes to the statements.
The Financial Statements have been drawn up with the view of the company as a going concern, in accordance with the accruals concept, the principle of the importance and significance of information, and the principle of the prevalence of economic substance over legal form, as well as in order to favour consistency with future presentations. Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. When necessary, the amounts indicated in the Financial Statements are subject to adjustment to reflect events subsequent to the reporting date which, pursuant to the standard IAS 10, involve the obligation of making an adjustment (adjusting events). Subsequent events that do not involve adjustments and that hence reflect circumstances that occurred after the reporting date (non-adjusting events) are disclosed in section 3 below when relevant and able to influence the economic decisions of users.
We can note finally that, in application of the aforementioned 4th update of Bank of Italy Circular No. 262, in the tables of the Notes to the Statements the disclosure on "credit quality" has been made compliant with the new definitions of impaired financial assets, following the transposition of the new definitions of non-performing exposures (NPEs) and forborne exposures introduced in implementing technical standards related to harmonised consolidated supervisory statistical reporting defined by the European Banking Authority (EBA), approved by the European Commission on 9 January 2015 (henceforth ITS).
Impaired financial assets are divided into the categories of non-performing, probable defaults and past-due and/or over-the-limit impaired exposures; the set of these categories corresponds to the aggregate of non-performing exposures pursuant to the ITSs. In addition, the category of forborne exposures has been introduced; this is transversal both to the three aforesaid categories into which impaired financial assets are divided and to performing financial assets.
The notions of watch-list and restructured exposures have been abrogated. The scope of application of the new categories of impaired financial assets includes cash assets (loans and debt securities) and "off-balance-sheet" assets (guarantees issued, irrevocable and revocable commitments to grant finance) other than financial instruments allocated to the accounting portfolio "Financial assets held for trading" and derivatives contracts.

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 reporting 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 accounting data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important.
In accordance with this standard, we must inform you that in February 2016 the share capital increase operation resolved by the Extraordinary Shareholders' Meeting of 16 September 2015 was completed; the Bank therefore has capital assets adequate to ensure correct performance of its activity and compliance with the civil-law and supervisory obligations.

As CONSOB issued the *nulla osta* for publication of the Prospectus on 22 January 2016 and, subsequently, the capital increase procedure was completed with registration at the Companies Register on 16 February 2016, the payments made for a future capital increase by the Parent Company during 2015 for a total amount of € 1,199,041,668.41, although they were already accounted for in Reserves following the waiver of the right to a refund by BMPS, were not included in the Regulatory Capital calculated at 31 December 2015.
These financial statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern. In accordance with the provisions of paragraph 25 of IAS 1, and 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 ability to continue operating as a going concern.

Section 4 - OTHER INFORMATION

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory as from the 2015 financial statements

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2015, the following are noted in particular. We can note that these changes have had no impact on the drafting of these financial statements.
In financial year 2015 a group of amendments made to the IFRSs as part of the project **"Improvements to the International Accounting Standards - 2011-2013 cycle"** were applied for the first time. These were published by the IASB on 12 December 2013 and are related to four themes briefly summarised below:

a) **IFRS 1 "First-time Adoption of IFRSs".** This clarifies that an entity, in its first IFRS financial statements, may choose between the application of a standard to be obligatorily applied for that period and a new or revised standard that is not yet obligatory, but that can be applied in advance on a voluntary basis. The entity is required to apply the same version of the standard for all the interim periods covered in the first IFRS financial statements.
b) **IFRS 3 "Business Combinations".** It is clarified that the accounting of the formation of a joint arrangement in the financial statements of the joint arrangement itself is outside the scope of application of IFRS 3.
c) **IFRS 13 "Fair Value Measurement"**. It is clarified that the exception pursuant to section 48 of IFRS 13 (portfolio exception) applies to all contracts that fall under the scope of application of IAS 39 (or IFRS 9), regardless of whether the definition of financial asset or liability as defined in IAS 32 is met.
d) **IAS 40 "Investment Property"**. It is clarified that to determine whether a specific transaction to purchase real estate property with ancillary services satisfies the definition of a business combination contained in IFRS 3 or the definition of a property investment contained in IAS 40, the two standards must be applied separately from each other.

The document was endorsed by the European Commission on 18 December 2014, with Regulation No. 1361/2014.

In addition, starting from financial year 2015 the interpretation **IFRIC 21 - "Levies"**, published by the IASB in May 2013, is applied for the first time. The interpretation applies to all levies with the exception of those that come within the scope of application of another standard and of the fines and penalties deriving from breaches of the law.
The Interpretation, endorsed by the European Commission on 13 June 2014, with Regulation No. 634/2014, deals with accounting for a liability relating to payment of a levy if this liability falls within the scope of application of IAS 37 and accounting for a liability relating to payment of a levy the timing and amount of which are uncertain.

In particular, IFRIC 21 clarifies that:
- an entity recognises a liability for a levy when the activity that triggers the payment, described by the legislation, occurs;
- a liability for levies is set aside progressively only if the activity that triggers the payment occurs over a certain period of time;
- for a levy the payment of which is triggered on reaching a minimum threshold, no liability is recognised before that minimum threshold is reached.

The above interpretation was applied in the 2015 financial statements to the recognition of the ordinary and extraordinary contributions to the National Resolution Fund, provided for in Italian Legislative Decree 180/2015, which introduced into the national legislation the framework of recovery and resolution of credit institutions and investment companies provided for in Directive 2014/59/EU (Banking Resolution and Recovery Directive - "BRRD"). The Bank of Italy also pronounced on the subject with a circular of 19 January 2016, with which it was confirmed that the obligations to contribute to the National Resolution Fund fall within the notion of "levies" pursuant to IFRIC 21.
The interpretation IFRIC 21 was applied also to the recognition of the "*ex ante*" ordinary contributions to the Interbank Deposit Protection Fund (IDPF); these contributions were introduced during 2015 by the IDPF itself through a number of changes to the by-laws, thus anticipating the "*ex ante*" contribution mechanism provided for in Directive 2014/49/EU (Deposit Guarantee Schemes - "DGS"), not yet transposed into the national legislation.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2015.

In November 2013, the IASB published the amendment to IAS 19 **"Defined Benefit Plans: Employee Contributions."** The amendment clarifies the treatment of contributions paid in by employees or third parties for defined benefit plans. Specifically, it governs the method of attributing contributions that are connected to services carried out by the employees to service periods, with an eye to simplifying the methods of accounting for contributions that do not depend on the number of years of service but which, for example, are determined as a fixed percentage of salaries. The amendment was approved by the European Commission on 17 December 2014 with Regulation No. 2015/29 and it must obligatorily be applied from the financial periods which begin starting from 1 February 2015.
On 12 December 2013 the IASB published a set of amendments to the IFRSs as part of the **Project "Improvements to the International Accounting Standards - 2010-2012 cycle"**, related to the themes briefly summarised below:

a) **IFRS 2 "Share-based Payment"** The definitions of "vesting conditions" and "market conditions" were changed, and the definitions of "performance condition" and "service condition", which formerly were incorporated under the definition of "vesting condition", were added.
b) **IFRS 3 "Business Combinations".** It was clarified that contingent considerations classified as assets or liabilities are always measured at fair value at each subsequent reporting date following initial recognition.
c) **IFRS 8 "Operating Segments".** This requires that an entity provide information regarding the discretionary choices made by management in applying the operating segment aggregation criteria.
d) **IFRS 13 "Fair Value Measurement"**. This clarifies that the amendments to IAS 39 and IFRS 9 following the publication of IFRS 13 did not eliminate the possibility of measuring short term receivables and payables with no stated interest rate in their invoices without discounting, if the impact of the discounting is immaterial.
e) **IAS 16** "**Property, Plant and Equipment**". It is clarified that when an item of property, plant and equipment is revalued, the revaluation of the gross amount must be carried out using a method in line with the revaluation of the net amount.
f) **IAS 24 "Related Party Disclosures".** It is clarified that an entity that provides strategic direction services to the

entity that prepares the financial statements is a related party of the latter.

g) **IAS 38 "Intangible Assets".** It is clarified that when an intangible asset is revalued, the revaluation of the gross amount must be carried out using a method in line with the revaluation of the net amount.

The document was endorsed by the European Commission on 17 December 2014 with Regulation N° 2015/28 and it must obligatorily be applied starting from financial years which begin after 1 February 2015.
On 6 May 2014 the IASB issued a number of amendments to the standard IFRS 11 "**Joint Arrangements"** related to accounting for the acquisition of a joint operation if the latter possesses a business. The amendments require that the standards of IFRS 3 Business Combinations relating to the recognition of the effects of a business combination must be applied to recognise the acquisition of a joint operation the activity of which constitutes a business.
The changes apply from 1 January 2016 but early application is allowed.
The amendments were endorsed by the European Commission on 24 November 2015, with Regulation No. 2015/2173.
On 12 May 2014 the IASB published **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**, with the objective of clarifying that a method of depreciation or amortisation based on the revenue generated by the asset (the so-called revenue-based method) is not considered appropriate because it reflects exclusively the revenue flow generated by this asset and not, instead, the methods of consuming the economic benefits incorporated in the asset.
The European Commission endorsed the amendment on 2 December 2015 with Regulation No. 2015/2231. The application of the new rules starts from 1 January 2016 and early application is allowed.

On 12 August 2014 the IASB published the document **"Equity Method in Separate Financial Statements - Amendments to IAS 27"**, which introduces the option of using in an entity's separate financial statements the equity method for recognising equity investments in subsidiaries, joint ventures and associates. As a consequence, an entity may recognise these equity investments in its separate financial statements alternatively:

- at cost; or
- according to the provisions of IFRS 9 (or of IAS 39); or
- using the equity method.

The document was endorsed by the European Commission on 18 December 2015 with Regulation No. 2015/2441 and it must obligatorily be applied starting from financial years which begin on 1 January 2016 or later and early application is allowed.

On 25 September 2014 the IASB published the document "**Annual Improvements to IFRSs: 2012-2014 Cycle"** regarding the subjects briefly summarised below:

a) **IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations":** the change regards the specific cases in which an entity reclassifies an asset (or a disposal group) from the held-for-sale category to the held-for-distribution category (or vice versa), or when the requirements for classification of an asset as held-for-distribution cease to apply. The amendments clarify that:
   - these reclassifications should not be considered as a change in a sales plan or a distribution plan and that the same classification and measurement criteria remain valid;
   - assets that no longer fulfil the classification criteria envisaged for held-for-distribution should be treated in the same way as an asset that ceases to be classified as held for sale.

b) **IFRS 7 Financial Instruments: Disclosures**: the change provides for the introduction of further guidance to clarify the following aspects:
   - when a servicing contract constitutes a residual involvement in a transferred asset for the purpose of the disclosures required in relation to the transferred assets.

- the disclosure on the offsetting of financial assets and liabilities is not explicitly required for all interim financial statements, although it could be necessary to observe the requirements provided for in IAS 34, if this is significant information.

c) **IAS 19 Employee Benefits:** the high quality corporate bonds used to determine the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The depth of the market for high quality corporate bonds should be assessed at currency level.

d) **IAS 34 Interim Financial Reporting:** if the disclosure required is presented in the interim financial report but outside of the interim financial statements, this disclosure must be included through a cross-reference from the interim financial statements to other parts of the interim financial report. This document must be made available to users of the financial statements in the same way and with the same timing as the interim financial statements.

The document was endorsed by the European Commission on 15 December 2015 with Regulation No. 2015/2343 and it must obligatorily be applied starting from financial years which begin on 1 January 2016 or later and early application is allowed.

On 18 December 2014 the IASB published "**Amendments to IAS 1: Disclosure Initiative**" which has the clear objective of encouraging the use of "professional judgement" in determining the information to be included in the disclosure.
This document clarifies the following aspects:

- on the subject of materiality of the information, the disclosure must not be penalised by aggregating or by providing immaterial information; the assessment of materiality applies to all the financial statements and prevails even when a specific disclosure is required by a standard.
- in the income statement, the statement of comprehensive income and the statement of financial position specific items can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- the entity has the possibility of defining the order of presenting the notes so as to improve understandability and comparability.

The IASB also eliminated the indications and examples for the identification of significant accounting policies.
The document was endorsed by the European Commission on 18 December 2015 with Regulation No. 2015/2406 and it must obligatorily be applied starting from financial years which begin on 1 January 2016 or later and early application is allowed.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations published by the IASB and still awaiting European Commission endorsement.

On 30 January 2014 the IASB published IFRS 14 **Regulatory Deferral Accounts**, the interim standard related to the Rate-regulated activities project. IFRS 14 allows only entities which adopt the IFRSs for the first time to continue to recognise amounts related to rate regulation according to the previous accounting standards adopted. In order to improve comparability with entities which already apply the IFRSs and which do not recognise these amounts, the standard requires that the effect of the rate regulation must be presented separately from the other items.
The standard, which was to be applicable starting from 1 January 2016, was not endorsed by the European Commission. The European Commission justified this decision arguing that the current IFRS 14 regulates marginal cases in the European landscape because it is a transitory standard that offers an accounting option to companies that adopt the IFRSs for the first time. For this reason, the European Commission will consider in the future the endorsement of a standard that refers to the whole range of rate regulated activities.

On 18 May 2014 IFRS 15 "**Revenue from Contracts with Customers**" was published by the IASB; this replaces the previous standards on revenue: IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty

Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue - Barter Transactions Involving Advertising Services".
The new standard applies to all contracts that are signed with customers (except when the same are covered by certain other standards) and proposes a model according to which an entity must recognise revenue so as to present faithfully the process of transferring goods and services to customers and in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services provided. On this point, the standard provides for five steps:

1) identification of the contract, defined as an agreement (written or verbal) with commercial substance between two or more parties which creates legally enforceable rights and obligations with the customer;
2) identification of the obligations (distinctly identifiable) contained in the contract;
3) determination of the price of the transaction as the consideration that the entity expects to be entitled to in exchange for the transfer of goods or the provision of services to the customer, in keeping with the techniques provided for in the Standard and depending on the presence of any financial components;
4) allocation of the transaction price to each "performance obligation" provided for in the contract;
5) recognition of the revenue when the obligation is settled, taking into consideration the fact that the services could be rendered not in one specific moment, but also over a period of time.

Application of the standard, initially envisaged for financial years that begin on (or later than) 1 January 2017 was postponed to 1 January 2018 on the proposal of the IASB in April 2015. As this is a standard for "convergence" with the US GAAPs, the IASB decided to favour the market aligning the adoption of the European standard with the American one. In the meantime, clarifications useful for application of the standard will be published.

On 24 July 2014 the IASB published the final version of "**IFRS 9 - Financial Instruments**". The document includes the results of the classification and measurement, derecognition, impairment and hedge accounting phases of the IASB's project to replace IAS 39, which began in 2008. Following this publication IFRS 9 should be considered completed; there remains to regulate the aspect of macro hedging, for which the IASB has decided to undertake an autonomous project.
As regards the classification and measurement of financial assets, the new accounting standard provides for three portfolio categories: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). The IAS 39 categories Held To Maturity and Available For Sale have been eliminated. As regards debt instruments, the standard provides for a single method of determining classification in one of the three categories; this method is based on the combination of two "drivers", represented by the method of managing the financial instruments adopted by the entity (business model) and by the contractual characteristics of the cash flows of the same instruments. As regards equity instruments, classification in the FVTPL category is provided for; the only exception consists of the option to classify irrevocably in the FVOCI category equity instruments not held for trading. In this case only dividends are recognised in the income statement, while the measurements and the results deriving from the sale are allocated to shareholders' equity; no impairment is provided for.
As regards the classification and measurement of financial liabilities, the IASB opted to substantially maintain the arrangements 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 statement is prescribed, for instruments other than derivatives, only for financial liabilities held for trading. For financial liabilities designated with the fair value option, the change in fair value attributable to changes in the credit risk of the liability is recognised directly among other comprehensive income, unless this creates or exacerbates the accounting mismatch, in which case
the entire change in fair value is recognised in the income statement. The amount recognised in other comprehensive income is not reversed to the income statement when the liability is settled or extinguished.
As regards phase 2 "Impairment", IFRS 9 provides for a model, characterised by a prospective vision, which requires,

starting from first recognition in the financial statements, recognition of expected losses on the financial instrument. Unlike the IAS 39 model the occurrence of a trigger event is no longer necessary for the recognition of incurred losses on receivables. The model requires that the estimate of losses on loans be made on the basis of supportable information, available without unreasonable expenses or efforts and that include historical, current and prospective data. As regards impairment IFRS 9 provides for the classification in three categories (buckets) in ascending order of impairment of creditworthiness; the first category includes financial instruments that have not suffered a significant worsening of creditwothiness compared to that found at the moment of first recognition in the financial statements. On exposures included in the first category the expected losses must be recognised on the basis of a time horizon of 12 months; on exposures included in the other two categories the expected losses must be recognised on the basis of the entire life of the financial instrument (lifetime expected losses).
A single impairment model is envisaged for all debt instruments not carried at FVTPL: financial assets carried at amortised cost, carried at fair value through other comprehensive income, receivables deriving from rental contracts and trade receivables.
IFRS 9 also provides for greater disclosure of losses on loans and of credit risk. In particular, entities must illustrate the methods for calculating expected losses on loans and those adopted for measuring changes in credit risk.
As regards hedge accounting (excluding macro-hedging, for which IAS 39 remains in force) the
new standard should make it possible to reflect risk management activities more faithfully in the financial statements.
The standard allows separate application from the rest of IFRS 9 of the rules that govern the treatment of the entity's own creditworthiness on financial liabilities in the fair value option.
The new standard is awaiting endorsement and must be applied from financial statements that start from 1 January 2018.
During 2015, with the support of a leading consultancy company, the Group began a project to implement the new standard IFRS 9, which involves transversally the Group's various units and is guided overall by the CFO Department.
The project is divided into three working areas corresponding to the three phases of the standard ("classification and measurement", "impairment" and "hedge accounting"): the "classification and measurement" area is guided by the Financial Statements unit, while the "impairment" and "hedge accounting" areas are guided by the Risk Management unit.
Currently it is still in the impact assessment stage, which has the objective of determining a reasonably reliable estimate of the impacts expected from first application of the standard; given the complexity of the subjects analysed and the still high interpretative uncertainties at the system level, this stage has not yet reached completion.

On 11 September 2014 the IASB published the document "**Sales or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28**" in order to resolve a regulatory conflict between IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements".
The changes have the aim of clarifying the accounting treatment, both in the case of loss of control over a subsidiary (governed by IFRS 10) and in the case of downstream transactions governed by IAS 28, according to whether the subject of the transaction is (or is not) a business, as defined by IFRS 3. If the subject of the transaction is a business, the profit must be recognised in full in both cases (for example loss of control and downstream transactions) while if the subject of the transaction is not a business, the profit must be recognised, in both cases, only for the portion related to third party interests.
In December 2015, the IASB decided to defer indefinitely the entry into force of the document, initially planned for 1 January 2016. The reason was the IASB's intention to plan a wider revision of the standards involved aimed at simplifying the accounting for such transactions and other accounting aspects of associates and joint ventures.

On 18 December 2014 the IASB published "**Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**". The changes regard the scope of application of the exception to consolidation

for investment entities. The document has the objective of clarifying the following aspects:
- the exemption from preparing consolidated financial statements for “intermediate” parent companies applies if the parent company is an investment entity, even if this entity measures all subsidiaries at fair value;
- a subsidiary that provides services related to the investment activities of the parent company must not be consolidated if the subsidiary itself is an investment company;
- the exemption from applying the equity method to its associates by an entity which is not an investment company is extended, as well as to unlisted entities the parent of which publishes IFRS consolidated financial statements, also to entities whose parent publishes IFRS financial statements in which the subsidiaries are carried at fair value through profit and loss under the terms of IFRS 10;
- an “investment company” entity that carries all its subsidiaries at fair value supplies the disclosure provided for in IFRS 12 for “investment entities”.

The changes are effective for financial years that begin starting from 1 January 2016. Early application is allowed.

A.2 - PRINCIPAL FINANCIAL STATEMENT AGGREGATES

Section 1 - ACCOUNTING STANDARDS

The accounting standards adopted in preparing the separate financial statements at 31 December 2015 are described below. The presentation is made with reference to the stages of recognition, classification, measurement and derecognition of the different Asset and Liability items, and to the recognition criteria of revenue components.

1) FINANCIAL ASSETS HELD FOR TRADING

a) recognition criteria
For financial assets, debt and equity instruments are initially recognised on the trade date, while derivative contracts are recognised on the date they are signed.
Financial assets held for trading 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.
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 recognised at fair value.
The appropriate reference accounting standard is applied to the primary agreement.

b) classification criteria
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), including past-due and impaired derivatives which have not been closed in advance as part of a master netting agreement. Contracts designated as hedging derivatives are excluded; iv) structured instruments (for these financial instruments, derivatives embedded in the primary contracts have not been recognised separately).

c) measurement criteria
After initial recognition, financial assets held for sale are carried at fair value, recording changes as offsetting entries in the income statement.
Please see section A.4 “Fair value disclosure”, below, for a description of the criteria used to determine the fair value of financial instruments.
Equity instruments and the related derivatives whose fair value cannot be reliably determined according to the guidelines above, remain recognised at cost, adjusted for any impairment losses. These impairment losses are not written back.
In determining the cost of the securities portfolio, the Bank applies the “weighted average daily cost” method.

d) derecognition criteria
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 in 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.
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 criteria
The effects of measurement, transfers and/or closures are booked to Item 80 of the income statement, "Net income from trading activities", while interest accrued on securities and the remuneration accrued for activities regarding repurchase agreements or securities lending (with the exception of fees, accounted for under the fee items) are recorded in the income statement, under Item 10 "Interest and similar income" and Item 20 "Interest and similar expense".
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".
The spreads of transactions in derivative instruments are registered on the income statement under the appropriate item according to the managerial nature of the contracts, as also the adjustments made on the occasion of the valuation of exposures for impaired derivatives.

2) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE
This portfolio is not used by the bank.

3) FINANCIAL ASSETS AVAILABLE FOR SALE

a) recognition criteria
Financial assets are initially recorded at the settlement date for debt and capital securities, and at the disbursement date for loans.
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 recognition takes place following reclassification of 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 criteria
This category includes non-derivative financial assets not classified as receivables, financial assets held for trading, financial assets at fair value recorded in the income statement or financial assets held to maturity. This category specifically includes equity investments, even of a strategic nature, not held for trading purposes and not classifiable as in subsidiaries, associates or joint-ventures, 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 initial recognition, 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 amortised cost and with the allocation in a

dedicated shareholders' equity reserve of the gains/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 carried at cost, adjusted for any impairment losses.
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 recognised 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 writedown 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 criteria

Financial assets are derecognised upon expiration of the contractual rights on the cash flows deriving from the assets themselves or when the financial asset is 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 recognised 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.

e) income recognition criteria

At the time of the sale or 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:
- under item 100 "Gains (losses) on the sale or repurchase of: b) financial assets available for sale", in the case of disposal;
- in item 130 "Net value adjustments/writebacks for impairment of: b) financial assets available for sale", if a loss in value is recognised.

If the reasons for the impairment are removed subsequent to an event occurring after the recording of the impairment, writebacks are entered: i) on the income statement (under the aforesaid item 130) if the loss is related to debt and credit instruments; ii) in shareholders' equity, item 130 of the liabilities "Valuation reserves", if related to instruments representing capital. However, the amount of the writeback 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 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

This portfolio is not used by the bank.

5) RECEIVABLES

a) recognition criteria

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 fair value of the financial instrument, 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.

Contangos and repurchase agreements with future resale obligations are recognised in the accounts as loan operations. In particular the latter are recognised as receivables for the amount paid spot.

b) classification criteria

Receivables include loans to customers and banks, provided directly and/or acquired from third parties, involving fixed or definable payments, which are not quoted on an active market and which were not originally classified among financial assets available for sale and among financial assets designated at fair value in the income statement. The loans and receivables item also includes accounts receivable, repurchase agreements not classified amongst financial assets held for trading, receivables arising from financial leasing operations, and securities purchased in subscription or private placement, with determined or determinable payments, not quoted on active markets.

c) income measurement and recognition criteria

After initial recognition, receivables are measured at the amortised cost, equal to the originally recorded value decreased/increased by repayments of principal, writedowns/writebacks 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 present value of future loan flows, both in terms of principal and interest, estimated in the expected lifetime of the loan 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 book value. A similar measurement criterion is adopted for receivables with undefined maturity date or which are valid until derecognised.

In classifying impaired exposures into the various risk categories (bad loans, probable defaults and past-due impaired exposures; jointly non-performing exposures), the Bank referred to the regulations issued by the Bank of Italy,

complemented by internal provisions setting criteria and automatic rules for the allocation of the receivables to the distinct risk categories. As regards loans past due and/or over the limit for more than 90 days, the recognition is made using automated procedures.
With reference to the general concept of restructuring credit exposures, three cases are identified:
• “forborne exposures” (as defined in Bank of Italy Circular 272);
• renegotiation for commercial reasons/practice;
• elimination of the debt through replacement of the debtor or debt for equity swap.

In keeping with the Bank of Italy regulations, “forborne exposure” means a debt contract for which tolerance measures (otherwise identifiable as “forbearance measures”) have been applied. Forbearance measures consist of concessions - in terms of changes and/or refinancing of the existing debt contract - in relation to a debtor which is or is about to be in difficulty in observing its financial commitments (the debtor is, in other words, in financial difficulty).
Forborne exposures are divided into:
• impaired forborne exposures, which correspond to “non-performing exposures with forbearance measures” pursuant to the ITSs. These exposures represent a detail, according to the cases, of bad loans, probable defaults or past-due impaired exposures; they therefore do not form a separate category of impaired assets;
• other forborne exposures, which correspond to “forborne performing exposures” pursuant to the ITSs.
Renegotiating of credit exposures agreed upon by the Bank with performing customers can essentially be seen as the opening of a new position, in the case that this is essentially for commercial reasons, other than financial/economic difficulties of the debtor, and always with an applied interest rate that is the market rate at the time of renegotiation.
As an alternative to the cases described above (renegotiations owing to the debtor’s difficulty and renegotiations for commercial reasons/practice), the Bank and debtor may agree on the elimination of the original debt through:
• novation or replacement by another debtor (releasing succession);
• a substantial change in the nature of the contract which envisages a debt for equity swap.
These events, involving a substantial change in the contractual terms, from an accounting view lead to the elimination of the pre-existing relationship and the consequent recognition of the new relation at fair value, with recognition of a gain or loss in the income statement equal to the difference between the fair value of the assets received and the carrying amount of the receivable derecognised.
Receivables are analytically or collectively measured, depending on the various levels of impairment, in order to determine the adjustments to be made to the carrying amounts, as illustrated below.
Bad loans, probable defaults and past-due impaired exposures are measured analytically when particular elements make this advisable or applying analytically percentages determined at a flat-rate on a historical/statistical basis in the remaining cases. Performing exposures are measured collectively.
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 present value of future cash flows, calculated applying the original effective interest rate. If the original interest rate is not directly obtainable, or obtaining it is excessively burdensome, the best approximation to it is applied.
For all positions at fixed rate the interest rate thus determined is kept constant also in subsequent years, while for floating-rate positions the interest rate is updated in relation to the variable reference component keeping constant the spread originally set.
For forborne exposures the original effective interest rate before the change in the conditions is used.
The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure.
The value adjustment is recognised in the income statement under item “130 - Net value adjustments/writebacks due to impairment”. 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 writebacks.

In the Notes to the Statements writedowns on impaired exposures are classified as specific in the aforementioned income statement item even when the calculation method is of a flat-rate/statistical type.
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 subsequent years to the extent to which the reasons that led to the adjustment no longer hold true, provided that this assessment is objectively connectible to an event that took place after the adjustment itself. The writeback 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 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
  - geographical location
- determining the loss rate of the individual portfolio segments, assuming the MPS Group’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.

d) derecognition criteria
Receivables transferred are written off from the assets in the financial statements only when the sale 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 substantial transfer of all the risks and benefits cannot be ascertained, the receivables are derecognised when no type of control is exercised over the same. 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, measured by the exposure to changes in the value of the loans transferred and to changes in their cash flows.
In addition, transferred receivables are derecognised 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 (so-called pass-through arrangements).
Finally the receivables are fully derecognised when the same are considered unrecoverable or are fully written off. Derecognitions are booked directly to the income statement item 130 a) “Net value adjustments/writebacks due to impairment of receivables” and are recognised as a reduction of the principal of loans. Recoveries of part or of entire amounts previously derecognised are booked to the same item.

6. HEDGING OPERATIONS

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
The standard IAS 39 envisages the following types of hedges:
- 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 accounting items;
- foreign investment hedging, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

c) income measurement and 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 assessed 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 achieved during the related period.

Derivatives considered hedges from an economic point of view, as they are connected for management purposes to financial liabilities measured at fair value (Fair Value Option), are classified among trading derivatives. The related spreads or positive and negative margins which accrue up to the reference date of the financial statements, in respect of their hedging functions, are recognised among interest income and expense, while the profits and losses from the measurement are recognised in income statement item 110 “Net result from financial assets and liabilities at fair value”.

d) derecognition criteria - 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, if not past-due or extinguished, 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, 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 interruption of the hedging is accompanied by derecognition of the hedged item (for example, if repaid early) the adjustment is entirely posted to the income statement at the moment in which the element hedged is derecognised.
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 at the time the hedged element is derecognised.

7) EQUITY INVESTMENTS

a) recognition criteria
The item includes the interests held in associated entities and joint ventures. Upon initial recognition, these equity investments are entered at the purchase cost, with the addition of any costs directly attributable to the purchase.

b) classification criteria
Companies in which the Bank, directly or indirectly, holds one fifth or more of the voting rights (including "potential" voting rights) and in which it has the power to participate in determining the financial and management policies, are considered associates, that is subject to significant influence. Companies in which - although with a smaller proportion of voting rights - the Bank has the power to participate in determining the financial and management policies in virtue of particular legal ties are also considered associates. Such ties may, for example, be participation in shareholders' agreements, participation in significant committees of the investee company and the presence of the right to veto significant decisions.

c) income measurement and recognition criteria
The measurement criterion adopted for interests in subsidiaries and associates and in joint ventures is cost. At each reporting date or interim report, any objective evidence that the equity investment has undergone impairment is assessed.
When a parent company relinquishes control over an investee company but nonetheless continues to hold a minority interest in the company, it must measure the retained interest on the balance sheet at fair value and allocate any gains 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 the equity investment represented by the higher amount between the fair value net of costs to sell 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 book value, the related difference is stated in the income statement under item 210 "Gains/(losses) from equity investments". On the other hand, if the reasons for the impairment cease to exist following an event which occurs after recognition of the impairment, writebacks are made with booking to the income statement under the same item 210 as above.

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

8) PROPERTY, PLANT AND EQUIPMENT

a) recognition criteria
Property, plant and equipment are initially recognised at cost which comprises both the purchase price and all the possible related charges directly attributable to the purchase and commissioning 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 criteria
Property, plant and equipment items 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 rents and/or held for the appreciation of the invested capital.
This item also includes, if there are any, 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) income measurement and 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 Notes to the Statements show the depreciation rate and the consequent expected useful life of the main asset categories.
At each annual or interim reporting date, 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 book value 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 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 writeback 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.

d) derecognition criteria
Property, plant and equipment is derecognised at the time of disposal or when the assets are permanently withdrawn from use and future economic benefits are not expected from their disposal.

9) INTANGIBLE ASSETS

a) recognition criteria

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 recognised 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) income classification, measurement and recognition criteria

The cost of intangible fixed assets is amortised on a straight-line basis over the related useful life. If the useful life is indefinite, the asset is not amortised, 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 amortised on a straight-line basis as from the completion and commissioning of the application on the basis of the related useful life. Assets representing relations with customers or connected to brands, which can be recognised at the time of business combinations, are amortised at constant rates.

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 to intangible fixed assets”, is equal to the difference between the book value 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 book value, 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”. As regards goodwill, accounting for any subsequent writebacks is not permitted.

d) derecognition criteria

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

10) NON-CURRENT ASSETS HELD FOR SALE

a) recognition criteria

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

b) classification criteria

The item contains the classification of non-current assets and asset groups held for sale, with the relevant associated liabilities, when the book value will be recovered mainly through a sale transaction deemed highly likely, instead of through continuous use.

c) income measurement and recognition criteria

Subsequent to initial recognition non-current assets and asset groups held for sale, with the relevant associated liabilities, are measured at book value or fair value net of costs to sell, whichever is lower. The related income and expenses (net of the tax liability) are recognised in the income statement under item 280 "Gain (Loss) on discontinued operations, net of taxation". Gains and losses attributable to single discontinued operations are recognised in the most suitable income statement item.

In the case of discontinued operations it is also necessary to present the same economic disclosure again 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 criteria

Non-current assets and asset groups held for sale are eliminated from the balance sheet on disposal.

11) CURRENT AND DEFERRED TAXATION

a) recognition criteria

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 particular 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, credits deriving from previous tax returns and other tax credits for withholdings made. Current assets also include tax credits a rebate of which has been requested from the competent Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.

Deferred tax assets and liabilities 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.

Deferred tax assets determined on the basis of deductible temporary differences are recognised to the extent to which their recovery is probable; this probability is assessed on the basis of the ability of the Bank or the Parent Company, as a result of exercising the "tax consolidation" option, to generate with continuity positive taxable incomes for the company involved or, as a result of exercising the above option, for all the consolidated companies. The probability of recovering deferred tax assets related to goodwill, other intangible assets and impaired loans must be considered automatically fulfilled as a result of the legal provisions which contemplate their transformation into tax credit in losses for the period according to civil and/or tax legislation. Specifically:

• in the case of a loss in the period according to civil legislation, the deferred tax assets related to goodwill, other intangible assets and loan impairment will be subjected to partial transformation into tax credit pursuant to the provisions of Art. 2, section 55, of Italian Decree Law N° 225 of 29 December 2010, converted with amendments by Italian Law N° 10 of 26 February 2011. The transformation takes effect as of the date of approval, on the part of the shareholders' meeting, of the financial statements on which the loss is posted, as contemplated by Art. 2, section 56, of the said Decree Law 225/2010.

- in the case of a loss in the period according to tax legislation, the related deferred tax assets, limited only to the part generated by deductions regarding goodwill, other intangible assets and loan impairment will be subjected to transformation into tax credit pursuant to the provisions of Art. 2, section 56-bis, of the said Decree Law 225/2010, introduced by Art. 9 of Decree Law No. 201 of 6 December 2011, converted with amendments by Law No. 214 of 22 December 2011. The said transformation takes effect as of the date of the presentation of the tax return related to the financial year in which the loss is recorded.

As a result of the changes made by Italian Law No. 147 of 27 December 2014, to the above rules, starting from the tax period in progress at 31 December 2013 the transformability into tax credit of deferred tax assets related to goodwill, to other intangible assets and to writedowns and losses on loans has been extended also to IRAP, both in the presence of a civil-law loss for the year and in the presence of negative value of production.

On 27 June 2015 the text of Italian Law Decree No. 83/2015 was published in the Official Journal (No. 147). This was later converted by Italian Law No. 132 of 6 August 2015. The Decree modified, among other things, the tax deductibility system for IRES and IRAP purposes to which losses and writedowns on loans to customers of credit and financial institutions and insurance companies and the transformability into tax credits of DTAs related to goodwill and other intangible assets.

On this subject the new fiscal measure stated, in brief, that:

1. starting from financial year 2016, writedowns and losses on loans are fully deductible in the year in which they are allocated to the income statement (and no longer in 5 years); for 2015, in the transition stage deductibility can be claimed for 75%,
2. DTAs related to writedowns and losses on loans, accounted for in previous years and deductible in 18 or in 5 years according to the previous legislation (and the 25% non-deductible in 2015), constitute a single inseparable earlier stock deductible in 10 years starting from 2016.
3. DTAs related to goodwill and other intangible assets, if recognised in the financial statements from 2015 onwards, will no longer be transformable into tax credits.

As a result of these new rules transformable DTAs can no longer increase starting from 2015 (with the exception of those originating from the 25% of writedowns and losses on loans recognised in the income statement of 2015). In particular, the condition for recognising so-called "transformable" DTAs related to goodwill and other intangible assets and to writedowns and losses on loans ceases for the future, as these latter become entirely deductible negative income components (with the aforementioned exception of the non-deductible portion in 2015).

Deferred taxes on tax losses not used are recognised on the basis of the same criteria envisaged for the recognition of deferred taxes on deductible temporary differences: they are therefore recognised only to the extent to which their recovery is likely, on the basis of the ability to generate positive taxable incomes in the future. As the existence of unused tax losses can be a symptom of difficulty in achieving positive taxable incomes in the future, IAS 12 states that, in the presence of losses made in recent periods, suitable evidence must be provided to support the existence of such income in the future. In addition we can note that the current Italian tax legislation allows unlimited carrying forward over time of IRES tax losses (Art. 84 paragraph 1 of the Consolidated Income Tax Law); consequently, verification of the existence of future taxable earnings against which to use these losses is not subject to time limits.

Deferred tax assets and liabilities are calculated using the tax rates expected at the date of payment of the temporary differences, on the basis of the measures existing at the reporting date.

On this point we can note that Italian Law No. 208 of 28 December 2015, (the so-called 2016 Stability Law) stated that:

- starting from 1 January 2017, with effect for tax periods after the one in progress at 31 December 2016, the IRES rate will be reduced to 24%.
- For credit and financial institutions pursuant to Italian Legislative Decree No. 87 of 27.1.1992 an IRES surcharge of 3.5% is applied with effect for the tax periods after the one in progress at 31 December 2016, to be calculated, for companies accepting tax consolidation, on the individual taxable incomes.

Any changes in the tax rates or fiscal legislation, issued or communicated after the reporting date and before the date of authorisation for publication, which have a significant effect on deferred tax assets and liabilities are treated as events that occurred after the reporting date that do not entail adjustment under the terms of IAS 10, with consequent disclosure in the notes to the statements.
Current and deferred tax assets and liabilities are accounted for at the capital level by offsetting at the level of the same tax.

b) classification and measurement criteria
The deferred tax assets and liabilities recognised are measured systematically to take account of any changes made to legislation or tax rates.
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 (corporate income 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, instead, 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 to offset its own taxable income according to the limits contemplated by law (i.e. as if the Bank had not adhered to 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 recognised in 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 the income statement. In the cases where deferred tax assets and liabilities 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) recognition criteria
The initial recognition of these financial liabilities takes place upon collection of the deposited amounts or upon issue of the debt securities.
Initial recognition is performed on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single issue or funding operation and not refunded by the creditor counterparty. Internal administrative costs are excluded.
The fair value of any financial liabilities issued at conditions different from those of the market is subject to a specific estimate and the difference compared to the price received is recognised directly in the income statement, exclusively

when the conditions provided for in the standard IAS 39 are fulfilled, that is if the fair value of the instrument issued is determinable using the reference prices on similar instruments in an active market or is determined using a valuation technique based exclusively on parameters observable on the market.

b) classification criteria

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) income measurement and 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 amount collected. With regard to structured instruments, if there are the requirements envisaged by IAS 39 for separate recognition of embedded derivatives, these are separated from the host agreement and recognised at fair value as assets or liabilities 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 criteria

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. The difference between the book value 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 a new issue with recognition 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 the present value of the contractually set repayment amount as a direct offsetting entry.

13) FINANCIAL LIABILITIES HELD FOR TRADING

a) recognition criteria

For financial liabilities, debt instruments are initially recognised on the issue date, while derivative contracts are recognised on the date they are signed.
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 directly 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 recognised at fair value. The appropriate reference accounting standard is applied to the primary agreement.

b) classification criteria

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 related to technical overdrafts on securities, posted in the sub-items of payables to banks and to customers;
- Repurchase agreements and securities lending operations, with the exception of those classified as amounts due to banks or to customers.

c) income measurement, derecognition and 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 DESIGNATED AT FAIR VALUE

This portfolio is not used by the bank.

15) PROVISIONS FOR RISKS AND CHARGES

a) income recognition, classification, measurement and derecognition criteria
Allocations to 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.

If the temporal element is significant, the allocations are discounted to the present.
Allocations to provisions 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 Notes to the Statements, unless the likelihood of using resources is remote or the phenomenon is not significant.
As of each reporting date, these provisions are adjusted to reflect the best current estimate. If this is no longer 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 the 2011 revised version 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 with 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 may have been invested.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the aforementioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method. In particular, the logical path followed to represent the liabilities inherent to defined benefit funds in the financial statements is the following:
- the surplus or deficit of the plan is determined as the difference between the current value of the defined benefit obligation (DBO) and the fair value of the assets serving the plan;
- when the plan is in deficit, the net liability for defined benefits to be recognised in the balance sheet coincides with the deficit itself;
- when the plan is in surplus, it is necessary to first determine the current value of the future economic benefits

available for the Bank under the form or reimbursements or reductions in future contributions to the plan (asset ceiling);
- when the asset ceiling is less than the surplus, the net assets for defined benefits must be recognised in the financial statements at an amount equal to the asset ceiling.

Essentially, when the Bank cannot make use of the surplus in any way, no net assets are recognised in the balance sheet.

The increase in the current value of the DBO attributable to services provided by employees during the current period is recognised in the Bank's income statement regardless of the surplus or deficit position of the plan, equal to that related to the services provided during past years and the interest component.

Instead, the following components are recognised immediately in the statement of comprehensive income:
- actuarial gains and losses of the DBO;
- the difference between the effective yield of the assets serving the plan and the interest component for the same assets;
- the changes in adjustments carried out to adjust the surplus to the asset ceiling, net of the interest component.

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) recognition criteria

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) income classification, measurement, derecognition and recognition criteria

At the end of every financial year or interim period, foreign currency items are measured as follows:
- cash items are converted at the exchange rate in force on the balance sheet date;
- non-cash items are carried at their historical cost converted at the exchange rate in force on the date of the transaction;
- 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 of the period in which they arise under Item 80 "Net income from trading activities" (with the exception of financial instruments designated 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 recognised 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 book value are recorded in accordance with the indications provided in Section 2 "Financial assets available for sale". In the case 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

Content of other significant accounting items
The content of other significant accounting items is described below.

■ 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 stock granting plans, if in force, envisage in general, on the fulfilment of certain conditions, 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.

■ Severance indemnities
The employee severance indemnity is recorded on the basis of its actuarial value since it takes the form of an employee benefit, on termination of the employment, due on the basis of the defined benefits plan. For discounting 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. To determine the liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee Benefits" is used. Therefore, we refer the reader to what is illustrated in the section "Provisions for risks and charges" in relation to defined benefit pension funds.
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".
Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued up until 31.12.2006 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;
- accrued income/expense other than that to be capitalised on the pertinent financial assets/liabilities.

They are recognised only when one of the parties has provided the assets or concluded their service in accordance with the provisions of the contract; by contrast, derecognition takes place upon maturity, which usually corresponds with the collection or payment date.
Starting from the financial statements for 2014, capital gains/losses deriving from the measurement of regular way securities operations not yet settled, with a settlement date in the first few days of the subsequent year, are recognised, respectively, under asset item 150 “Other assets” and under liability item 100 “Other liabilities”.

■ 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:
- 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;
- 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;
- 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;
- the costs are posted on the income statement in the period in which the related revenues are recognised. Costs that cannot be linked to revenues are immediately posted on 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”. Writedowns due to impairments are recorded in Income Statement item 130 “Net value adjustments/writebacks 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 measured 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 makes the present value of the contractual flows of the future payments or collections in cash until maturity or as of the subsequent date of recalculation of the price equal to the net book value 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 this 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 amortisation process. The determination of the amortised 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. For debt instruments posted under assets available for sale, the amortised cost is calculated only in order to enter on the income statement the interest on the basis of the effective interest rate (the difference between the fair value and the amortised cost is posted in a special shareholders' equity reserve).
Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive - for instruments valued at amortised cost - of the transaction costs and the directly attributable commissions such as fees and commissions 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, affect the original effective return and render the effective interest rate associated with the transaction different from the contractual interest rate.
The calculation of the amortised cost does not taken into account the costs which the Bank should incur irrespective of the transaction (for example: administrative, stationery, communication costs), those which, despite being specifically attributable to the transaction, belong to the normal loan management activities (for example: assets for the purpose of disbursing the credit facility).
With particular reference to receivables, the flat-fee reimbursements of costs incurred by the Bank for the performance of a service must not be booked as a decrease of the cost of disbursing the loan but, since they are able to adopt the form of other operating income, the related costs must be charged to their own income statement item.

■ **Use of estimates and assumptions in preparing the statutory financial statements. Main reasons for uncertainty (with specific reference to the provisions of IAS 1 paragraph 125 and of documents No. 4 of 3 March 2010 and No. 2 of 6 February 2009 issued jointly by Bank of Italy/Consob/ISVAP)**

Preparation of the financial statements also requires use of estimates and assumptions which may have significant effects on the amounts recorded in the balance sheet and in the income statement, as well as on information about contingent assets and liabilities reported in the financial statements.
In this regard, as a result of the financial and economic crisis in progress, the great volatility of the financial markets that have remained active, the decrease in transactions on financial markets that have become inactive and also the lack of prospects for stability in the future, create particular conditions that affected the preparation of the financial statements of the financial year just ended, with particular regard to the estimates required by the application of the accounting standards which can determine significant effects on the figures recognised in the balance sheet and the income statement, as well as on the disclosure related to contingent assets and liabilities recorded in the financial statements. Processing those estimates requires using the information available and making subjective evaluations. For their very nature, the estimates and assumptions used may vary from year to year and, as such, it cannot be excluded that in future years the current values posted on the financial statements may differ, even significantly, as the subjective assessments used alter. These estimates and evaluations are therefore difficult to make and inevitably cause some uncertainty, even in stable macroeconomic conditions.
The main cases for which the use of subjective evaluation by the Company Management is required are:

a) use of valuation models to measure the fair value of financial instruments not quoted on active markets;
b) quantification of losses for impairment of receivables and, in general, of the other financial assets;
c) evaluation of the congruity of the value of equity interests and of other intangible assets, property, plant and equipment;
d) the estimate of the liabilities deriving from the defined-benefit company pension funds;
e) the estimate of the recoverability of deferred tax assets;
f) the estimate of the expenses related to legal and tax disputes.

As regards point b), please see the description in section A.4 "Fair value disclosure", below; while for the other cases, the most relevant and significant qualitative issues subject to discretion are illustrated in more detail below.
In the context of the single sections of the notes to the balance sheet and income statement where the contents of the individual accounting items are detailed, the actual technical and conceptual solutions adopted by the Bank are then analysed and discussed in depth. As regards point d) please see section 12.3 of the Liabilities in the Notes to the Statements "Defined benefit company pension funds"; as regards point e) please see section 13 of the Assets in the Notes to the Statements "Tax assets and liabilities". With reference to point f) please see section 12 of the Liabilities in the Notes to the Statements "Provisions for risks and charges".

Procedures for determining losses for impairment of receivables and other financial assets
At each reporting date, financial assets not classified as "Financial assets held for trading" or as "Financial assets at fair value" are subjected to assessment to verify whether there is objective evidence of impairment which may lead to the determination that the book value of the assets is not fully recoverable.
A financial asset has suffered impairment and the impairment losses must be accounted for 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 one or more specific events which have occurred after the initial recognition; the impairment must be reliably quantifiable and be related to current 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 instrument due to financial difficulties. However, the disappearance of an active market because the financial instruments of the company are no longer publicly traded is not evidence of an impairment;
• measurable data indicating the existence of a considerable reduction in estimated future cash flows for a group of financial assets from the time of the initial measurement of those assets, although the reduction cannot yet be identified with the individual financial assets in the group, including:
  - unfavourable changes in the status of beneficiaries' payments in the group

or

  - local or national economic conditions related to the breaches pertaining to the assets within the group.

The objective evidence of impairment for an investment in an equity instrument includes information about important changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.
The impairment assessment is carried out on an analytical basis for financial assets that exhibit objective evidence

of impairment losses and collectively for financial assets for which such objective evidence does not exist. 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 loans to customers and to banks, loans to which the status of bad loan is attributed are subjected to analytical evaluation; probable defaults and past-due impaired exposures are subjected to a process of analytical evaluation, or with determination of the expected loss for homogeneous categories and analytical attribution to each position. The amount of the loss is equal to the difference between the carrying amount of the loan at the moment of measurement (amortised cost) and the present value of forecast future cash flows, calculated by applying the original effective interest rate. The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure. In this regard, in order to determine the cash flows considered recoverable, in the assessment process used by the MPS Group, in the absence of analytical schedules statistical schedules are used.
The amount of the loss is booked to the income statement under Item 130 "a) Net value adjustments/writebacks due to impairment of loans".
Loans classified as performing and some impaired loans (with exposures below a given threshold amount) are subjected to collective assessment. This assessment 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: Business segment, geographical location and customer segments (turnover); on the basis of this last indicator the main portfolio segmentations 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. In particular, the amount of the impairment in the period 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 supervisory provisions, represented by the PD (probability of default) and by the LGD (loss given default).
For impaired receivables the collective assessment is carried out applying the specific LGD parameter to the carrying amount of the exposures.
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. The amount of the reversal is booked to the income statement under Item 130 "Net value adjustments/writebacks due to impairment".
With reference to the receivables that are not subject to restructuring with their partial or full conversion into shares of the borrower companies, in compliance with the indications provided in joint Bank of Italy/ISVAP/Consob Document No. 4 of 3 March 2010, these positions are evaluated taking into account the fair value of the shares received. In particular, in cases of impaired exposures this classification is also maintained for financial instruments received in conversion and, in the case of classification in the category "Assets available for sale", the capital losses recognised after conversion are allocated directly to the income statement.
For debt securities classified as loans to customers, if there is objective evidence that an impairment loss has occurred,

the amount of the loss is given by the difference between the book value of the asset and the present value of the estimated cash flows, discounted at the original effective interest rate of the asset.
If in a later period the amount of the impairment loss decreases and the decrease can be linked objectively to an event that occurred after recognition of the impairment loss, the value of the financial asset must be reinstated without however recognising a book value higher than the amortised cost that there would have been if the impairment loss had not been received. The amount of the writeback must be booked to income statement.
With regard to financial assets recognised in the balance sheet item “Assets available for sale”, the impairment is recorded in the income statement when a reduction in fair value has been recognised directly in 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 writedown in the income statement.
The nature and number of the assumptions used in identifying impairment factors and quantifying the impairment and the value recovery, represent elements of the uncertainty of the estimate.
In any case, regarding equity instruments listed on active markets, the following are considered objective evidence of impairment: i) the presence of a market price at least 30% lower than the original purchase cost; or ii) the prolonged presence for more than 12 months of a market value lower than cost. If additional reductions occur in the following years, they are recognised directly in the income statement.

Procedure for determining the impairment of equity investments and of other intangible assets, property, plant and equipment

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 intangible assets, property, plant and equipment

Property, plant and equipment and intangible assets with defined useful life are subjected to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
As regards properties, the recoverable value is determined on the basis of appraisals or valuations using indices. 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. Also for these values and for the consequent checks on the persistence of the value, the nature and number

of the assumptions represent elements of uncertainty. For more details on the assumptions please see section 11 of the assets in the notes to the statements.

■ Correction of errors

The correction of errors is governed by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). According to this standard errors may be committed in relation to the recognition, measurement, presentation or disclosure of elements of the financial statements.

When the errors are identified in the period in which they were committed they are corrected before publication of the financial statements is authorised.

Material errors identified in years subsequent to those in which they were committed are corrected, where determinable, modifying the comparative information presented in the financial statements of the year in which the errors were identified. In particular, material errors committed in previous periods must be corrected in the first financial statements authorised for publication after their discovery; the correction must be made recalculating retrospectively the comparative amounts of the period in which the error has occurred or, if the error occurred in a period that precedes the periods presented in the financial statements, recalculating the opening balances of assets, liabilities and equity of the first comparative period presented.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN FINANCIAL ASSET 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 in previous financial years or in the current year.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Below is the disclosure regarding the measurement techniques and input used for measurements relative to assets and liabilities measured at fair value in the balance sheet on a recurring and non-recurring basis (the latter are essentially discontinued operations pursuant to IFRS 5).

A.4.1a Fair value level 2: measurement techniques and input used

	Fair value 31/12/2015									
Items	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Financial liabilities held for trading*	*Financial liabilities valued at fair value*	*Hedging derivatives*	***Types***	***Measurement technique***	***Input used***
Debt securities	2,162,078	-	53,149	X	-	-	X	Bonds	Discounted Cash Flow	Rates curve, CDS Curve, Yield, Inflation Curve
								Structured Bonds	Discounted Cash Flow	Rates curve, CDS curve, Yield Inflation curve + parameters necessary to value the optional component
								Bonds	Market price	Market price
Equity securities	111	-	4,339	X	X	X	X	Equity investments	Net Asset Adjusted	Book Asset Value
									Discount cash flow	Share proces, sectore beta, risk free rate
								Shares		
Units in collective investment undertakings	1,640	-	1,553	X	X	X	X		Market price	Market price
Loans/Payables	8,279,428	-	-	X	17,016,963	X	X		Accrual	Interest rates on transactions
Financial derivatives	5,289,302	X	X	-	3,551,014	X	-	IR/Asset/Currency Swaps	Discounted Cash Flow	Rate curve, CDS curve, yield, inflation curve, exchange rates, rate correlation
								Total return swaps	Discounted Cash Flow	Bond prices, rate curve, exchange rates
								Equity swaps	Discounted Cash Flow	Share prices, rate curve, exchange rates
								Forex Singlename Plain	Option Pricing Model	Rate curve, exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Rate curve, exchange rates, Forex volatility (surface)
								Forex Multiname	Option Pricing Model	Rate curve, exchange rates, Forex volatility, correlation
								Equity Singlename Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility
								Equity Singlename Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters
								Equity Multiname Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility Quanto correlations, equity/equity correlations
								Equity Multiname Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters, quanto correlations, equity/equity correlations
								Plain Rate	Option Pricing Model	Rate curve, inflation curve, bond prices, exchange rates, rate volatility, rate correlations
								Foreign currency transactions	Market price	Market price, Swap Point
Credit derivatives	64,734	X	X	-	70,532	X	-	Credit Index	Market price	Market price
								Default swaps	Discounted Cash Flow	CDS curve, rates curve
								Cdo tranche	Discounted Cash Flow	Market price, basis, CDS curve, correlation base, rates curve
Total assets	**15,797,293**	**-**	**59,041**	**-**						
Total liabilities					**20,638,509**	**-**	**-**			

A.4.1b Fair value level 3: measurement techniques and input used

	Fair value 31/12/2015										
Items	*Financial assets held for trading*	*Financial assets valued at fair value*	*Financial assets available for sale*	*Non-current assets held for sale and discontinued operations*	*Financial liabilities held for trading*	*Financial liabilities valued at fair value*	*Hedging derivatives*	***Types***	***Measurement technique***	***Non-observable input***	***Range (weighted average)***
Debt securities	-	-	-	-	-	-	X				
Equity securities	-	-	4,705	-	X	X	X	Shares	Cost/Shareholders' Equity	Fair value asset	€ 0-1.25 million
Financial derivatives	-	X	X	X	85	X	-	Equity Exotic	Option Pricing Model	Model Risk - Smile Dynamic	No dynamic / Stochastic Volatility
Credit derivatives	-	X	X	X	-	X	-				
Total assets	**-**	**-**	**4,705**	**-**							
Total liabilities					**85**	**-**	**-**				

A.4.2 Measurement processes and sensitivity

The category “Financial derivatives” includes derivatives for which the market value depends on non-observable parameters, in particular the dynamic of the smile market. Revaluing these positions with models that treat this parameter in different ways, varying from “no dynamic” (Libor MM ATM) to “stochastic volatility” (Libor MM Stochastic Vol), a market value variation of approximately € 0.05 million is obtained.

The category “Equities” includes equity investments belonging to “Financial assets available for sale - Item 40" and carried at cost or at equity, for which, given the absence of a market-based approach in the valuation, were classified at level 3. These positions amounted to € 4.7 million (€ 3.4 million at 31/12/2014).

A.4.3 Fair value hierarchy

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the source, type and quality of the information used in the calculation. This classification has the objective of establishing a hierarchy in terms of the reliability of the fair value as a function of the degree of discretion applied by the companies, giving priority to the use of parameters than can be observed on the market which reflect the assumptions which market participants would use in pricing said assets/liabilities. The objective of the hierarchy is also to increase the consistency and comparability of fair value measurements.

Below we illustrate the three different measurement levels envisaged by the amendment in question, the choice of which is not optional, as the levels indicated must be applied in hierarchical order:

Level 1 (*effective market quotes*)

In this level, the input consists of prices quoted (not modified) on active markets for instruments for identical assets and liabilities, which can be accessed as of the measurement date.

Level 2 (*comparable approach*)

This level includes instruments which, for the purposes of measurement, prices quoted on active markets for similar assets or liabilities are used, or prices calculated using measurement techniques where all the significant input is based on parameters that can be observed 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 3 (*mark-to-model approach*)

This level, instead, is used when prices calculated using measurement techniques are made use of where at least one significant input is based on non-observable parameters.

To determine the methods of classifying assets in fair value Level 1, the Bank, in line with the policies of the Parent Company, used the presence of regulated markets for some categories financial instruments. In any case, classification in an active market requires the meeting of given requirements established ad hoc for each type of financial instrument. In particular equity securities and bonds (with the exception of plain vanilla government securities issued in hard currency and government securities from the G10 and Spain, for which it was held that the significance test was not necessary to carry out for the prices given the breadth and depth of the markets on which they are listed) are subject to periodic tests in order to verify the presence of various elements such as the bid-ask spread, the presence of numerous price contributors, the absence of listings that remain unchanged over time which demonstrate sufficient liquidity to make it possible to classify them in Level 1. Specifically, listed derivatives, exchange rates and Units in collective investment undertakings (limited to SICAVs and mutual investment funds) are considered as level 1.

All other financial instruments (OTC derivatives, Hedge Funds, Private Equity Funds, equity investment structures valued at fair value) and the same instruments that do not pass the liquidity and price significance tests are inserted in Level 2, as a rule.

If certain instruments have peculiarities that make it possible to measure them only with the assistance of measurement

models that make use of unobservable market data input and/or entity specific assumptions, they are classified in Level 3.
The measurement method defined for an instrument is adopted and then kept over time, modified only following significant changes in market conditions or the subjective conditions of the issuer of the financial instrument. The Group's policy is that any movement of a given financial instrument between Levels 1 and 2 must be motivated by changed conditions, either improving or worsening, of the liquidity or price significance which determine whether or not the periodic tests are passed. Movement to and from Level 3, on the other hand, may depend on changes in the observability of the unknown parameters, as well as the adoption of different measurement techniques (models, replicas, etc.). Specifically, for changes referring to item 40 in the balance sheet assets "Financial assets available for sale," an increase in the quantities in fair value Level 3 was seen for equity securities due to the change in the classification criteria for equity investments, which are inserted in this fair value level when they are valued at the adjusted cost, regardless of measurements based on market parameters.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities valued at fair value on a recurring basis: breakdown by fair value levels

Assets / liabilities measured at fair value	*31/12/2015*			*31/12/2014*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	7,179,661	15,797,293		5,973,310	15,372,046	457
2. Financial assets designated at fair value						
3. Financial assets available for sale		59,041	4,705		46,402	42,534
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**7,179,661**	**15,856,334**	**4,705**	**5,973,310**	**15,418,448**	**42,991**
1. Financial liabilities held for trading	2,964,376	20,638,509	85	3,525,269	18,612,146	3,652
2. Financial liabilities designated at fair value						
3. Hedging derivatives						
Total	**2,964,376**	**20,638,509**	**85**	**3,525,269**	**18,612,146**	**3,652**

As shown in the table, the instruments classified at level 3, which present major discretion in the determination of the fair value, are a minor part of the total portfolio on the financial statements of both years, 2015 and 2014. The reduction in section “3. Assets available for sale” is a result of the maturity of the security in fair value hedging.

The figures at 31/12/2015 of financial assets and liabilities held for trading of fair value level 1, include, for a total amount € 10,017 thousand, financial instruments that at the end of the previous year were classified as level 2. The change in level regarded bonds and was due essentially to an improvement in the liquidity conditions of the said securities (measured in terms of bid-ask spread of the quoted price) which, according to the provisions of the group policy on the subject of measuring financial instruments, enabled this reclassification.
The change in the fair value level from 1 to 2 instead involved positions for a total amount of € 36,561 thousand again in the trading portfolio. These were almost all bonds, of the group and others, for which in general a worsening of the market liquidity conditions was recognised;

In keeping with the accounting standard IFRS 13, the bank calculates the value adjustment of OTC derivatives to take account of the creditworthiness of the individual counterparties. This corrective, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised commercial and institutional counterparties and with counterparties with which Collateral Support Annex (CSA) contracts outside of market standards have been signed.
The method is based on calculating the operating expected loss associated with the rating of the counterparty and estimated on the duration of the position. The exposure includes the component of future credit variation represented by the add-ons.
In the calculation of the CVA “risk premium” probability measurements are used in order to incorporate the expectations of the market coming from the CDS quotations, together with the historical information available internally.

The value of the CVA at 31.12.2015 amounted to a total of approximately - € 41.8 million (-60.6 million at 31/12/2014), with an effect on the income statement on the year of approximately € 18.8 million, due substantially to the recalibration of the PD and LGD on substandard positions.
In a specular manner and on the same perimeter the bank calculates the adjustment of the value of OTC derivatives to take account of its own creditworthiness, that is Debit Value Adjustment (DVA). At the end of the year the value of the DVA amounted to a total of approximately € 0.4 million (€ 1 million at 31/12/2014), with a negative effect on the statement of € 0.6 million.

A.4.5.2 Yearly changes in assets valued at fair value (level 3) on a recurring basis

		Financial assets held for trading	*Financial assets value at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Property, plant and equipment*	*Intangible assets*
1.	**Opening balances**	**457**		**42,534**			
2.	**Increases**	**0**		**2,799**			
2.1	Purchases			2,500			
2.2	Income allocated to:			294			
2.2.1	Income statement			34			
	- of which capital gains			*34*			
2.2.2	Shareholders' equity			260			
2.3	Transfers from other levels						
2.4	Other increases			5			
3.	**Decreases**	**457**		**40,628**			
3.1	Sales			38,429			
3.2	Redemptions						
3.3	Losses allocated to:			520			
3.3.1	Income statement	457		260			
	- of which capital losses						
3.3.2	Shareholders' equity			260			
3.4	Transfers to other levels						
3.5	Other decreases			1,679			
4.	**Closing balances**	**0**		**4,705**			

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (level 3)

		Financial liabilities held for trading	*Financial liabilities value at fair value*	*Hedging derivatives*
1.	**Opening balances**	**3,652**		
2.	**Increases**	**156**		
2.1	Issues			
2.2	Losses allocated to:			
2.2.1	Income statement	156		
	- of which capital losses			
2.2.2	Shareholders' equity			
2.3	Transfers from other levels			
2.4	Other increases			
3.	**Decreases**	**3,723**		
3.1	Redemptions			
3.2	Repurchases			
3.3	Income allocated to:			
3.3.1	Income statement	3,723		
	- of which capital gains	*34*		
3.3.2	Shareholders' equity			
3.4	Transfers to other levels			
3.5	Other decreases			
4.	**Closing balances**	**85**		

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: breakdown by fair value levels

Financial statements at 31/12/2015

Assets/Liabilities to measured at fair value or measured at fair value on a non-recurring basis	*Value of Book*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Loans to banks	8,867,669		8,867,669	
3. Loans to customers	10,283,220		304,064	10,401,478
4. Property, plant and equipment held for investment purposes	13,369			18,001
5. Non-current assets and groups of assets held for sale				
Total	**19,164,258**		**9,171,733**	**10,419,479**
1. Due to banks	16,545,404		16,545,404	
2. Due to customers	189,180		189,180	
3. Outstanding securities	456,992		388,670	
4. Liabilities associated with discontinued operations				
Total	**17,191,576**		**17,123,254**	

Financial statements at 31/12/2014

Assets/Liabilities to measured at fair value or measured at fair value on a non-recurring basis	*Value of Book*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Loans to banks	9,843,127		9,843,127	
3. Loans to customers	11,109,185		260,535	11,155,599
4. Property, plant and equipment held for investment purposes	13,670			18,108
5. Non-current assets and groups of assets held for sale	5,000			5,000
Total	**20,970,982**		**10,103,662**	**11,178,707**
1. Due to banks	19,329,301		19,329,301	
2. Due to customers	240,019		240,019	
3. Outstanding securities	467,301		444,015	
4. Liabilities associated with discontinued operations				
Total	**20,036,621**		**20,013,335**	

As regards impaired receivables, classified in level 3 of the fair value hierarchy, it is assumed that the carrying amount represents a reasonable approximation of the fair value. This assumption derives from the circumstance that the calculation of fair value is affected mainly by recovery expectations, the result of a subjective valuation by the manager; the discounting back rate applied is the contractual one, because the low liquidity and competitiveness of the market of impaired receivables does not allow the recognition of the observable market premiums.
In the same way we can note that the fair value of non-impaired receivables, also mostly classified in level 3, is based on models that use mainly non-observable inputs (e.g.: internal risk parameters).
For these reasons and owing to the absence of a secondary market, the fair value recognised in the financial statements for the sole purposes of disclosure could also be significantly different from the prices of any sales.

A.5 Disclosures on the so-called "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/charges, must be registered on the first valuation after the "initial recognition": this "phenomenon" is known as "day one profit/loss".
This concept does not include the profits deriving from the characteristic intermediation of the investment banks 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

	31/12/2015	*31/12/2014*
a. Cash in hand	-	-
b. Unrestricted deposits with Central Banks		
Total	**0**	**0**

Cash on hand at 31/12/2015 amounted to € 276.21 (€ 99.67 at 31/12/2014)

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2015*			*31/12/2014*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	7,011,572	2,162,078		5,764,284	2,052,151	
1.1 Structured securities	*290*	*156,545*		*389*	*346,753*	
1.2 Other debt securities	*7,011,282*	*2,005,533*		*5,763,895*	*1,705,398*	
2. Equity securities	50,150	111		57,545	23	
3. Units in collective investment undertakings	2,102	1,640		1,342	1,581	
4. Loans		8,279,428			6,297,678	
4.1 Repurchase agreements		*8,279,428*			*6,297,678*	
4.2 Other						
Total A	**7,063,824**	**10,443,257**		**5,823,171**	**8,351,433**	
B. Derivative instruments						
1. Financial derivatives:	115,837	5,289,302	0	150,139	6,495,023	457
1.1 for trading	*115,837*	*5,289,302*		*150,139*	*6,495,023*	*457*
1.2 associated with the fair value option						
1.3 other						
2. Credit derivatives		64.734			525.590	
2.1 for trading		*64,734*			*525,590*	
2.2 associated with the fair value option						
2.3 other						
Total B	**115.837**	**5.354.036**	**0**	**150.139**	**7.020.613**	**457**
Total (A+B)	**7.179.661**	**15.797.293**	**0**	**5.973.310**	**15.372.046**	**457**

Note:
"Debt securities - 1.2 Other debt securities" include securities with Securitisation transactions, of a senior type for € 962,242 thousand and of a mezzanine type for € 132,196 thousand.
The sub-item "Financial derivatives - 1.1 held for trading" includes the fair value of OTC derivative contracts signed with corporate customers which present an evident low credit quality for a net amount of € 7,482 thousand.
In application of IAS32 para. 42, level 1 derivatives quoted on foreign regulated markets were offset for € 136,855 thousand (€ 149,318 at 31/12/2014) as well as OTC level 2 regulated derivatives (through the Clearing Members through which the Bank accedes "indirectly") at the London-based Central Counterparty LCH.Clearnet, for € 428,996 thousand (€ 390,489 at 31/12/2014).

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	*31/12/2015*	*31/12/2014*
- Reverse convertible		
- Convertible	103	
- Credit linked notes		
- Equity Linked	12,553	17,112
- Step-up, Step-down		389
- Dual Currency		
- Drop Lock		
- Target redemption notes		
- Cap Floaters		
- Reverse Floaters		5,527
- Corridors		
- Commodities	32,447	32,260
- Fund Linked	66,938	65,244
- Inflation		
- Others	3,070	1,870
Total	**156,835**	**347,142**

The reduction recognised in the Index Linked segment was due to the fact that during the year most of the securities in the portfolio at 31/12/2014 reached maturity.

2.1.b Detail of debt instruments: junior instruments

Items / Balances	*31/12/2015*	*31/12/2014*
- Debt securities	217,043	225,557
- Other loans		
Total	**217,043**	**225,557**

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

Items / Balances	*31/12/2015*	*31/12/2014*
A. CASH ASSETS		
1. **Debt securities**	**9,173,650**	**7,816,436**
a) Governments and Central Banks	6,640,049	5,142,461
b) Other public entities	74	4
c) Banks	1,343,197	1,593,545
d) Other issuers	1,190,330	1,080,426
2. **Equity securities**	**50,261**	**57,568**
a) Banks	208	1,820
b) Other issuers	50,053	55,748
- insurance companies		*6,936*
- financial companies	*473*	*496*
- non-financial companies	*49,580*	*46,048*
- others		*2,268*
3. **Units in collective investment undertakings**	**3,742**	**2,923**
4. **Loans**	**8,279,428**	**6,297,678**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	3,652,827	2,865,214
d) Others	4,626,601	3,432,464
Total A	**17,507,081**	**14,174,605**
B. DERIVATIVE INSTRUMENTS		
a) Banks	3,325,078	4,406,080
- fair value		
b) Customers	2,144,795	2,765,129
- fair value		
Total B	**5,469,873**	**7,171,209**
Total (A+B)	**22,976,954**	**21,345,814**

Note:
Of item "A. Cash assets", "1. Debt securities - a) Governments and Central Banks" is composed mainly (in the amount of € 6,596,950 thousand) of Italian government securities with maturities as follows: € 2,768,851 thousand within a year; € 2,101,577 thousand by over 1 year to 5 years; € 1,726,522 thousand beyond 5 years. To this exposure are related technical overdrafts classified under Item 40 of the Liabilities for an amount of € 2,781,175 thousand.
The amount indicated under the item "B. Derivative Instruments", of which "b) Customers", includes € 19,470 thousand (€ 11,496 thousand at 31/12/2014) as net exposure towards Clearing Brokers that are members of LCH (LCH.Clearnet).

2.2.a U.C.I.T.S. units: breakdown by main categories

Categories/Balances	*31/12/2015*	*31/12/2014*
a. Stock		
b. Bonds	160	67
c. Balanced		
d. Hedge Funds		
e. Private Equity		
f. Real estate		
g. Other	3,582	2,856
Total	**3,742**	**2,923**

2.2.b analysis of equities issued by parties classified under bad loan or probable default status

Nothing to report.

Section 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE - ITEM 30

The Bank does not hold in the present financial year (as at 31 December 2014) financial instruments classified in this category.

Section 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

4.1 Financial assets held for sale: breakdown by type

Items/Balances	*31/12/2015*			*31/12/2014*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities		53,149	0		30,879	39,175
1.1 Structured securities						
1.2 Other debt securities		*53,149*			*30,879*	*39,175*
2. Equity securities		4,339	4,705		13,970	3,359
2.1 Carried at fair value		*4,339*	*821*		*13,970*	*1,031*
2.2 Measured at cost			*3,884*			*2,328*
3. Units in collective investment undertakings		1,553			1,553	
4. Loans						
Total		**59,041**	**4,705**		**46,402**	**42,534**

Note:
at 31/12/2014, there was a hedge against changes in interest rates (fair value hedge) on the debt securities indicated in level 3; this was implemented through interest rate swap derivative contracts. The hedging relationship ceased in November 2015 at the natural maturity of the security.
The increase in level 2, in particular in the sub-item 1.2 "Other debt securities", is attributable mainly to purchases on a subordinated security issued by the Parent Company with maturity 2018, as well as, with an opposite sign, to the negative change in fair value for € 8,803 thousand.
The reduction in equities was due mainly to the impairment booked on a number of positions for a total of € 9,869 thousand (cf. table 4.2.b below for more details).

4.1.a Detail of debt instruments: structured instruments

The Bank holds no structured security in this category

4.1 Financial assets held for sale: subordinated assets

Items / Balances	*31/12/2015*	*31/12/2014*
- Debt securities	51,519	30,879
- Loans		
Total	**51,519**	**30,879**

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

Items / Balances	*31/12/2015*	*31/12/2014*
1. **Debt securities**	**53,149**	**70,054**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	51,519	30,879
d) Other issuers	1,630	39,175
2. **Equity securities**	**9,044**	**17,330**
a) Banks	64	64
b) Other issuers	8,980	17,266
- insurance companies		
- financial companies	*19*	*19*
- non-financial companies	*8,961*	*17,247*
- others		
3. **Units in collective investment undertakings**	**1,553**	**1,553**
4. **Loans**		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Others		
Total	**63,746**	**88,937**

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

Categories / Balances	*31/12/2015*	*31/12/2014*
a. Stock		
b. Bonds		
c. Balanced		
d. Hedge Funds		
e. Private Equity		
f. Real estate	1,553	1,553
g. Other		
Total	**1,553**	**1,553**

4.2.b Analysis of equities issued by parties classified under bad loan or probable default status

	Historical cost	*Cumulative writedowns*	*Carrying amount*	*Adjustments ascertained in the year*
Bad loan:	3,340	(1,714)	1,626	
- Moncada Solar Equipment Srl	*3,340*	*(1,714)*	*1,626*	
Probable defaults	65,178	(64,473)	705	(9,609)
- Targetti Sankey S.p.A.	*705*		*705*	
- Targetti Poulsen S.p.A.	*2,882*	*(2,882)*	*0*	
- Marina di Stabia S.p.A.	*6,861*	*(6,861)*	*0*	*(2,779)*
- S.T.B. S.p.A.	*5,823*	*(5,823)*	*0*	
- La Gardenia Beauty S.p.A.	*4,000*	*(4,000)*	*0*	*(4,000)*
- Panini S.p.A.	*2,830*	*(2,830)*	*0*	*(2,830)*
- Fenice Holding S.p.A.	*42,077*	*(42,077)*	*0*	
Total	**68,518**	**(66,187)**	**2,331**	**(9,609)**

4.3 Financial assets available for sale subject to micro-hedging

Items / Balances	*31/12/2015*	*31/12/2014*
1. Financial assets subject to fair value micro-hedging	0	39.175
a) interest rate risk		*39,175*
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		**39,175**

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

The Bank does not hold at 31 December 2015 (as at 31 December 2014) financial instruments classified in this category.

Section 6 - DUE FROM BANKS - ITEM 60

6.1 Receivables from banks: breakdown by type

		Total 31/12/2015			
	Type of transaction / Balances	*Value of book*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits				
2.	Compulsory reserve				
3.	Repurchase agreements				
4.	Other				
B.	**Due from banks**	**8,867,669**		**8,867,669**	
1.	Loans	8,867,669		8,867,669	
1.1	Current accounts and demand deposits	3,573,827			
1.2	Restricted deposits	1,501,947			
1.3	Other loans:	3,791,895			
	- Reverse repurchase agreements				
	- Financial leasing				
	- Others	*3,791,895*			
2.	Debt securities				
2.1	Structured securities				
2.3	Other debt securities				
Total		**8,867,669**		**8,867,669**	

Note:
The sub-item B. “Due from banks - 1.2. Restricted deposits” includes: € 4,638 thousand (€ 3,123 thousand in 2014), as mandatory reserve fulfilled indirectly through the Parent Company Banca Monte dei Paschi di Siena;
The sub-item B. “Due from banks - 1.3. Other loans: - Others” is made up mainly of receivables against collaterals paid against operations in securities lending, in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMSLAs for securities lending, GMRAs for repurchase agreements). In particular, the item includes € 3,468,057 thousand (€ 4,149,077 thousand at the end of 2014) paid to counterparties of the Group to guarantee securities lending operations (securities which, in their turn, the counterparties borrow from their customers).

		Total 31/12/2014			
	Type of transaction / Balances	*Value of book*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits				
2.	Compulsory reserve				
3.	Repurchase agreements				
4.	Other				
B.	**Due from banks**	**9,843,127**		**9,843,127**	
1.	Loans	9,843,127		9,843,127	
1.1	Current accounts and demand deposits	4,464,196			
1.2	Restricted deposits	801,799			
1.3	Other loans:	4,577,132			
	- Reverse repurchase agreements				
	- Financial leasing				
	- Others	*4,577,132*			
2.	Debt securities				
2.1	Structured securities				
2.3	Other debt securities				
Total		**9,843,127**		**9,843,127**	

6.1.a Receivables due from banks: detail of impaired assets

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, classified under bad loan, was subjected to value adjustments equal to its entire book value during previous years.

6.2 Receivables due from banks subject to micro-hedging

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

6.3 Financial leasing

There are no existing agreements.

Section 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Receivables from customers: breakdown by type

	Total 31/12/2015					
	Carrying Amount			*Fair value*		
Type of transaction / Balances	*Non-impaired*	*Impaired*				
		purchased	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	5,497,548		4,784,624	-	304,064	10,400,372
1. Current accounts	5					
2. Reverse repurchase agreements						
3. Loans	5,081,766		4,770,446			
4. Credit cards, personal						
Loans and loans secured						
over wages and salaries	3,164		1			
5. Financial leasing						
6. Factoring						
7. Other loans	412,613		14,177			
Debt securities			1,048	-	-	1,048
8. Structured securities						
9. Other debt securities			1,048			
Total	**5,497,548**		**4,785,672**	**-**	**304,064**	**10,401,420**

Note:

Sub-item 7. "Other loans" includes receivables for collaterals related to securities lending activity, for OTC and listed derivatives and for repurchase agreements (these last by way of additional marginalisations), as per agreements made between the parties (CSAs for OTC derivatives, GMSLAs for securities lending, GMRAs for repurchase agreements).

Total 31/12/2014

Type of transaction / Balances	*Carrying Amount*			*Fair value*		
	Non-impaired	*Impaired*				
		purchased	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	6,374,599		4,732,472	-	260,535	11,153,485
1. Current accounts	5					
2. Reverse repurchase agreements						
3. Loans	5,993,916		4,713,226			
4. Credit cards, personal Loans and loans secured over wages and salaries	3,079					
5. Financial leasing						
6. Factoring						
7. Other loans	377,599		19,246			
Debt securities	1,480		634	**-**	-	2,114
8. Structured securities						
9. Other debt securities	1,480		634			
Total	**6,376,079**		**4,733,106**	**-**	**260,535**	**11,155,599**

7.1.a Loans to customers: analysis of impaired assets

Category / Balances	*31/12/2015*	*31/12/2014*
1. Bad loans	2,246,138	2,104,612
2. Probable defaults	2,414,213	2,220,245
3. Impaired past-due exposures	125,320	408,249
Total carrying amount	**4,785,671**	**4,733,106**

Note:
Impaired debt securities are classified in the category of probable defaults.

7.2 Receivables from customers: breakdown by debtor/issuer

Type of transaction / Balances	*31/12/2015*			*31/12/2014*		
	Non-impaired	*Impaired*		*Performing*	*Impaired*	
		purchased	*other*		*purchased*	*other*
1. Debt securities:			**1,048**	**1,480**		**634**
a) Governments						
b) Other public entities						
c) Other issuers			1,048	1,480		634
- non-financial companies			*1,048*	*1,480*		*634*
- financial companies						
- insurance companies						
- others						
2. Loans to:	**5,497,548**		**4,784,624**	**6,374,599**		**4,732,472**
a) Governments	6,272			5,441		
b) Other public entities	11,500		1,048	12,258		1,191
c) Others	5,479,776		4,783,576	6,356,900		4,731,281
- non-financial companies	*4,608,727*		*4,624,999*	*5,451,539*		*4,593,143*
- financial companies	*757,998*		*94,019*	*569,631*		*48,191*
- insurance companies						
- others	*113,051*		*64,558*	*335,730*		*89,947*
Total	**5,497,548**		**4,785,672**	**6,376,079**		**4,733,106**

7.3 Receivables due from customers subject to micro-hedging

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

7.4 Financial leasing

There are no existing agreements.

Section 8 - HEDGING DERIVATIVES - ITEM 80

There were no transactions for this accounting item.

Section 9 - VALUE ADJUSTMENTS TO FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - ITEM 90

There were no transactions for this accounting item.

Section 10 - EQUITY INVESTMENTS - ITEM 100

10.1 Equity investments: information on investment relationships

Name	*Registered Offices*	*Operating office*	*stake of equity investment %*	*Available votes %*	*Carrying Amount*	*Fair value*
A. Full subsidiaries						
B. Subsidiaries under joint control						
C. Companies subject to significant influence				1,680		
1. Immobiliare Centro Milano S.p.A.	Milan		33,333	33,333	0	
2. Terme di Chianciano S.p.A.	Chianciano T.		28,072	28,072	0	
3. Interporto Toscano A. Vespucci S.p.A.	Collesalvetti		19,001	19,001	901	
4. Sviluppo Imprese Centro Italia S.p.A.	Florence		15,000	15,000	779	
Total (A+B+C)					**1,680**	

The fair value of the equity investments is not indicated because the securities are not listed.

10.2 Significant equity investments: carrying amount, fair value and dividends received

Name	*Carrying Amount*	*Fair value*	*Dividends received*
A. Full subsidiaries			
B. Subsidiaries under joint control			
C. Companies subject to significant influence	**1,680**		
1. Immobiliare Centro Milano S.p.A.	0		-
2. Terme di Chianciano S.p.A.	0		-
3. Interporto Toscano A. Vespucci S.p.A.	901		-
4. Sviluppo Imprese Centro Italia S.p.A.	779		-
Total (A+B+C)	**1,680**		

10.2.a analysis of equities issued by parties classified under bad loan or probable default status

	Historical cost	*Cumulative writedowns*	*Carrying amount*	*Adjustments ascertained in the year*
Probable defaults				
- *Immobiliare Centro Milano S.p.A.*	40	(40)	0	0
- *Terme di Chianciano S.p.A.*	2,010	(2,010)	0	(1,325)
- *Interporto Toscano A. Vespucci S.p.A.*	8,369	(7,468)	901	0
Total	**10,419**	**(9,518)**	**901**	**(1,325)**

10.3 Significant equity investments: accounting information

Name	*Cash and cash equivalents*	*Financial assets*	*Non-financial assets*	*Financial liabilities*	*Non-financial liabilities*	*Total revenues*	*Net interest income*	*Adjustments and value writebacks on property, plant and equipment and intangible assets*	*Profit (Loss) from current operations before tax*	*Profit (Loss) from current operations net of taxes*	*Gain (Loss) on discontinued operations, net of taxation*	*Profit (loss) for the period (1)*	*Other income components net of taxes (2)*	*Comprehensive income (3)=(1)+ (2)*
A. Full subsidiaries														
B. Subsidiaries under joint control														
C. Companies subject to significant influence														
1. Interporto Toscano A. Vespucci S.p.A.		89	170,750	60,589	88,266	8,984			(573)	(882)	-	(400)	-	(400)
3. Sviluppo Imprese Centro Italia S.p.A.		8,005	1,387	-	547	1,361			170	106	-	106	-	106

Note:

The figures refer to the financial statements at 31/12/2014, the latest approved.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. was classified among companies subject to significant influence, although in the presence of an interest of less than 20% of the share capital because the Bank has the power to take part in determining the financial and management policies by indicating a name for the company's Board of Directors.

The nature of the activity carried out by the investees none of which is considered strategic for the Bank is shown below:

Interporto Toscano A. Vespucci S.p.A.: the company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalvetti (Leghorn).

Sviluppo Imprese Centro Italia S.G.R. S.p.A. The company manages four closed-end mutual investment funds.

10.4 Non-significant equity investments: accounting information

Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations net to taxes	Gain (Loss) on discontinued operations, net of taxation	Profit (Loss) for the period (1)	Other income components net of taxes (2)	Comprehensive income (3) = (1) + (2)
A. Full subsidiaries									
B. Subsidiaries under joint control									
C. Companies subject to significant influence									
1. Immobiliare Centro Milano S.p.A.	0	303	8,054	0	(7,858)	0		(7,858)	(7,858)
2. Terme di Chianciano S.p.A.	0	3,612	977	1,674	(97)	0		(97)	(97)

Note:
The figures refer to the financial statements at 31/12/2014, the latest approved.

10.5 Equity investments: annual changes

		31/12/2015	*31/12/2014*
A.	**Opening balances**	**3,005**	**10,051**
B.	**Increases**		**2,010**
	B1. Purchases		2,010
	B2. Writebacks		
	B3. Revaluations		
	B4. Other changes		
C.	**Decreases**	**1,325**	**9,056**
	C1. Sales		
	C2. Value adjustments	1,325	4,056
	C3. Other changes		5,000
D.	**Closing balances**	**1,680**	**3,005**
E.	**Total revaluations**		
F.	**Total adjustments**	9,518	8,193

Notes to the 2015 financial statements
C2. The value adjustments are all related to Terme di Chianciano S.p.A..
Notes to the 2014 financial statements
B1. Acquisition, as part of a recovery agreement pursuant to Art. 67 paragraph 3, lett. d) of the Bankruptcy Law, of the equity investment in Terme di Chianciano S.p.A., a company in which the Parent Company already had a 20.35% stake.
C2. The value adjustments are related to Interporto Toscano S.p.A. for € 3,367 thousand, Terme di Chianciano S.p.A. for € 685 thousand and to Agricola Merse S.p.A. for € 4 thousand.
C3 Amount related to the equity investment in Agricola Merse S.r.l. transferred to the item "Non-current assets held for sale and discontinued operations, and associated liabilities" (IFRS5), sold in February 2015.

10.6 Commitments relating to equity interests in subsidiaries under joint control

At the reporting date, there were no equity investments in subsidiaries.

10.7 Commitments relating to equity investments in companies under significant influence

At the reporting date, there were no commitments relating to equity investments in companies under significant influence.

10.8 Significant restrictions

There are no significant restrictions to report.

10.9 Other information

Nothing to report.

Section 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110

11.1 Property, plant and equipment for use in business: breakdown of assets measured at cost

Assets / Balances	*31/12/2015*	*31/12/2014*
1. Company owned	**224**	**306**
a) land		
b) buildings		
c) furniture	68	150
d) electronic systems		
e) other	156	156
2. Assets acquired under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic systems		
e) other		
Total	**224**	**306**

11.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

		Total 31/12/2015		
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Company owned	**13,369**			**18,001**
a) for credit recovery				
b) other				
- land	10,426			11,273
- buildings	2,943			6,728
2. Assets acquired under financial leases				
a) land				
b) buildings				
Total	**13,369**			**18,001**

		Total 31/12/2014		
		Fair value		
Assets / Balances	*Carrying Amount*	*Level 1*	*Level 2*	*Level 3*
1. Company owned	**13,669**			**18,108**
a) for credit recovery				
b) other				
- land	10,426			11,231
- buildings	3,243			6,877
2. Assets acquired under financial leases				
a) land				
b) buildings				
Total	**13,669**			**18,108**

11.3 Property, plant and equipment used for business: breakdown of revalued assets

There were no revalued property, plant and equipment used for business.

11.4 Property, plant and equipment held for investment purposes: breakdown of assets carried at fair value

There are no property, plant and equipment items held for investment purposes carried at fair value.

11.5 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening balances - gross			**1,236**	**446**	**189**	**1,871**
A.1 Total value reductions - net			1,086	446	33	1,565
A.2 Net opening balances			**150**	**0**	**156**	**306**
B. Increases:						
B.1. Purchases						
B.2 Capitalised improvement costs						
B.3 Writebacks						
B.4 Positive fair value changes						
booked to:						
a) shareholders' equity						
b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes						
C. Decreases:			**82**			**82**
C.1 Sales						
C.2 Depreciation			82			82
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) property, plant and equipment held						
for investment purposes						
b) discontinued operations						
C.7 Other changes						
D. Net closing balances			**68**	**0**	**156**	**224**
D.1 Total net value reductions			1,168	446	33	1,647
D.2 Gross closing balances			**1,236**	**446**	**189**	**1,871**
E. Measured at cost						

Note:
the item "other" regards furnishings not subject to amortisation (in particular works of art).

11.6 Property, plant and equipment held for investment purposes: annual changes

	Land	*Buildings*	*Total*
A. Opening balances	**10,426**	**3,244**	**13,670**
B. Increases:			
B.1. Purchases			
B.2 Capitalised improvement costs			
B.4 Positive fair value changes			
B.3 Writebacks			
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 Writedowns for 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**	**2,943**	**13,369**
E. Fair value measurement	**11,273**	**6,727**	**18,000**

11.7 Commitments for the purchase of property, plant and equipment (IAS 16/74.c)

As of the reporting date, there were no commitments undertaken to purchase property, plant and equipment.

11.8 Property, plant and equipment: useful 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	*L.576/75*	*L.72/83*	*L. 408/90*	*L. 413/91*	*L. 342/00*	*L. 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 (car park)					14	3
Total	**230**	**1,123**	**3,098**	**5,813**	**1,795**	**5,864**

Section 12 - INTANGIBLE ASSETS - ITEM 120

There were no transactions for this accounting item.

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

Current taxes

Current taxes include the estimated payable for current liabilities or liabilities referring to transactions from previous years. Current tax assets and liabilities are shown in their net balance in the respective balance sheet items following the offset carried out at the level of the said tax.

Current tax assets amounted to € 239,794 thousand and include for € 227,404 thousand the tax credit under Italian Law 214/11 and for € 18,305 thousand the IRAP credit offset with payables of the same nature for € 5,915 thousand. As a result of the adhesion to the national tax consolidation system under the terms of Art. 117 ff. of the Consolidated Act on Income Tax as a consolidated company, the Bank determines, in the presence of a taxable profit, the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Parent Company BMPS, which, as the consolidating company, after consolidating the taxable amounts coming under 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 assets” and “Other liabilities”.

Deferred tax assets and liabilities

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. This method takes account of the tax effect connected with temporary differences between the carrying value of assets and liabilities and their fiscal value, which lead to taxable or deductible amounts in future periods. For these purposes, “taxable temporary differences” are those which in future periods will determine taxable amounts and “deductible temporary differences” are those which in future periods will determine deductible amounts.

Deferred tax assets and liabilities are calculated applying the tax rates established by the provisions of current laws to the taxable temporary differences in relation to which there is the probability that the taxes will actually have to be paid and to the deductible temporary differences for which there exists reasonable certainty of recovery.

Prepaid and deferred taxes are shown as the net balance of the respective balance sheet item, subsequent to offsetting at the same tax level and for each financial year, taking into account when payment is expected to fall due. Consequently, at 31 December 2015 the deferred tax liabilities were completely offset with the deferred tax assets.

In order to pursue greater fiscal harmonisation among the European Union countries, Parliament has introduced changes to the tax system of credits (Italian Law Decree 83/2015 converted into Italian Law 132/2015). Specifically:

- starting from financial year 2015, writedowns and losses on loans are fully deductible in the year in which they are recognised in the income statement. Only for the year 2015 a transitory system was introduced which provides for a deduction limited to 75%;
- deferred tax assets related to writedowns and losses on loans, accounted for in previous years and deductible in 18 or in 5 years, together with the proportion referred to 2015, are merged into a single inseparable earlier stock deductible in 10 years starting from 2016.

During financial year 2015 deferred tax assets on writedowns on loans in being at 31 December 2014, including those recognised on the 2014 tax loss, were transformed into tax credit for € 235,803 thousand under the terms of Italian Law No. 214/11.

With reference instead to the recovery of deferred tax assets not transformable into tax credits, on the basis of the tax legislation currently in force, no difficulties for their recovery have emerged.

13.1 Deferred tax assets: breakdown

Deferred tax assets, gross of offsetting against deferred tax liabilities, derive 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 € 225,890 thousand and to IRAP for € 32,743 thousand.
Specifically:

- the sub-item "receivables" represents the total amount of the value adjustments on receivables exceeding the portion allowed for deduction for IRES and IRAP purposes and to be carried forward in future financial years, as well as provisions for documentary credit; As indicated above, during the year the deferred tax assets recognised at 31 December 2014 were transformed into tax credits, implementing Italian Law No. 214/11, for € 235,803 thousand;
- the deferred tax assets in the sub-item "*reserves from measurement of fin. instruments*", recognised in equity, regard the taxes on negative valuation reserves related to financial assets available for sale;
- the item "other" refers to allocations for legal disputes and liabilities connected to external events.

Items / Balances		*31/12/2015*				*31/12/2014*
	Deferred taxes contra item CE IRES	*Deferred taxes contra item PN IRES*	*Deferred taxes contra item CE IRAP*	*Deferred taxes contra item PN IRAP*	*Total*	*Total*
Receivables	217,692		32,110		**249,802**	**458,295**
- of which It. Law No. 214/2011	*213,712*		*32,110*		***245,822***	***453,634***
Other financial instruments						
Goodwill						
Deferred charges						
Property, plant and equipment	82		17		**99**	**99**
- of which It. Law No. 214/2011						
Entertaining expenses						
Personnel-related costs	1	165			**166**	**165**
Tax losses						**12,000**
- of which It. Law No. 214/2011						***12,000***
Reserves for valuation of financial instruments		2,818		571	**3,389**	**690**
Other	5,132		45		**5,177**	**5,172**
Deferred tax assets - gross	**222,907**	**2,983**	**32,172**	**571**	**258,633**	**476,421**
Offsetting against deferred tax liabilities	**(100)**	**(23)**	**(20)**	**(38)**	**(181)**	**(907)**
Deferred tax assets - net	**222,807**	**2,960**	**32,152**	**533**	**258,452**	**475,514**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for € 123 thousand and IRAP for € 58 thousand. They are mainly recorded as offsetting entries in the income statement for € 120 thousand (compared to € 615 thousand for 2014) in addition to € 61 thousand recorded as offsetting entries to the shareholders' equity, the latter fully recorded as revaluations of financial assets available for sale (in 2014, they were € 292 thousand).
The main taxable temporary differences which caused deferred taxes to be recognised are related to the sub-item "Financial instruments", in particular to valuation gains recorded on equity investments in collective investment undertakings and equity investments and to the sub-item "Property, plant and equipment and intangible assets" as a result of a higher civil-law value with respect to the fiscal value of the same.

Items / Balances	31/12/2015					31/12/2014
	Deferred taxes contra item CE IRES	*Deferred taxes contra item PN IRES*	*Deferred taxes contra item CE IRAP*	*Deferred taxes contra item PN IRAP*	*Total*	*Total*
Capital gains to be collected						
Goodwill						
Property, plant and equipment and intangible assets	92		18		**110**	**110**
Financial instruments		23		38	**61**	**496**
Personnel-related costs	8		2		**10**	**9**
Reserves for valuation of financial instruments						**292**
Other						
Deferred tax liabilities - gross	**100**	**23**	**20**	**38**	**181**	**907**
Offsetting against deferred tax assets	**(100)**	**(23)**	**(20)**	**(38)**	**(181)**	**(907)**
Net deferred tax liabilities	**0**	**0**	**0**	**0**	**0**	**0**

13.3 Change in deferred tax assets (as offsetting entry to the income statement)

The table shows all deferred tax assets to be absorbed in subsequent years as offsetting entries to the income statement. Among the main deferred tax assets emerging during the year were those generated by net value adjustments on receivables exceeding the deductible limit in the year for € 15,991 thousand (€ 296,620 thousand in 2014) and by the taxed allocations to provisions made during the year of € 1,019 thousand (€ 5,282 thousand in 2014).
Among the decreases recognised in the year we can note the transformation into tax credit of the deferred tax assets on writedowns on loans and tax loss at 31 December 2014.

		31/12/2015	*31/12/2014*
1.	**Opening balance**	**475,566**	**195,465**
2.	**Increases**	**17,191**	**313,902**
2.1	Deferred taxes recorded in the year	17,191	313,902
	a) relating to prior years		
	b) due to changes in accounting policies		
	c) writebacks		
	d) other	*17,191*	*313,902*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**237,678**	**33,801**
3.1	Deferred taxes annulled in the year	1,875	33,801
	a) reversals	*1,875*	*33,801*
	b) written down as now considered unrecoverable		
	c) change in accounting policies		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases	235,803	
	a) transformation into tax credit as per law No. 214/2011	*235,803*	
	b) other		
4.	**Closing balance**	**255,079**	**475,566**

13.3.1 Changes in deferred taxes pursuant to law 214/2011 (offset to the income statement)

	IRES	*IRAP*	*Total 31/12/2015*	*Total 31/12/2014*
1. Opening balance	**407,573**	**58,061**	**465,634**	**185,063**
2. Increases	**13,298**	**2,693**	**15,991**	**308,619**
3. Decreases	**207,158**	**28,645**	**235,803**	**28,048**
3.1 Transfers				28,048
3.2 Transformation into tax credit	207,158	28,645	**235,803**	
a) deriving from losses of the period	*195,158*	*28,645*	*223,803*	
b) deriving from tax losses	*12,000*		*12,000*	
3.3 Other decreases				
4. Closing balance	**213,713**	**32,109**	**245,822**	**465,634**

These are deferred tax assets posted on the financial statements, potentially transformable into tax credits, on the occurrence of a loss in the period and/or a tax loss in implementation of the provisions of Italian Law 214/2011. During 2015 deferred tax assets were transformed for an amount of € 235,803 thousand.

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

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

	31/12/2015	*31/12/2014*
1. Opening balance	**615**	**669**
2. Increases	**2**	**12**
2.1 Deferred tax liabilities recorded in the year	2	12
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*2*	*12*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**497**	**66**
3.1 Deferred taxes cancelled during the year	497	66
a) reversals	*497*	*66*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**120**	**615**

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

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

	31/12/2015	*31/12/2014*
1. Opening balance	**855**	**12,329**
2. Increases	**3,742**	**690**
2.1 Deferred tax liabilities recorded in the year	3,742	690
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*3,742*	*690*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**1,043**	**12,164**
3.1 Deferred taxes cancelled during the year	1,043	12,164
a) reversals	*1,043*	*12,164*
b) written down as now considered unrecoverable		
c) due to changes in accounting standards		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**3,554**	**855**

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. With regard to the revaluation of equity investments with the requisites for exemption, the deferred taxes are applied on 5% of the value.

	31/12/2015	*31/12/2014*
1. Opening balance	**292**	**148**
2. Increases	**0**	**840**
2.1 Deferred tax liabilities recorded in the year	0	840
a) relating to prior years		
b) due to changes in accounting policies		
c) other		*840*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**231**	**696**
3.1 Deferred taxes cancelled during the year	231	696
a) reversals	*231*	*696*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**61**	**292**

13.7 Other information

Probability test

The recognition of prepaid tax assets was made after verifying the existence of sufficient future taxable income to reabsorb the same (the so-called Probability test).
This test took into account the different rules provided for in the Italian tax legislation that have an impact on the measurement in question, in particular:
- Art. 2, paragraphs 55-59, of Italian Law Decree No. 225 of 29/12/2010 (converted, with amendments, into Italian Law No. 10 of 26/02/2011) which provides for the obligation, for financial intermediaries, to transform into tax credits DTAs (IRES and IRAP) related to goodwill, to other intangible fixed assets and to writedowns on loans, in the event of civil-law loss and/or tax loss;
- Art. 84 paragraph 1 of the Consolidated Income Tax Law which permits IRES tax losses to be carried forward with no time limits;
- Art. 1, paragraph 4, of Italian Law Decree No. 201 of 06/12/2011 (converted, with amendments, into Italian Law No 214 of 22/12/2011) which states that the ACE surplus not used can be carried forward with no time limits, or, alternatively, converted into tax credit to be used to offset the IRAP payable in 5 annual instalments.

From the practical point of view, the Probability Test was thus carried out following the steps specified below.
The DTAs related to writedowns on loans (so called "qualified" DTAs) were excluded from the total amount of the DTAs for which the existence of future sufficient taxable income must be verified.

This was because the aforementioned Art. 2, paragraphs 55-59, of Italian Law Decree 225/2010 made certain the recovery of this tale type of DTA, for both IRES and IRAP purposes, irrespective of the presence of future taxable income.

In fact, the law states that, if the taxable income of the financial year in which the rebate of the qualified DTAs is not sufficient for their reabsorption, the consequent tax loss will be transformable into tax credit which can alternatively be: i) used to offset, with no time limits, the various levies ordinarily payable by the Bank, or ii) requested as a rebate or iii) transferred to third parties. In addition, qualified DTAs can be transformed into tax credit, in advance with respect to the natural maturity, in the event of a civil-law loss for the period, voluntary liquidation or being made subject to bankruptcy proceedings. In other words, for qualified DTAs the Probability Test must be understood as automatically passed; this is confirmed also by the joint Bank of Italy, Consob and ISVAP document No. 5 of 15/05/2012.

For DTAs other than qualified ones the year in which they are expected to be rebated was identified (or estimated when not certain).

An estimate was made of the taxable incomes of future years:

- at the level of the national tax consolidation, for the Probability Test for IRES purposes, on the basis of the income statements provided for in the MPS Group's business plan, given that the Parent Company settles the said tax making use of the arrangement provided for in Arts 117 ff. of the Consolidated Income Tax Law;
- at the individual level, for IRAP purposes, on the basis of the forecast economic performance estimated by the Bank.

The figures thus prepared showed the ability of the taxable income of future years to absorb the rebates of the non-qualified DTAs recognised in the financial statements at 31 December 2015, including the ACE deductions brought forward from previous years.

The Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) with paragraphs from 61 to 66 cut the IRES rate from 27.5% to 24% and introduced at the same time an IRES surcharge, of 3.5%, for lending and financial institutions; both measures take effect from financial year 2017.

Although from the combined reading of the two new provisions, in general, it could be concluded that for lending and financial institutions it is not necessary to make any writedowns of IRES DTAs in maturity beyond 2016, as happens instead for the other IRES taxpayers, we must however take into account the fact that the new surcharge is paid on an individual basis; this implies that, from 2017, the IRES DTAs may be made at the rate of 24% offsetting the tax payable in the national tax consolidation, while the 3.5% may be recovered only in the presence of sufficient taxable income on an individual basis.

For this reason, starting from the present financial statements, the presence of sufficient taxable income has also been verified on an individual basis and, also in this case, the Probability Test was passed.

13.7.1 Current tax assets

	31/12/2015	31/12/2014
1. IRES advances		
2. IRAP advances	800	18,940
3. IRAP receivables	17,506	
4. Other receivables and withholdings	227,404	
Current tax assets - gross	**245,710**	**18,940**
Offsetting against current tax liabilities	(5,915)	(2,674)
Current tax assets - net	**239,795**	**16,266**

Note:
for IRES advances, please see notes to the statements - Part B, Assets "Section 15 - Other assets".

13.7.2 Current tax liabilities

Items / Balances	*31/12/2015*		*31/12/2014*	
	taxation to shareholders equity	*taxation to income statement*	*taxation to shareholders equity*	*taxation to income statement*
1. IRES payables				
2. IRAP payables		5,915		2,674
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**5,915**		**2,674**
Offsetting against current tax assets		(5,915)		(2,674)
Amounts due for current taxes - net		**0**		**0**

The item includes the IRAP tax payable accruing to financial year 2015.

Sezione 14 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS, AND ASSOCIATED LIABILITIES - Asset Item 140 and Liability Item 90

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

		31/12/2015	*31/12/2014*
A.	**Individual assets**		
A.1	Financial assets		
A.1	Equity investments		5,000
A.2	Property, plant and equipment		
	- for credit recovery		
	- others		
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A		**5,000**
of which valued at cost			**5,000**
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading		
B.2	Financial assets designated at fair value		
B.3	Financial assets available for sale		
B.4	Financial assets held to maturity		
B.5	Due from banks		
B.6	Loans to customers:		
B.7	Equity investments		
B.8	Property, plant and equipment		
B.9	Intangible assets		
B.10	Other assets		
B.	**Total B**		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
C.	**Liabilities associated with individual discontinued assets**		
C.1	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
D.	**Liabilities associated with groups of discontinued assets**		
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	Funds		
D.7	Other liabilities		
	Total D		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			

14.2 Other information

The 20% equity investment held in Agricola Merse S.r.l. classified at 31 December 2014, according to the provisions of IFRS 5, among "Non-current assets held for sale" was sold in February 2015 for an amount of € 5,000 thousand equal to its carrying amount.

Section 15 - OTHER ASSETS - ITEM 150

15.1 Other assets: breakdown

Type of transaction / Balances	*31/12/2015*	*31/12/2014*
1. Amounts due from the tax authorities and similar	4,644	4,720
2. Items being processed	771	2,915
3. Amounts receivable associated with the supply of goods and services	229	470
4. Improvement and incremental costs on third party assets	74	365
5. Accrued income not attributable to own items	5,581	4,746
6. Prepaid expenses not attributable to own items	3,955	2,345
7. Receivable from consolidating entity for tax consolidation system	520	2,521
8. Receivables for reimbursement to personnel seconded with third parties	4,615	4,386
9. Measurement of securities to be settled ("regular way")	1,009	3,339
10. Other	9,607	3,875
Total	**31,005**	**29,682**

Note:
the sub-item "Amounts due from the tax authorities and similar" includes credits for a total of € 2,783 thousand (same amount also at 31 December 2014) related to higher IRES taxes paid as a result of non-deduction of IRAP under the terms of Art. 6 of Italian Law Decree No. 185/2010 and Italian Law Decree 16/2012 and receivables from foreign tax authorities of € 865 thousand (€ 1,252 in financial year 2014).
The increase in the sub-item "Others" is almost entirely due to items in transit related to spreads on derivatives matured but not yet collectible at 31 December 2015.

LIABILITIES

Section 1 - DUE TO BANKS - ITEM 10

1.1 Receivables from banks: breakdown by type

Type of transaction / Balances	*31/12/2015*	*31/12/2014*
1. Due to Central Banks		
2. Due to banks	**16,545,404**	**19,329,301**
2.1 Current accounts and demand deposits	547,278	328,539
2.2 Restricted deposits	15,029,591	17,933,111
2.3 Loans	458,767	271,070
2,3.1 Repurchase agreements	*202,000*	
2,3.2 Other	*256,767*	*271,070*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other amounts payable	509,768	796,581
Total	**16,545,404**	**19,329,301**
Fair value - level 1		
Fair value - level 2	**16,545,404**	**19,329,301**
Fair value - level 3		
Total fair value	**16,545,404**	**19,329,301**

Note:
the sub-item "Due to banks - 2.5 Other amounts payable" includes collaterals received against operations in securities lending, in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMSLAs for securities lending, GMRAs for repurchase agreements). In relation to the disclosure on fair value, we can note that most of the deposits involve an early repayment on demand option. As a consequence, it was decided to quantify the related fair value as equal to the carrying amount, excluding changes which occurred in the Bank's creditworthiness subsequent to the date the individual relationships were begun.

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 leasing

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

Section 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Receivables from customers: breakdown by type

Type of transaction / Balances	*31/12/2015*	*31/12/2014*
1. Current accounts and demand deposits		
2. Restricted deposits	3,153	3,170
3. Loans	11,589	7,119
3,1 Repurchase agreements		
3,2 Other	*11,589*	*7,119*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	174,438	229,731
Total	**189,180**	**240,020**
Fair value - level 1		
Fair value - level 2	**189,180**	**240,020**
Fair value - level 3		
Total fair value	**189,180**	**240,020**

Note:

Sub-item "5. Other amounts payable" includes collaterals received from institutional counterparties against operations in securities lending, in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMSLAs for securities lending, GMRAs for repurchase agreements).

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 leasing

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	*31/12/2015*				*31/12/2014*			
	Carrying Amount	*Fair value*			*Carrying Amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	456,992		388,670		467,301		444,015	
1.1 structured								
1.2 others	*456,992*		*388,670*		*467,301*		*444,015*	
2. other securities								
2.1 structured								
2.2 other								
Total	**456,992**		**388,670**		**467,301**		**444,015**	

Note:
the 2015 carrying amount includes € 6,973 thousand in interest accrued as of the reporting date (compared to € 7,287 thousand in 2014).

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

Name of security	*Currency*	*date of issue*	*maturity*	*interest rate*	*Carrying Amount 31/12/15*	*31/12/14*
1. IT0003878755 MPS B IMPR SUB15 TV	Euro	30/06/2005	30/06/2015	variable	-	10,000
2. IT0004809601 MPSCS-TV 12/22	Euro	30/03/2012	30/03/2022	variable	50,510	50,531
3. IT0005003451 MPSCS-TV 14/24	Euro	14/03/2014	14/03/2024	variable	253,448	253,568
4. IT0005041709 MPSCS-TV 14/24	Euro	31/07/2014	31/07/2024	variable	153,034	153,201
					456,992	**467,300**

Main characteristics of the subordinated securities in being at 31/12/2015

1. issue reached maturity in financial year 2015
2. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible
3. Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible
4. Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible

The subordination clauses state that, if the Bank is liquidated, the loans will be reimbursed only after all other creditors not equally subordinated have been repaid. 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.

No portions of these securities were held in the receivable portfolio, at both reference dates.

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 31/12/2015*				
	Nominal value or notional	*Fair value*			*Fair value(*)*
		Level 1	*Level 2*	*Level 3*	
A. Cash liabilities					
1. Due to banks	9,500,069	1,637,104	8,177,125		9,814,229
2. Due to customers	9,970,636	1,326,630	8,839,838		10,166,468
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	**19,470,705**	**2,963,734**	**17,016,963**		**19,980,697**
B. Derivative instruments					
1. Financial derivatives		642	3,551,014	85	
1.1 For trading		*642*	*3,551,014*	*85*	
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			70,532		
2.1 For trading			*70,532*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**642**	**3,621,546**	**85**	
Total (A+B)		**2,964,376**	**20,638,509**	**85**	

(*) *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 amounts shown in lines "1. Due to banks" and "2. Due to customers" are mainly correlated with those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading." We also note that the sub-items "Due to banks" and "Due to customers", as above, include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.
In application of IAS32 para. 42, level 1 derivatives quoted on foreign regulated markets were offset for € 136,855 thousand (€ 149,318 at 31/12/2014) as well as OTC level 2 regulated derivatives (through the Clearing Members through which the Bank accedes "indirectly") at the London-based Central Counterparty LCH.Clearnet, for € 428,996 thousand (€ 390,489 at 31/12/2014).

Type of transaction / Balances	*Total 31/12/2014*				
	Nominal value or notional	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value(*)*
A. Cash liabilities					
1. Due to banks	10,793,601	1,634,836	9,409,584	11,044,420	
2. Due to customers	5,432,324	1,879,939	3,885,978		5,765,917
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	**16,225,925**	**3,514,775**	**13,295,562**		**16,810,337**
B. Derivative instruments					
1. Financial derivatives		10,494	4,829,174	3,652	
1.1 For trading		*10,494*	*4,829,174*	*3,652*	
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			487,410		
2.1 For trading			*487,410*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**10,494**	**5,316,584**	**3,652**	
Total (A+B)		**3,525,269**	**18,612,146**	**3,652**	

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

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

There are no subordinated liabilities.

4.3 Analysis of Item 40 “Financial liabilities held for trading”: structured debts

There are no structured debts.

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 hierarchical levels

Items / Balances	*31/12/2015*				*31/12/2014*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*Level 3*	*Notional value*
A. Financial derivatives						0		37,500
1. *Fair value*								37,500
2. Cash flows								
3. Foreign investments								
B. Financial derivatives								
1. *Fair value*								
2. Cash flows								
Total						**0**		**37,500**

Note:
The only hedging derivative present in the Bank's portfolio at 31 December 2014 underwent novation and was transferred to a Clearing Broker, a member of LCH, and consequently the value of the liability was "offset" as indicated at the bottom of table 2.2, Part B Section 2 - Financial assets held for trading - Item 20.
During 2015 the derivative reached maturity, at the same time as the redemption of the hedged security.

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

At 31 December 2015 there were no transactions for this accounting item.

Section 7 - VALUE ADJUSTMENTS TO FINANCIAL LIABILITIES SUBJECT TO MACRO-HEDGING - ITEM 70

There were no transactions for this accounting item.

Section 8 - TAX LIABILITIES - ITEM 80

8.1 Current tax liabilities

Details of current tax liabilities are provided in the notes to the statements Part B - Assets - Section 13 “Tax assets and tax liabilities”.

8.2 Deferred tax liabilities

Details of deferred tax liabilities are provided in the notes to the statements 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	*31/12/2015*	*31/12/2014*
1. Taxes due to the tax authorities and similar	3,286	2,733
2. Amounts due to social security and welfare institutions	1,656	1,551
3. Amounts due to the Parent Company for tax consolidation	8,683	
4. Sums available to customers	1,167	989
5. Other amounts due to employees	4,965	6,063
6. Items being processed	51,569	65,715
7. Amounts payable associated with the payment of supplies of goods and services	15,703	12,261
8. Guarantees given	14,279	16,950
9. Payables for reimbursement of cost of personnel seconded to Bank	1,378	1,388
10. Deferred income not attributable to own items	1,279	316
11. Accrued liabilities not attributable to own items	24	46
12. Measurement of securities to be settled ("regular way")	369	1,307
13. Other	3,511	2,226
Total	**107,869**	**111,545**

Note:
sub-item "6. "Items being processed" includes transactions that were settled in the first few days of 2016. The increase in the sub-item "Others" is almost entirely due to items in transit related to spreads on derivatives matured but not yet collectible at 31 December 2015.

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: annual changes

		31/12/2015	31/12/2014
A.	**Opening balances**	**3,219**	**2,851**
B	**Increases**	**43**	**646**
B.2	Provision for the year	43	90
B.3	Other increases		556
C	**Decreases**	**312**	**278**
C.1	Liquidations carried out	60	278
C.2	Other decreases	252	
D.	**Closing balances**	**2,950**	**3,219**

Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or transferred to the Treasury Funds managed by INPS (National Institute of Social Insurance). The said portions do not appear in the table of movements.

Below, the amount subject to the prudential filter is shown, recognised according to the indications issued by the Bank of Italy regarding the determination of regulatory capital.

		31/12/2015	31/12/2014
a)	Value of net liability for defined benefits on the basis of the new IAS 19	2,950	3,219
b)	Value of net liability for defined benefits on the basis of the approach adopted in the financial statements at 31/12/2012	1,980	1,951
c)	**Difference between the two values (a-b)**	**970**	**1,268**
d)	Tax effect on the difference	267	349
e)	**Net difference to be added as a prudential filter to supervisory capital**	**703**	**919**

11.2 Other information

11.2.a Changes during the year for defined benefit liabilities. Severance indemnities

Items / Balances	*A (-) Plan assets*	*B(+) Current DBO value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/ assets for defined benefits*
Opening balances		**3,219**		**3,219**
Welfare cost relating to current work services				
Interest income/expense		43		43
Revaluation of net liabilities/assets for defined benefits:		(252)		(252)
Yield of plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions				
Actuarial gains/losses deriving from changes in financial assumptions		*(252)*		*(252)*
Changes in the effect of limitations on the availability of a net asset for defined benefit plans				
Welfare cost relating to past employment service and/or regulatory gains/losses				
Exchange differences				
Contributions:				
Paid by the employer				
Paid by employees				
Payments made by the plan		(60)		(60)
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**2,950**		**2,950**

11.2.b Main actuarial hypotheses used

	Main actuarial hypotheses / Percentages	*31/12/2015*	*31/12/2014*
1.	Average discounting back rate (*)	2.1734%	1.3406%
2.	Estimated salary increase rates	2.7700%	2.7800%
	Annual inflation rate	2.0000%	2.0000%

(*)
for the purposes of calculating the discounting back of gains/losses, the Bank uses the BFV EUR Composite (AA) curve at the measurement date. This curve refers to a basket of securities issued by corporate issuers with a "AA" rating.

11.2.c Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	*Change in the value of the bond*	*% change the in bond*
Average discounting back rate		
25 bp increase	(71)	(2.39%)
25 bp decrease	73	2.47%
Estimated salary increase rates		
25 bp increase		
25 bp decrease		

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

Under the terms of Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity was € 2,672 thousand (€ 2,695 thousand at 31 December 2014).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2015*	*31/12/2014*
1. Company pension funds	5,366	5,902
2. Other provisions for risks and charges:	22,660	28,827
2.1 legal disputes	*17,860*	*17,927*
2.2 personnel expenses	*800*	
2.3 other	*4,000*	*10,900*
Total	**28,026**	**34,729**

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 98% and 2%, respectively, of the total shown in the table (97% and 3% at 31 December 2014).
The sub-item "Other provisions for risks and charges: 2.3 others" indicates the amount of the provision related to certain objections raised by the Tax Authority during the "general audit for IRES, IRAP, Withholdings and VAT purposes related to the tax period 2012" (subsequently extended to financial years 2011 and 2013 for IRES and IRAP purposes, to determine the proportion of interest expense deductible under the terms of Art. 96 of Italian Presidential Decree 917/86 and to financial year 2011 for IRAP and withholdings purposes, for the operations that generated dividends under the terms of Art. 89 of Italian Presidential Decree 917/86). The audit began on 1 April 2015 and ended on 4 December 2015 with the delivery of the Notice of Findings and subsequent acceptance by the Bank. The objections regard essentially the legal/economic requalification of certain securities purchase and sale transactions and the signing at the same time of derivative contracts in repurchase agreements, with the consequent claim for full IRAP taxability on the dividends received. As at 31 December 2015 the liquidation form had still not been received from the Tax Authority, the amount claimed by the Agency - approximately € 4,000 thousand between higher taxes ascertained and sanctions - remained set aside in the Provisions. The surplus of the provisions set aside in previous years against this risk, of € 6,900 thousand, was reversed to the income statement under item 160 "Net provisions for risks and charges".

12.2 Provisions for risks and charges: annual changes

		Pension funds	*Other provisions*	*Total*
A.	**Opening balances**	**5,902**	**28,827**	**34,729**
B.	**Increases**	**38**	**2,449**	**2,487**
B.1	Provision for the year		2,449	2,449
B.2	Changes due to the passage of time	38		38
B.3	Changes due to discount rate changes			
B.4	Other increases			
C.	**Decreases**	**574**	**8,616**	**9,190**
C.1	Uses in the year	543	1,300	1,843
C.2	Changes due to discount rate changes			
C.3	Other changes	31	7,316	7,347
D.	**Closing balances**	**5,366**	**22,660**	**28,026**

12.3 Defined-benefit company pension funds

12.3.1 Illustration of the features of the funds and of the related risks.

Determination of the actuarial values, required by the application of IAS 19 "Employee Benefits" for defined-benefit complementary pension funds, is carried out by an independent actuary, using the "projected unit credit" method, as described in more detail in Part A of the Notes to the Statements, Accounting Policies.

The internal defined benefit funds for which the Bank is jointly responsible are the following:
Defined benefit pension fund, of an integrative or additional type, reserved for the personnel of the former Mediocredito Toscano and the former Istituto Nazionale di Credito Agrario already retired as of 1 January 1999 and personnel in service hired before 27 April 1993 who have expressed the desire to remain in said section. The provision for which the Bank is solely responsible is determined on the basis of the mathematical reserve calculated by an independent actuary at the end of each financial year.
"Defined contribution" pension fund, extended to all the Bank's personnel, with separate equity but not a separate legal standing (for more details, please refer to the statements of accounts for pension funds attached to the notes).

12.3.2 Changes during the year for net defined benefit liabilities (assets)

Items / Balances	*31/12/2015*		*31/12/2014*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**5,902**		**5,796**	
Increases	**38**		**652**	
Welfare cost relating to current work services				
Borrowing costs	38		133	
Members contributions to plan				
Actuarial losses			519	
Exchange losses				
Welfare cost relating to past employment services				
Other changes				
Decreases	**574**		**546**	
Indemnities paid	543		546	
Welfare cost relating to past employment services				
Actuarial gains	31			
Exchange gains				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances	**5,366**		**5,902**	

12.3.2.a Changes in the year in defined-benefit net liabilities (assets)

Items / Balances	*A (-) Plan assets*	*B(+) DBO current value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/ assets for defined benefits*
Opening balances		**5,902**		**5,902**
Welfare cost relating to current work services				
Interest income/expense		38		38
Revaluation of net liabilities/assets for defined benefits:		(31)		(31)
Yield of plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions				
Actuarial gains/losses deriving from changes in financial assumptions		*(72)*		*(72)*
Actuarial gains/losses deriving from past experience		*41*		*41*
Changes in the effect of limitations on the availability of a net asset for defined benefit plans				
Welfare cost relating to past employment service and/or regulatory gains/losses				
Exchange differences				
Contributions:				
Paid by the employer				
Paid by employees				
Payments made by the plan		543		543
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**5,366**		**5,366**

12.3.3 Information about the fair value of the plan assets

The assets of the defined-benefit pension funds are invested in the Bank's assets; no specific assets have been classified as plan assets. As a consequence, it is not possible to provide precise information about the fair value of the plan assets.

12.3.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	*31/12/2015*	*31/12/2014*
1. Average discounting back rate *(*)*	0.92%	1.05%
2. Estimated salary increase rates	n.a.	n.a.
3. Annual inflation rate	1.50%	1.50%

(*) for the purposes of calculating the discounting back of gains/losses, the Bank uses the BFV EUR Composite (AA) curve at the measurement date

12.3.5 Information on amounts, timeframes, and uncertainties for financial flows

Below we provide the estimated uses in the coming years:

FUTURE PAYMENTS

Year	*2016*	*2017*	*2018*	*2019*	*2020*
Cash flow	510	478	443	407	370

OTHER INFORMATION

Main actuarial hypotheses / Percentages	*31/12/2015*	*31/12/2014*
Number of active employees	0	0
Number of pensioners	41	42
Service Cost 2015	0	0
Residual average length	6.63	6.94

12.3.5.a Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	*Change in the value of the bond*	*% change in the bond*
Average annual discounting back rate and inflation rate		
DBO + 0.25% discounting	(89)	(103)
DBO - 0.25% discounting	91	105
DBO + 0.25% inflation rate	90	n.a.
DBO - 0.25% inflation rate	(89)	n.a.

12.3.6 Plans relative to more than one employer

There are no plans relative to more than one employer.

12.3.7 Defined benefit plans that share the risks between entities under joint control

No plans with this feature exist.

Section 13 - REFUNDABLE SHARES - ITEM 140

There were no transactions for this accounting 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	*31/12/2015*	*31/12/2014*
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	1,300,616	689,068
4. (Treasury shares)		
5. Valuation reserves	(8,519)	(2,764)
6. Equity instruments		
7. Profit (Loss) for the year	6,100	(587,503)
Total	**1,802,721**	**603,325**

The payments made for a future capital increase by the Parent Company during 2015 for a total amount of € 1,199,041,668.41, at 31 December 2015 were accounted for in Reserves.

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

14.1.a Share capital: breakdown

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

With a resolution passed on 16 September 2015 the Bank's Extraordinary Shareholders' Meeting resolved to increase the share capital by a maximum amount of € 1,200,000,000, by issuing 1,783,449,976 ordinary shares, with regular dividend and a face value of € 0.31 each, to be offered as an option to the Bank's shareholders on the basis of a ratio of 2 shares for every 1 ordinary share held, at a unit price of € 0.67285 (of which € 0.36285 by way of share premium).
With a note of 22 January 2016, Reference No. 0005855/16, Consob communicated its authorisation for publication of the prospectus.
The operation was registered at the Companies Register on 16 February 2016.
The current share capital therefore amounts to € 829,304,238.84 and is represented by 2,675,174,964 shares with a unit par value of € 0.31.

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: annual changes

In the course of 2015, the number of outstanding shares did not change.

14.3 Capital: other information

The Capital is fully subscribed and paid in.

14.4 Reserves of profit: 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. Part of these reserves, pursuant to art. 2359 bis of the Civil Code, is to protect the equity securities issued by the Parent Company Banca Monte dei Paschi di Siena, within the limits and terms contemplated by the shareholders' resolutions; these purchases are made within the sphere of the brokering operations on share indices and listed options.
The Bank does not hold any investment in Parent Company equity securities as of 31 December 2015.

Items / Balances	*31/12/2015*	*31/12/2014*
Legal reserve	41,018	41,018
Reserve of treasury shares and shares of the Parent Company		
Statutory reserve	34,338	34,338
Reserve ex art. 13 Lgs. Decree 124/93		
Extraordinary reserve	10	367,768
Other reserves	666	(387)
Total	**76,032**	**442,737**

As resolved by the Shareholders' Meeting on 13 April 2015, the loss for financial year 2014, of € 587,503,146.87, was covered as follows:
- for € 42,766,572.59 by use of the reserves established at the time of first time adoption (FTA) of the IAS standards;
- for € 367,768,195.50 by use of the extraordinary reserve;
- for € 176,968,378.78 by use of the merger surplus reserve.

14.5 Equity instruments: breakdown and annual changes

There were no transactions for this accounting item.

14.6 Other information

14.6.1 Valuation reserves

14.6.1.1 Valuation reserves: breakdown

Items / Components	*31/12/2015*	*31/12/2014*
1. Financial assets available for sale	(9,569)	(694)
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. Employee severance indemnities	(1,202)	(1,454)
10. Company pension funds	(1,684)	(1,716)
11. Tax effect	3,936	1,100
Total	**(8,519)**	**(2,764)**

14.6.1.2 Valuation reserves: annual changes

	Financial assets available for sale	*Employee severance indemnities*	*Company pension funds*	*Effect Taxation*	*Total*
A. Opening balances	**(694)**	**(1,454)**	**(1,716)**	**1,100**	**(2,764)**
B. Increases:	**10,512**	**252**	**32**	**(305)**	**10,491**
B.1 Fair value increases					0
B.2 Other changes	10,512	252	32	(305)	10,491
C. Decreases	**19,387**			**(3,141)**	**16,246**
C.1 Fair value decreases	18,694			(2,912)	15,782
C.2 Other changes	693			(229)	464
D. Closing balances	**(9,569)**	**(1,202)**	**(1,684)**	**3,936**	**(8,519)**

14.6.1.3 Valuation reserves relating to financial assets available for sale: breakdown (before tax effects)

Assets / Balances	*31/12/2015*		*31/12/2014*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities		10,247	693	2,087
2. Equity securities	625		647	
3. Units in collective investment undertakings	53		53	
4. Loans				
Total	**678**	**10,247**	**1,393**	**2,087**

Note:
The negative valuation reserves on debt securities, as per sub-item 1, are almost totally attributable to the security IT0004352586 BMPS 08/18 TV.

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

	Debt securities	*Equities securities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(1,394)**	**647**	**53**	
2. **Positive changes**	**643**	**9,869**		
2.1 Increases in fair value				
2.2 Transfer to income statement of negative reserves	643	9,869		
- due to impairment		*9,869*		
- due to conversion	*643*			
2.3 Other changes				
3. **Negative changes**	**9,496**	**9,891**		
3.1 Fair value decreases	8,803	9,891		
3.2 Transfer to income statement of positive reserves	693			
- due to conversion	*693*			
3.3 Other changes				
4. Closing balances	**(10,247)**	**625**	**53**	

14.6.2 The Bank's capital: availability and possibility of distribution of the various items

	Amount	Possibility of utilisation (*)	Stake available	Summary of uses made in previous three years	
				for coverage of losses	for other reasons
Capital	**276,435**				
Capital reserves	**1,442,042**	A,B,C,	**1,442,042**	**120,865**	
Profit reserves	**76,032**	A,B,C	**35,013**	**423,872**	
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**(8,519)**	A,B,C	**0**	**42,766**	
TOTAL RESERVES	**1,520,186**		**1,487,687**	**587,503**	
Profit for 2015	6,100				
Total Equity	**1,802,721**				

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

Note:
the "Profit reserves" are made up of the following reserves: legal, statutory, extraordinary; and of the IAS 19 FTA profit reserve. The portion available is net of the portion of the legal reserve.
The "Other IAS reserves" are made up of Item 130 of the Balance Sheet liabilities.

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	*31/12/2015*	*31/12/2014*
1. Financial guarantees given	226,321	240,351
a) Banks	*4,117*	*5,165*
b) Customers	*222,204*	*235,186*
2. Commercial guarantees given	15,787	17,293
a) Banks	*4,559*	*800*
b) Customers	*11,228*	*16,493*
3. Irrevocable commitments to grant finance	5,785,732	4,365,009
a) Banks	1,959,028	1,459,575
- certain to be called on	*1,959,028*	*1,459,575*
- not certain to be called on		
b) Customers	3,826,704	2,905,434
- certain to be called on	*3,124,703*	*2,376,105*
- not certain to be called on	*702,001*	*529,329*
4. Commitments underlying derivatives on receivables: protection sales	5,556,141	13,587,996
5. Assets lodged as collateral for third party bonds	808,678	396,750
6. Other commitments	204,545	161,416
Total	**12,597,204**	**18,768,815**

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. The commitments underlying derivatives on receivables for protection sales, pursuant to sub-item 4, are met with essentially equivalent protection purchases.

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

Portfolios	*31/12/2015*	*31/12/2014*
1. Financial assets held for trading	7,508,363	5,713,259
2. Financial assets designated at fair value		
3. Financial assets available for sale		39,175
4. Financial assets held to maturity		
5. Loans to banks	3,794,868	4,611,261
6. Loans to customers	437,434	309,010
7. Property, plant and equipment		

Note:
mainly assets used as collateral for repurchase, securities lending and derivatives operations

3 Information on operating leases

Items / Balances	*31/12/2015*	*31/12/2014*
- Within 1 year	307	237
- Between 1 and 5 years	439	136
- Beyond 5 years	-	-

4. Management and brokerage on behalf of third parties

Type of services	*31/12/2015*	*31/12/2014*
1. Execution of order on customers' behalf		
a) Purchases	4,806,044	7,596,920
1. Settled	*4,792,633*	*7,583,503*
2. Not settled	*13,411*	*13,417*
b) Sales	5,966,014	7,927,279
1. Settled	*5,956,732*	*7,904,755*
2. Not settled	*9,282*	*22,524*
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 which draws up the financial statement		
2. Other securities		
b) Third party securities on deposit (excluding asset management): other	10,987,777	9,996,539
1. Securities issued by the bank which draws up the financial statement		
2. Other securities	*10,987,777*	*9,996,539*
c) Third party securities deposited with third parties	10,940,664	9,946,616
d) Bank's securities deposited with third parties	8,831,858	7,291,833
4. Other transactions	**2,597,776**	**11,683,997**

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 € 904,487 thousand as collateral received to guarantee securities lending and derivative activities (€ 834,418 thousand in 2014), as well as securities received for repurchase and securities lending operations for a nominal value of € 9,914,497 thousand (€ 8,982,308 thousand at 31 December 2014). The aggregate had a total fair value of € 12,417,841 thousand (€ 10,983,342 at 31 December 2014).
The "Other transactions" indicated at point 4, represent the volumes of placement activities with or without guarantees.

5. Financial assets subject to netting in the financial statements, or subject to outline netting or similar agreements

Technical forms	*Gross amount of financial assets (a)*	*Amount of financial liabilities offset in the financial statements (b)*	*Net amount of financial assets recognised in the financial statements (c=a-b)*	*Correlated amounts not subject to netting in the financial statements*		***Net amount 31/12/2015*** *(f=c-d-e)*	***Net amount 31/12/2014***
				Derivative instruments (d)	*Cash deposits received as collateral (e)*		
1. Derivatives	6,011,310	565,850	5,445,460	4,416,190	608,972	**420,298**	**561,136**
2. Repurchase agreements	8,279,428		8,279,428	8,277,980	320	**1,128**	**1,461**
3. Securities lending							
4. Other							
Total 31/12/2015	**14,290,738**	**565,850**	**13,724,888**	**12,694,170**	**609,292**	**421,426**	
Total 31/12/2014	**13,927,606**	**540,610**	**13,386,995**	**12,082,026**	**742,372**		**562,597**

Note:

The assets indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting principles, i.e. Section 1 - part A.2, 2) Financial assets designated at fair value. The values relative to derivatives refer to i) derivatives listed on regulated markets; ii) OTC financial derivatives regulated by the Central Counterparty LCH.Clearnet, through Clearings Members; iii) OTC derivatives stipulated with institutional counterparties regulated by ISDA, MNA and CSA; iv) OTC derivatives with customers falling under agreements similar to netting agreements; v) repurchase agreements and securities lending respectively regulated by GMRA and GMSLA collateralisation agreements.

The amounts shown in column "c" correspond to those presented in the Balance Sheet Assets under Item 20. Financial assets held for trading.

Description of netting rights subject to framework offset agreements or similar agreements, including cases in which the criteria envisaged in section 42 of IAS 32 are not met.

Operations regarding derivatives listed on regulated markets have the characteristics referred to in the amendment to IAS 32 for offsetting financial assets and liabilities, in that the Bank has a current and unconditional right, which can be exercised during the normal course of business and also in the cause of default, insolvency or bankruptcy of the counterpart, to offset the financial asset or liability (IAS 32 §AG38B), whether the intention is to settle the amount on a net basis or to make use of the asset while simultaneously eliminating the liability (IAS 32 §AG38E).

With reference to OTC financial derivatives regulated with the Central Counterparty LCH, the relation between the Bank and the Clearing Members is regulated by an ISDA MNA and CSA contract in which, different from that which occurs in the context of the agreements envisaged with the other counterparties, the application of a "Multiple Transaction Payment Netting" clause is envisaged, defined under article 2(c) of the 2002 ISDA MNA. Activation of the Multiple Transaction Payment Netting option involves:

- *settlement on a net basis on a daily or infra-daily basis;*
- *the execution of a single transfer of funds for each regulated currency inclusive of exchanges of contractual flows, any amounts to be paid in the case of early termination and payments/deposits relative to the initial and variation margin (collateral).*

In the case of default of a Clearing Member, the rules envisaged in the ISDA MNA are applied. Specifically, the Bank can decide whether to transfer the positions to another Clearing Member or to have the existing position liquidated.

This type of transaction also has the characteristics envisaged in the amendment to IAS 32 (see previous point).

OTC derivatives stipulated with institutional counterparties are regulated by ISDA MNA and CSA contracts. The contractual clauses for these operations allow for offset adjustment of the financial assets and liabilities in question only in the case in which certain events occur, while the possibility of offsetting during the course of normal business being excluded. With the exception of the agreements stipulated with the Clearing Members of the CCP, no agreements exist with institutional counterparties that envisage the application of the Multiple Transaction Payment Netting clause.

Therefore, this type does not have the characteristics necessary for netting in the financial statements, as regulated by the amendment to IAS 32.

OTC derivatives stipulated with customers and falling under agreements similar to netting agreements. As of July 2012, a new regulatory agreement was introduced that governs operations with retail and corporate customers, which the Bank is gradually

extending to all customers who deal with derivatives. The new regulatory agreement envisages hypotheses for netting both during the normal course of business and in the case of default, insolvency or bankruptcy. Nonetheless, despite the existence of the above described clauses, operating practices do not envisage regulation on the basis of net cash flows during the normal course of business and, therefore, the operational methods that would be in line with the requirements envisaged in the amendment to IAS 32 for the purposes of offsetting of financial assets and liabilities in the financial statements do not exist.
Repurchase agreements and securities lending are all governed by the following agreements, developed with an eye to mitigating credit risk:
Global Master Repurchase Agreement (GMRA) for repurchase agreements;
Global Master Securities Lending Agreement (GMSLA) for securities lending.
On the basis of the analysis carried out, with particular reference to the contractual rules relating to the settlement of cash flows, no cases were identified that envisage settlement on a net basis of daily or infra-daily cash flows, during the normal course of business. Therefore, the requirements referred to in the amendment to IAS 32 for relative netting in the financial statements are not met.

6. Financial liabilities subject to netting in the financial statements, or subject to outline netting or similar agreements

Technical forms	*Gross amount of financial liabilities (a)*	*Amount of financial assets offset in the financial statements (b)*	*Net amount of financial liabilities recognised in the financial statements (c=a-b)*	*Correlated amounts not subject to netting in the financial statements*		***Net amount 31/12/2015*** *(f=c-d-e)*	***Net amount 31/12/2014***
				Financial instruments (d)	*Cash deposits received as guarantees (e)*		
1. Derivatives	4,188,055	565,850	3,622,205	3,448,623	166,747	**6,835**	**38,708**
2. Repurchase agreements	17,217,707		17,217,707	17,214,245		**3,462**	**1,966**
3. Securities lending							
4. Other							
Total 31/12/2015	**21,405,762**	**565,850**	**20,839,912**	**20,662,868**	**166,747**	**10,297**	
Total 31/12/2014	**19,149,676**	**540,610**	**18,609,066**	**18,290,604**	**277,788**		**40,674**

Note:
The liabilities indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting principles, that is Section 1 - part A.2, 13) Financial liabilities held for trading.
The amounts shown in column "c" correspond to those presented in the Balance Sheet Liabilities under Item 40. Financial liabilities held for trading.
In relation to the disclosure for netting rights, please refer to the information provided at the bottom of the above table "5. Financial assets subject to netting in the financial statements, or subject to outline netting or similar agreements"

7. Securities lending

Securities lending, as for similar repurchase agreement transactions, are carried out in good part to hedge against similar and consistent transactions. They are also carried out to hedge against short positions on securities (known as technical overdrafts, representing, in terms of volumes, mainly exposures to government issuers) taken on by the trading desks for short/medium-term maturity focussed strategies.
Overall, we can note very dynamic and complex trading portfolio management, of both investments and funding, as can be seen from the figures involved: the amount of the securities lending transactions, at 31 December 2015, came out at € 3,088 million (compared to € 3,749 million at 31 December 2014). These operations were carried out mainly with the Parent Company and regarded securities that the same borrows from its customers. Out of the total, € 1,771 million have Government securities as underlying.
Considering all the securities lending operations (positive balance of € 3,088 million) and repurchase agreements (net negative balance of € 8,938 million), an overall net funding position can be seen, related to the financing of long positions in securities. The main objective is to optimise the carrying cost of the portfolios, benefiting from the relative value approach, in particular on the BTP market.

8. Disclosure on joint control companies

There is nothing to report.

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 31/12/15***	***Total 31/12/14***
1. Financial assets held for trading	109,510	4		**109,514**	**144,073**
2. Financial assets available for sale	4,652			**4,652**	**6,818**
3. Financial assets held to maturity					
4. Loans to banks		49,340		**49,340**	**67,237**
5. Loans to customers		218,188		**218,188**	**271,608**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets			48	**48**	
Total	**114,162**	**267,532**	**48**	**381,742**	**489,736**

Note:
the interest accrued during the year relating to positions classified as "impaired" amounted to € 71,694 thousand (€ 80,835 at 31 December 2014). Default interest was fully written down and is measured for accounting purposes only at the time of collection. The Bank recognised the positive revenue components accrued on financial liabilities under the item "Interest and similar income", aligning the accounting classification of this income to the regulatory one (EBA clarification of 22 May 2015). The practice previously mainly applied in the banking system was therefore revised. This provided for the recognition of the positive income components generated by liabilities to reduce interest expense.

1.2 Interest and similar income: spreads related to hedging transactions

1.3 Interest and similar income: other information

	31/12/2015	*31/12/2014*
1. Interest income on foreign currency financial assets	13,938	10,791
2. Interest income on financial lease transactions	-	-

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/15***	***Total 31/12/14***
1. Due to Central Banks					
2. Due to banks	(177,923)			**(177,923)**	**(276,315)**
3. Due to customers	(786)			**(786)**	**(213)**
4. Outstanding securities		(21,184)		**(21,184)**	**(15,339)**
5. Financial liabilities held for trading	(7,346)			**(7,346)**	**(29,051)**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			(746)	**(746)**	**(734)**
Total	**(186,055)**	**(21,184)**	**(746)**	**(207,985)**	**(321,652)**

Note:
The Bank recognised the negative revenue components accrued on financial liabilities under the item "Interest expense and similar charges", aligning the accounting classification of this expense to the regulatory one (EBA clarification of 22 May 2015). The practice previously mainly applied in the banking system was therefore revised. This provided for the recognition of the negative income components generated by assets to reduce interest income.

1.5 Interest expense and similar charges: differentials relative to hedging operations

Types /Items	*31/12/2015*	*31/12/2014*
A. Positive spreads relating to hedging transactions		
B. Negative spreads relating to hedging transactions	(746)	(734)
C. Balance (A-B)	**(746)**	**(734)**

1.6 Interest expense and similar charges: other information

	31/12/2015	*31/12/2014*
1. Interest expense on foreign currency liabilities	(2,499)	(3,081)
2. Interest expense on liabilities for financial lease transactions		

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

Type of services / Balances	*31/12/2015*	*31/12/2014*
a) guarantees given	2,554	4,216
b) credit derivatives		
c) asset management, brokerage and consultancy services:	25,562	36,830
1. financial instrument trading		
2. foreign exchange trading		
3. portfolio management		
3.1. individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placing of securities	*24,134*	*34,570*
7. order reception and transmission	*1,428*	*2,260*
8. advisory services		
8.1 on investments		
8.2 on financial structure		
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) Servicing for securitisation transactions		
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	41,655	46,135
Total	**69,771**	**87,181**

Note:
in relation to the sub-item "c) 6. securities placement", 41 placing operations with/without guarantee were handled by the Bank, an increase compared to the 28 of 2014. The reduction in the amounts of fees was due mainly to the drop in volumes placed, down from € 11.6 billion in 2014 to € 4.8 billion in 2015. Specularly, the fee expenses refunded to the Group's network, which handles the placement, also fell.

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

Type of services / Balances	*31/12/2015*	*31/12/2014*
a) for early repayment/termination of loans and mortgage loans	9,846	19,270
b) fees for advisory services	18,117	13,891
c) fees for services	4,759	3,592
d) fees for securities lending	203	889
e) other	8,730	8,493
Total	**41,655**	**46,135**

Note:
the significant reduction of the detail "a) fees for early repayment/termination" (€ - 9,424 thousand) can be explained by fewer transfers to bad loans made in 2015 compared to the previous year, which had been strongly affected by the results of the AQR carried out by the ECB.
The increase of the detail "b) fees for advisory services" (€ + 4,226 thousand) is ascribable to arranging activity on operations in pools for which the Bank was lead manager.
The detail "d) other" refers mainly to enquiry and secretarial fees, fees for non or late use of the line granted, disinvestment charges and agency fees.

2.2 Fee income: distribution channels of products and services

Channels / Balances	*31/12/2015*	*31/12/2014*
a) **at Bank branches:**		
1. asset management		
2. placing of securities		
3. third party services and products		
b) **door-to-door sales:**		
1. asset management		
2. placing of securities		
3. third party services and products		
c) **other distribution channels:**		
1. asset management		
2. placing of securities	24,134	34,570
3. third party services and products		

2.3 Fee expense: breakdown

	Services / Balances	*31/12/2015*	*31/12/2014*
a)	guarantees received	(3,491)	(625)
b)	credit derivatives		
c)	management and brokerage services:	(30,736)	(34,877)
	1. financial instrument trading	*(16,820)*	*(12,282)*
	2. foreign exchange trading	*(1)*	*(3)*
	3. asset management:		
	3.1. treasury portfolio		
	3.2. portfolio of third parties		
	4. custody and administration of securities	*(613)*	*(687)*
	5. placing of financial instruments	*(13,302)*	*(21,905)*
	6. external marketing of financial instruments, products and services		
d)	collection and payment services	(17)	(18)
e)	other services	(24,387)	(19,484)
	Total	**(58,631)**	**(55,004)**

Note:
For more details on the decrease in the sub-item "c) 5. Financial instrument placement", please refer to the note below table 3.1 above, "Fee income: breakdown".

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

Type of services / Balances	*31/12/2015*	*31/12/2014*
a) presentation of loan applications	(9,413)	(8,340)
b) handling of bad loans	(9,379)	(7,192)
c) expenses and fees paid to Barclays, Citibank and Clearstream	(4,746)	(3,254)
d) fees for securities lending	(192)	(196)
e) other	(657)	(502)
Total	**(24,387)**	**(19,484)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2015*		*31/12/2014*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	3,187	476	2,924	616
B. Financial assets available for sale	16			
C. Financial assets designated at fair value				
D. Equity investments			1,611	
Total	**3,203**	**476**	**4,535**	**616**

Section 4 - NET INCOME 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) 31/12/15*	*Net profit (loss) (A+B-C-D) 31/12/14*
1. Financial assets held for trading						
1.1 Debt securities	25,085	122,715	(41,066)	(76,685)	**30,049**	**383,940**
1.2 Equity securities	259	4,664	(11,925)	(9,609)	**(16,611)**	**9,005**
1.3 Units in collective investment undertakings		342	(36)	(1,906)	**(1,600)**	**(1,249)**
1.4 Loans						
1.5 Others						
2. Financial liabilities held for trading						
2.1 Debt securities	8,965	31,015	(3,091)	(38,654)	**(1,765)**	**(197,562)**
2.3 Payables						
2.2 Others	54	34	(1,450)	(5,531)	**(6,893)**	**(12,094)**
3. Other financial assets and liabilities:						
- exchange differences					**2,800**	**1,036**
4. Derivative instruments						
4.1. Financial derivatives:						
- on debt securities and interest rates	756,803	3,985,252	(82,816)	(4,398,592)	**260,647**	**73,233**
- on equity securities and share indices	223,062	2,022,358	(165,661)	(2,180,772)	**(101,013)**	**(242,844)**
- on foreign currencies and gold					**(18,676)**	**(3,947)**
- others	53,933	141,370	(40,313)	(158,414)	**(3,424)**	**(2,846)**
4.2 Credit derivatives	230,411	986,991	(18,380)	(1,215,859)	**(16,837)**	**126,152**
Total	**1,298,572**	**7,294,741**	**(364,738)**	**(8,086,022)**	**126,677**	**132,824**

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

5.1 Net income from hedging activities: breakdown

	Income components / Balances	*31/12/2015*	*31/12/2014*
A.	**Income related to:**		
A.1	Fair value hedging derivatives	727	570
A.2	Hedged financial assets (fair value)		
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)	**727**	**570**
B.	**Costs related to:**		
B.1	Fair value hedging derivatives		
B.2	Hedged financial assets (fair value)	(683)	(586)
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)	**(683)**	**(586)**
C.	**Net income from hedging activities (A-B)**	**44**	**(16)**

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

6.1 Profit (Loss) on sale/repurchase: breakdown

Items / Income components	*31/12/2015*			*31/12/2014*		
	Gains	*Losses*	*Net profit (Loss)*	*Gains*	*Losses*	*Net profit (Loss)*
Financial assets						
1. Loans to banks						
2. Loans to customers		(1,310)	(1,310)	547	(2,853)	(2,306)
3. Financial assets available						
for sale	1,124	(1,404)	(280)	20,786	(29,839)	(9,053)
3.1 Debt securities	*1,090*	*(1,404)*	*(314)*	*20,786*	*(29,839)*	*(9,053)*
3.2 Equity securities	*34*		*34*			
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held						
to maturity						
Total assets	**1,124**	**(2,714)**	**(1,590)**	**21,333**	**(32,692)**	**(11,359)**
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 were no transactions for this accounting item.

Section 8 - NET VALUE ADJUSTMENTS/WRITEBACKS DUE TO IMPAIRMENT - ITEM 130

8.1 Net value adjustments due to impairment of receivables: breakdown

Transactions / Income components	*Value adjustments*			*Writebacks*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Derecognitions	*Other*	*Portfolio*	*From interest*	*Other writebacks*	*From interest*	*Other writebacks*	*31/12/2015*	*31/12/2014*
A. Due from banks							768	768	
- Loans							*768*	*768*	
- Debt securities									
B. Loans to customers	(18,265)	(651,651)		122,415	338,917		14,399	(194,185)	(1,109,892)
Impaired loans purchased									
- Loans	*(50)*							*(50)*	
- Debt securities									
Other receivables									
- Loans	(18,215)	(651,651)		122,415	338,917		14,399	*(194,135)*	*(1,109,892)*
- Debt securities									
C. Total	**(18,265)**	**(651,651)**		**122,415**	**338,917**		**15,167**	**(193,417)**	**(1,109,892)**

Note:

the "Derecognitions" column shows the losses recorded in the face of the definitive cancellation of the receivables, while the "other" column includes specific writedowns on impaired loans subject to analytical evaluation. The values shown in the "specific writebacks - from interests" are relative to the release of the interest of value adjustments for discounting of recoveries from bad loans and impaired positions with doubtful analytical results.

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

Transactions / Income components	*Value adjustments Specific*		*Write-backs Specific*		*Total*	
	Derecognitions	*Other*	*From interest*	*Other writebacks*	*31/12/2015*	*31/12/2014*
A. Debt securities						
B. Equity securities		(9,869)			(9,869)	(17,335)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total		**(9,869)**			**(9,869)**	**(17,335)**

Note:
The value adjustments carried out in 2015 are attributable to:
- € 4,000 thousand related to the securities of La Gardenia Beauty S.p.A.;
- € 2,830 thousand related to the securities of Panini S.p.A.;
- € 2,779 thousand related to the securities of Marina di Stabia S.p.A.

8.3 Net value adjustments due to impairment of financial assets held to maturity: breakdown

The Bank does not have any financial assets held to maturity..

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

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Derecognitions	*Other*	*Portfolio*	*From interest*	*Other writebacks*	*From interest*	*Other writebacks*	*31/12/2015*	*31/12/2014*
A. Guarantees given		(21)			1,758		934	2.671	(9,750)
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**(21)**			**1.758**		**934**	**2.671**	**(9.750)**

Note:
the amounts relative to the item "A. Guarantees given" represent the value adjustments/writebacks carried out on guarantees given in the face of expected losses in the case of enforcement of the same.

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel costs: breakdown

Type of costs / Values	*31/12/2015*	*31/12/2014*
1. Employees	**(41,678)**	**(43,608)**
a) wages and salaries	(30,676)	(29,335)
b) social security contributions	(8,109)	(7,799)
c) retirement indemnities	(996)	(960)
d) other pension costs		
e) provision for personnel severance indemnities	(43)	(90)
f) provision for pensions and similar obligations:	(405)	(491)
- defined contribution	*(368)*	*(358)*
- defined benefit	*(37)*	*(133)*
g) payments to external supplementary welfare funds		
- defined contribution		
- defined benefit		
h) costs deriving from payment agreements based on		
parent company equity instruments (stock granting)		
i) other employee benefits	(1,449)	(4,933)
2. Other working personnel		
3. Directors and Statutory Auditors	**(524)**	**(513)**
4. Retired personnel	**(84)**	**(68)**
5. Recovered expenses for employees seconded at other companies	**16,687**	**16,115**
6. Expense reimbursements for third party employees seconded at the Bank	**(5,127)**	**(4,879)**
Total	**(30,726)**	**(32,953)**

Note:

the sub-item i) "other benefits in favour of employees" includes the cost relating to the action for reducing staff, envisaged in the 2013-2015 BMPS Group business plan, and expressed in the level II bargaining agreements signed with the Trade Unions on 19 December 2013 and 7 August 2015. The total of this item, calculated on the basis of the requirements contained in IAS 19 (termination benefits), amounts to € 3,466 thousand for 2015 and € 393 thousand in 2014.

The fees for the directors and statutory auditors, stated gross of the contributions and tax liabilities, are broken down as follows: € 347 thousand for the directors and € 166 thousand for the statutory auditors.

9.2 Average number of employees by category

Employee categories /Average number	*31/12/2015*	*31/12/2014*
Employees:		
a) executives	23	23
b) managers	208	216
c) other employees	123	124
Other personnel		**-**
Total	**354**	**363**

9.3 Defined-benefit company pension funds: costs and revenue

Items / Balances	*31/12/2015*		
	Defined-benefit company pension funds		*Severance indemnities*
	Internal plans	*External plans*	
Interest income/expense			
- welfare cost relating to current employment services			(43)
- welfare cost relating to past employment services	(37)		
Gain/loss from discharge of fund			
Total	**(37)**		**(43)**

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

Items / Balances	*31/12/2015*	
	Defined-benefit company pension funds	*Severance indemnities*
1. Contributions to the Plan which the Bank estimates it will pay out in the next year	40	43

9.5 Other administrative expenses: breakdown

Items / Balances	*31/12/2015*	*31/12/2014*
1. substitute tax		-
2. municipal property tax	(103)	(103)
3. stamp duty	(723)	(601)
4. other taxation	(367)	(299)
5. rental of bank properties	(2,977)	(3,327)
6. fees for outside professionals	(6,497)	(4,912)
7. maintenance of furnishings and property used for business purposes	(592)	(944)
8. postal	(61)	(65)
9. telephone	(105)	(126)
10. advertising	-	-
11. sundry rents and leasing	(6,455)	(6,120)
12. information and inquiries	(1)	(104)
13. transport	(257)	(303)
14. electricity, heating and water	(8)	(7)
15. surveillance	(5)	(4)
16. reimbursement of staff vehicle and travel costs	(343)	(297)
17. other staff costs	(1,285)	(1,499)
18. contracts for cleaning of premises	(168)	(168)
19. rental of data transmission lines	(84)	(75)
20. printed matter, stationery and consumables	(25)	(37)
21. insurance policies	(19)	(19)
22. services outsourced from Group companies	(18,923)	(18,390)
23. Association subscriptions	(47,644)	(350)
24. entertaining expenses	(17)	(22)
25. subscriptions to publications	(19)	(16)
26. Sundry	(590)	(1,572)
Total	**(87,268)**	**(39,360)**

The increase in “Other administrative expenses” is attributable almost entirely to the contribution paid by the Bank to the National Resolution Fund, established by the Bank of Italy with Order No. 1226609/15 of 18.11.2015 in application of Italian Legislative Decree No. 180 of 16 November 2015. This decree transposed into our legislation the BRR Directive (59/2014) which provides for the obligation for the EU countries to establish, starting from 2015, one or more national funds for the resolution of banking crises.

The intervention of the Fund, in the framework of the Resolution Programme of the crises of Banca delle Marche SpA, Banca Popolare dell’Etruria e Lazio SCpA, Cassa di Risparmio della Provincia di Chieti SpA and Cassa di Risparmio di Ferrara SpA (all already in receivership), cost the Bank a total of € 47,294 thousand, divided between the ordinary (€ 11,823 thousand) and extraordinary contribution (€ 35,471 thousand), the latter equal to 3 years of the ordinary contribution.

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

10.1 Net provisions for risks and charges: breakdown

	31/12/2015			31/12/2014		
	Personnel expenses	*Legal disputes*	*Other*	*Personnel expenses*	*Legal disputes*	*Other*
1. Provisions for the year		(1,649)			(4,592)	
2. Writebacks		416	6,900		80	13,524
Total		**(1,233)**	**6,900**		**(4,512)**	**13,524**

Note:
the sub-item "Others" shows the reversal to the income statement of the surplus of provisions set aside in previous years against the risk of a fiscal nature which was defined on conclusion of the assessment carried out by the Tax Authority during 2015 (for further details, see the note at the foot of table 12.1 of Section 12 - Provisions for risks and charges - of Part B of the Notes to the Statements).

SECTION 11 - NET VALUE ADJUSTMENTS/WRITEBACKS ON PROPERTY, PLANT AND EQUIPMENT - ITEM 170

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

	Assets / Income components	*Depreciation (A)*	*Adjustments in value to impairment (B)*	*Writebacks (C)*	*Net profit (loss) (A+B-C)*	
					31/12/15	*31/12/14*
A.	**Property, plant and equipment**					
A.1	**Owned by the Bank**	(382)			(382)	(428)
	- For business use	*(81)*			*(81)*	*(127)*
	- For investment	*(301)*			*(301)*	*(301)*
A.2	**Acquired under financial lease**					
	- For business use					
	- For investment					
	Total	**(382)**			**(382)**	**(428)**

Section 12 - NET VALUE ADJUSTMENTS/WRITEBACKS ON INTANGIBLE ASSETS - ITEM 180

There were no transactions for this accounting item.

Section 13 - OTHER OPERATING INCOME/CHARGES - ITEM 190

13.1 Other operating charges: breakdown

Items / Balances	*31/12/2015*	*31/12/2014*
1. Amounts not receivable not attributable to own items	(12)	(24)
2. Out-of-period expense not attributable to own items	(66)	(8)
3. Amortisation of leasehold improvement costs classified among “Other assets”	(291)	(571)
4. Settlements paid for litigation	(103)	(219)
5. Other	(20)	(1,028)
Total	**(492)**	**(1.850)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2015*	*31/12/2014*
1. Amounts not payable not attributable to own items	8	17
2. Out-of-period income not attributable to own items	38	27
3. Rental income from investment properties		
4. Other costs charged back	4,966	4,911
5. Other	1,035	635
Total	**6,047**	**5,590**

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

14.1 Profit (loss) from equity investments: breakdown

Income components / Balances	*31/12/2015*	*31/12/2014*
A. Income		**971**
1. Revaluations		
2. Gains on disposal		971
3. Writebacks		
4. Other income		
B. Charges	**(1,325)**	**(4,056)**
1. Writedowns		
2. Value adjustments due to impairment	(1,325)	(4,056)
3. Losses on disposal		
4. Other charges		
Net profit (Loss)	**(1,325)**	**(3,085)**

Notes to the 2015 financial statements:
The value adjustment due to impairment, totalling € 1,325 thousand, is from the valuation of the equity investment in Terme di Chianciano S.p.A..

Notes to the 2014 financial statements:
The gains on disposal recognised relate to the sale of the equity investment held in MPVenture SGR S.p.A. for € 547 thousand and to the sale of the 14% stake in Sviluppo Imprese Centro Italia SGR S.p.A. for € 424 thousand (both equity investments were classified among "Non-current assets held for sale and discontinued operations", under item 140 of the assets).
The value adjustments due to impairment derive from the writedown of the equity investments in Interporto Toscano Amerigo Vespucci S.p.A. for € 3,367 thousand, in Terme di Chianciano S.p.A. for € 685 and in Agricola Merse S.r.l. for € 4 thousand.

Section 15 - NET RESULT FROM PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AT FAIR VALUE - ITEM 220

There were no transactions for this accounting item.

Section 16 - VALUE ADJUSTMENTS TO GOODWILL - ITEM 230

There were no transactions for this accounting item.

Section 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 240

There were no transactions for this accounting item.

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	*31/12/2015*	*31/12/2014*
1.	Current taxes (-)	(12,789)	(175)
2.	Changes in current taxes for previous years (+/-)	(1,532)	5,705
3.	Reduction in current taxes for the year (+)		
3.bis	Reduction in current taxes for the year due to		
	tax credit as per law No. 214/2011 (+)	235,803	
4.	Change in deferred tax assets (+/-)	(220,487)	280,101
5.	Change in deferred tax liabilities (+/-)	495	54
6.	**Taxes for the year (-)**	**1,490**	**285,685**

Note:
Financial year 2015. *The aggregate shows a positive result owing to the recognition of deferred tax assets on writedowns on loans that exceed the amount of the current taxes for the year. Among the changes of a permanent nature that affected the determination of the IRES and IRAP taxes we can note: the partial non-deductibility of interest expense for an amount of € 2,750 thousand, and the writedowns on equity investments that increased the IRES tax by € 1,200 thousand. As a result of the payments made for a future capital increase by the Parent Company the ACE subsidy enabled a reduction in IRES tax of € 7,521 thousand.*

Financial year 2014. *Sub-item 1. "Current taxes" represents the IRES and IRAP burden related to the period. Among tax changes of a permanent nature, we can note the non-deductibility from taxable income, for both IRES and IRAP purposes, of interest expense. This led to greater costs of € 4,109 thousand. The high amount of sub-item 4. "Change in deferred tax assets" is attributable to the significant amount, recognised in financial year 2014 following the Comprehensive Assessment carried out by the ECB, of writedowns on loans exceeding the limit established by the legislation, as well as the recognition of deferred tax assets related to tax losses.*

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

IRES

Items / Balances	*31/12/2015*		*31/12/2014*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxes	4,610		(873,188)	
B. Gain (Loss) on discontinued operations				
Gross of taxes				
Profit (Loss) gross of taxes (A+B)	**4,610**		**(873,188)**	
Theoretical tax charge - IRES with application				
of the nominal rate	**1,268**	**27.50%**	**(240,127)**	**27.50%**
- Non-deductible portion of interest expense	2,288		3,392	
- Non-deductible writedowns and losses on equity securities	1,200		2,149	
- Non-deductible costs	567		903	
- Other increases	1,842		588	
Total tax effect of increases	**5,897**		**7,032**	
- Capital gains and revaluations on exempt equity investments			254	
- Dividends			421	
- Change in current taxes for previous years	1,898		3,300	
- Other decreases	8,138		4,256	
Total tax effect of decreases	**10,036**		**8,231**	
IRES taxation to income statement	**(2,871)**		**(241,326)**	
of which:				
- Income taxes for the year from current operations	(2,871)		(241,326)	
- Income taxes for the year of asset groups				
held for sale				

IRAP

Items / Balances	*31/12/2015*		*31/12/2014*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxes	4,610		(873,188)	
B. Gain (Loss) on discontinued operations				
Gross of taxes				
Profit (Loss) gross of taxes (A+B)	**4,610**		**(873,188)**	
Theoretical tax charge - IRAP with application				
of the nominal rate	**214**	**4.65%**	**(40,603)**	**4.65%**
- Personnel expenses	57		1,532	
- Net value adjustments on receivables	335		1,259	
- Tax rate increases implemented by regions	0		0	
- Other increases	1,271		1,586	
Total tax effect of increases	**1,663**		**4,377**	
- Profits on equity investments				
- Deferred tax assets relating to previous years				
- Dividends	88		134	
- Tax rate increases implemented by regions			7,353	
- Other decreases	408		646	
Total tax effect of decreases	**496**		**8.133**	
IRAP taxation to income statement	**1,381**		**(44,359)**	
of which:				
- Income taxes for the year from current operations	1,381		(44,359)	
- Income taxes for the year of asset groups				
held for sale				

Section 19 - GAIN (LOSS) ON DISCONTINUED OPERATIONS, NET OF TAXES - ITEM 280

There were no transactions for this accounting item.

Section 21 - EARNINGS PER SHARE

21.1 Weighted average reconciliation of outstanding ordinary shares

(number of shares)

Items / Balances	*31/12/2015*	*31/12/2014*
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 the result of share-based payments		
4. Diluting effect deriving from convertible liabilities (+)		
Weighted average of 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 Euro)

Items / Balances	*31/12/2015*	*31/12/2014*
1. Net profit (Loss)	6,100,202	(587,503,147)
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**6,100,202**	**(587,503,147)**

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

(amounts in Euro)

Items / Balances	*31/12/2015*	*31/12/2014*
1. Net profit (Loss)	6,100,202	(587,503,147)
2. Profit (loss) attributable to other categories of shares		
3. Interest expense on convertible instruments (+)		
4. Others (+/-)		
Net profit attributable to ordinary shares - diluted earnings per share numerator	**6,100,202**	**(587,503,147)**

21.2.c Basic and diluted earnings per share

(amounts in Euro)

Items / Balances	*31/12/2015*	*31/12/2014*
1. Basic earnings per share	0.00684	(0.65884)
2. Diluted earnings per share	0.00684	(0.65884)

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	*Gross amount*	*Income tax*	*Net amount*
10.	**Profit (Loss) for the period**	**4,610**	**1,490**	**6,100**
	Other income components without transfer to income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined benefit plans	283	(92)	**191**
50.	Current assets held for sale			
60.	Portion of equity investment valuation reserves			
	booked to shareholders' equity			
	Other comprehensive income with transfer to income statement			
70.	Foreign investment hedging:			
	a) fair value changes			
	b) transfer to income statement			
	c) other changes			
80.	Exchange differences:			
	a) fair value changes			
	b) transfer to income statement			
	c) other changes			
90.	Cash flow hedging:			
	a) fair value changes			
	b) transfer to income statement			
	c) other changes			
100.	Financial assets available for sale	(8,876)	2,930	(5,946)
	a) fair value changes	(18,694)	2,913	(15,781)
	b) transfer to income statement	9,818	17	9,835
	- writedowns for impairment	*9,869*		*9,869*
	- gains/losses on disposal	*(51)*	*17*	*(34)*
	c) other changes			
110.	Non-current assets held for sale			
	a) fair value changes			
	b) transfer to income statement			
	c) other changes			
120.	Portion of equity investment valuation reserves			
	booked to shareholders' equity			
	a) fair value changes			
	b) transfer to income statement			
	- writedowns for impairment			
	- gains/losses on disposal			
	c) other changes			
130.	**Total other income components**			
140.	**Comprehensive income (Item 10+110)**	**(3,983)**	**4,328**	**345**

Part E
Information on Risks and Related Hedging Policies

Introduction
The organisational model on which the Internal Controls System is based provides for outsourcing to the Parent Company of the Risk Management Unit, in observance of the specific rules laid down in the corporate policy on the subject of outsourcing of the corporate auditing units within the banking Group and in a specific SLA signed with the Parent Company.
The internal contact point for the Risk Management activities is identified as the Manager of the Bank's Compliance Unit who has the task of:
- guaranteeing a constant connection between the Bank and the outsourced Risk Management unit;
- providing his or her support to the outsourced Risk Management unit;
- reporting to the Risk Management unit, on the basis of the available information, particular events or situations capable of modifying the risks generated by the Bank.

The organisation of the MPS Group's risk governance, the related processes and the key units involved are illustrated briefly below. An estimate of the Bank's Total Internal Capital at 31 December 2015 is also provided.

Governance System
The risk governance system adopted by the Group features a clear distinction of roles and responsibilities between the first, second and third level control functions.
The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's statutory bodies. Specifically:
- the Board of Directors of the Parent Company defines and approves the strategic guidelines and risk governance policies and, at least once a year, expresses in numeric terms, the Group's total level of risk appetite;
- the Board of Statutory Auditors and the Risks Committee assess the level of efficiency and adequacy of the internal control system, specifically regarding control of risks;
- the Managing Director/General Manager guarantees compliance with the risk policies and procedures.
- The Director assigned responsibility for the internal control and risk management system, established in accordance with the Code of Conduct for Listed Companies, is responsible for establishing and maintaining an effective system of internal control and risk management.

In order to support efficiency and flexibility in the decision making process and to smooth interaction between the various corporate departments involved, specific Management Committees exist, which are responsible for risks:
- The Risk Management Committee establishes the risk management policy and verifies overall respect for the limits assigned to the various levels of operations; proposes the allocation of capital to be submitted for approval by the Board of Directors; evaluates, at a comprehensive level and at the level of individual companies, the risk profile achieved and hence capital consumption; analyses trends in risk/return performance indicators;
- The Finance and Liquidity Committee formulates the principles and strategic guidelines for proprietary finance; resolves and puts forward proposals regarding exposure to interest rate risk and liquidity in the banking book and to define capital management actions;
- the Credit and Credit Policies Committee expresses guidelines regarding lending processes and an opinion on credit policies at least once per year, verifying commercial sustainability and compliance with the Risk Appetite, and approves the corporate "Credit Assessment" policies at least once a year.
- The Significant Loans Credit Committee has the responsibility, on the basis of the delegated powers, to resolve on the subject of loan disbursement and loan management and problem assets.

In the context of the Internal Control System, the Internal Audit Department carries out third level controls, while the Risks Department and the Compliance Area are responsible for second level controls and the Business Control Units

(BCUs) for the first level controls.

- The Internal Auditing Department carries out independent and objective assurance and advisory activities 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 Risks Department, reporting directly to the Managing Director, includes the risk management function, the anti-money laundering function and the internal validation function. The Department is therefore responsible for:
  - guaranteeing the overall functioning of the risk management system;
  - verifying capital adequacy in the context of the ICAAP process and the adequacy of liquidity in the context of the ILAAP process;
  - participating in defining the performance check on the Risk Appetite Framework (RAF), besides guaranteeing the consistency with the RAF of the most significant operations;
  - defining strategic policies on the credit portfolio;
  - performing the anti-money laundering function provided for by the Law;
  - ensuring the necessary reporting to the Group's decision-making bodies and top management.

In particular, within the Risks Department:

- the Risk Management Area defines the integrated methods for assessing and analysing risks and ensures that they are constantly monitored. It develops the internal risk models used for regulatory and management purposes and checks observance of the operating limits established by the Board of Directors.
- the Validation, Monitoring and Risk Reporting Area checks continuously the reliability of the results of the risk measurement systems and the maintenance of their consistency with the legislative prescriptions. It validates the models, including those not used for regulatory purposes. It drafts the obligatory disclosure and the information to the management on the risks.

- The Compliance Area performs the function of controlling conformity with the laws for the Banking Parent Company. The unit has direct responsibility for managing the risks related to breaches of the most significant laws in bank-customer relations and reports periodically to the top management bodies and to the supervisory authorities on the overall compliance status of the Bank's systems and operations. In accordance with the supervisory rules, the Compliance unit was separated from the Risks Department and now reports directly to the Managing Director.

- The peripheral BCUs, located at the controlled banks or the main business areas, implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System.

- While observing the autonomy and independence requirements of each participating unit, the Committee for Coordination of the Units also operates with auditing tasks. The Committee has the aim of promoting and sharing operating and methodological aspects to identify possible synergies in the auditing activities by the second and third level Units, coordinating the methods and timing on the subject of planning and reporting to the Corporate Bodies and of planning initiatives connected with the Internal Control System, sharing the areas for improvement highlighted by all the Units with auditing tasks and by the Supervisory Authorities.

- During 2015 Regulatory Relationship Staff was also set up. This reports directly to the Managing Director and oversees in a centralised manner the management of relations and the moments of verification with the Supervisory Authorities, coordinating and monitoring the planning of the commitments assumed and the main lines of evolution of the European regulatory context.

Autonomy and independence requirements of the Risks Department

Autonomy and independence are ensured by mechanisms for relations and liaising with the Company Bodies responsible for strategic supervision, management and control.

In particular the Manager of the Parent Company's Risks Department is appointed/dismissed by the Board of Directors, on the proposal of the Risks Committee, making use of the contribution of the Appointments Committee, after consulting the Board of Statutory Auditors.

The determination of the remuneration of the Manager of the Parent Company's Risks Department is resolved by the Board of Directors, on the proposal of the Remuneration Committee, acquiring the opinion of the Risks Committee, after consulting the Board of Statutory Auditors.

Activities related to the International Supervisory Legislation

- First pillar: since 2008, the Group has used internal models validated by the Bank of Italy to assess and manage credit risks (AIRB - Advanced Internal Rating Based) and operational risks (AMA - Advanced Measurement Approach). Over time, in agreement with the Supervisory Authority, these models have been further developed and their scope of application has been extended to Group entities not included in the initial validation perimeter.
- Second pillar: in the year in particular the initiatives continued aimed at guaranteeing compliance with the new Supervisory Review and Evaluation Process (SREP) framework and at improving further the self-assessment process regarding the Group's capital adequacy (the so-called ICAAP - Internal Capital Adequacy Assessment Process) of which obligatory disclosure is provided to the Supervisors.
  During 2015 the MPS Group also developed further the overall internal framework of reference for determining its risk propensity (the Risk Appetite Framework - RAF). The Group was also engaged in numerous planning activities linked to improving the risk management system, above all with reference to credit and liquidity risks, and in setting up the ILAAP (Internal Liquidity Adequacy Assessment Process) and the Recovery Process, as required by the European legislation of reference.
- Third pillar: the related Market Disclosure is released quarterly on the Group's website, at www.mps.it/investors and is updated continuously in compliance with the regulatory developments on the subject.

Analysis of Internal Capital

The Total Internal Capital (or Total Absorbed Internal Capital) is the minimum operational amount of capital required to cover economic losses due to unexpected events generated by simultaneous exposure to various types of risk.

The main types of risk to which the Bank is exposed during its normal business activities, can be schematically classified as follows:

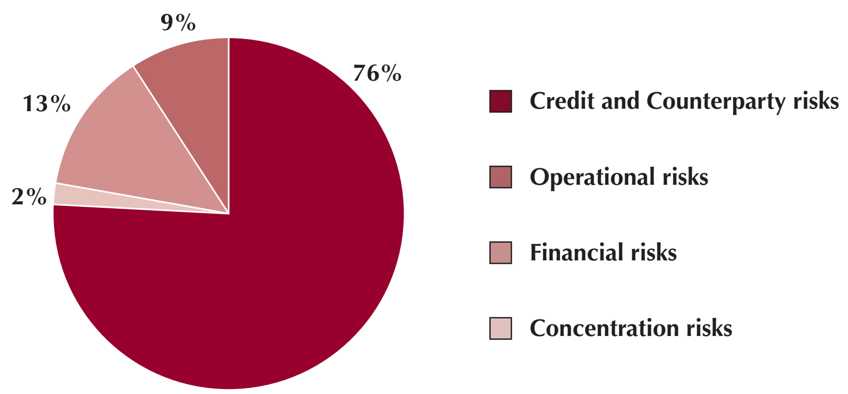
- credit risk;
- market risk (Trading Book + AFS portfolio);
- operational risk;
- Banking Book interest rate risk;
- counterparty risk;
- property risk;
- issuer risk;
- concentration risk;
- equity investment portfolio risk;
- liquidity risk;
- reputational risk.

Protection is also put in place against the risks inherent in investment products/services designed for the Group's

customers, both to protect the customers and to prevent potential impact on the Group's reputation.
The Total Internal Capital is quantified based on all the above types of risks, with the exception of liquidity risk and of reputational risk, which instead are mitigated through policies and organisational processes.

Measurement models
The Risk Management Area quantifies Internal Capital on a regular basis in relation to each risk type and periodically reports to the Risk Management Committee and the Top Management in the context of the informational flows prepared by the Risks Department.
As regards the methods for estimating Internal Capital, during 2015 significant methodological changes were introduced. The main one was the change from a Pillar 2 approach to an approach known in the literature as Pillar 1 Plus. In essence, to the Pillar 1 requirements for Credit and Counterparty risk (which already include those related to Issuer Risk on the Banking Book, Equity Investment Risk and Property Risk) and for Operational Risk, are added the requirements from internal models related to Market Risks, Banking Book Interest Rate Risk, Concentration Risk and Strategic Risk. The Total Internal Capital is calculated without considering the inter-risk diversification directly adding together the contributions of the individual risks. This approach tends to incorporate the indications present in the SREP (Supervisory Review and Evaluation Process) "Guidelines" document published by the EBA in December 2014.

TOTAL INTERNAL CAPITAL
MPS CAPITAL SERVICES - 31/12/2015



SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Bank, in the context of its strategic priorities set by the Parent Company's Business Plan, continues to pursue the improvement of the quality of its loan portfolio.
The Parent Company's Credit Department defines annually, with possible revision every six months, the strategic guidelines related to the loan portfolio, both at the Group level and at the level of the single subsidiaries. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and management 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).
The main elements that contribute to the definition of the lending policy can be summarised briefly as:
- internal rating system;
- sectoral classification;
- geographical area of location;
- service models usable (retail, corporate e private).

Already back in 2008, the MPS Group received from the Bank of Italy the authorisation for the use of the advanced internal approaches for determining the capital requirements against credit risk (AIRB - Advanced Internal Rating Based approach). The Bank 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. 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 management policies

2.1. Organisational aspects

2.1.1 Organisational aspects: banking book

The Bank carries out medium and long-term lending related to extraordinary enterprise finance and corporate finance, in all its technical forms, directed at the growth of manufacturing and production sectors. In some cases, a subsidised loan is arranged, although only in a remaining few cases since public aid is limited to a few research and industrialisation projects.
New finance operations are also agreed in the context of agreements for the restructuring of pre-existing debts.
Evaluation of creditworthiness, to supervise the risk assumed, is carried out both through an analysis of the repayment sources on the basis of income and cash production capacity (former, current and prospective), and as a function of

the specific features of the project financed (competitive positioning, management quality, quality and quantity of equity and financial resources available, and equity capacity of the shareholders). Generally, real guarantees are acquired (mortgages, privileges, liens) and/or unsecured guarantees (sureties, letters of patronage) in order to mitigate risk and reduce capital absorption.

Loans are classified in categories of different risk intensity on which the lending decision autonomy limits of the lower level delegated bodies are parametrised; these limits are increased or decreased depending on the rating attributed to the counterparty: the Bank in fact assesses its customers through the rating system attributed by the Parent Company.

In relation to the process of attributing the project rating (activated in May 2009) for the "Specialised Lending" operations specifically identified as IPRE (Income Producing Real Estate), Project Finance or Object Finance, we can note that in the second half of 2015 the Bank of Italy authorised the Monte dei Paschi di Siena Group to use the Regulatory Classification approach (the so-called "Slotting Criteria") for specialised lending with exposure of € 5 million or more. Operations for an amount of less than € 5 million are instead assessed according to the ordinary process and reported with the standard method.

The lending activity also involves granting credit lines for derivative transactions, aimed at limiting the exposure of the contracting parties (Corporate customers) to market risks (interest and exchange rates and commodities).

The General Management of the Bank, in keeping with the guidance issued by the Credit Department of the Parent Company BMPS, establishes the criteria and methods for monitoring the portfolio, on an on-going basis making the best possible use of information about the credit facility position, which is made available within the banking Group.

As a result of the introduction of the new general principles contained in the 7th update of Bank of Italy Circular 272, in June 2015 the Bank transposed the new Policy on the subject of Loan classification and measurement (cf. paragraph 2.4 below: Impaired financial assets).

At the level of organisational structure it is the Credit Department that performs the activity described above with the Bank's responsible structures, which - following a reorganisation carried out starting from 5.10.2015 - consist of:

- Credit Department Staff who, as well as the task of supporting the other structures of the Department itself, coordinate the loan monitoring activity according to the principles contained in the "Group Policy on Loan Classification and Measurement";
- Credit Assessment Office, responsible for the activities summarised below:
  - assessing the creditworthiness of institutional and financial counterparties for the concession of specific credit lines;
  - assessing the creditworthiness of corporate counterparties for the concession of credit lines of a financial nature;
  - deciding the project rating, through validation of the "Specialized Lending" questionnaire with related periodical rating reviews. The decisions are made by validating the specific section of the BI-PEF application (Banca Impresa Pratica Elettronica di Fido - Bank Company Electronic Credit File) inserted into the enquiry model in use;
  - preparing technical opinions, by the Proposals Review and Loans Sector, for all new loan proposals and changes in already approved credit operations, investigated by various functions in the Credit Department, with decision-making powers external to the Corporate Finance Department;
  - deciding on loan proposals falling under its powers and proposing them, also for those received from other Departments, to higher bodies;
- Performing Ordinary Finance Portfolio Management Office which handles the assessment of all the proposed changes related to ordinary finance operations in amortisation, as well as monitoring the correct classification of the performing positions according to the principles contained in the "Group Policy on Loan Classification and Measurement";
- Loan Portfolio Operational Management Office, which, in addition to serving as the reference for the Bank regarding the General Database, supervises operational actions connected to anti-money laundering related to the activities carried out in the Credit Department. The same Office is responsible for examining applications for loans from

employees. The office also handles the enquiry on merit for assigning the counterparty rating in the context of the rating review activity and the monitoring of the rating review activity in relation to the project ratings. It also carried out the monitoring of the guarantees backing loan operations and coordinates the activity of updating the valuation of properties acquired as guarantees;

- Non-Performing Portfolio Management Office responsible for monitoring anomalous credit according to the principles contained in the "Group Policy on Loan Classification and Measurement" and undertakes the most opportune initiatives in the related management as better specified in the following pages.

The above topics are analytically regulated by specific corporate standards.

2.1.2 Organisational aspects: trading book

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department, is the responsibility of the Credit Assessment Office - Counterparty Assessment Service. Usually, market counterparties are regulated intermediaries, such as banks, IMELs (Electronic money institutions), investment firms, financial firms (as per Art. 107 of the Consolidated Finance Act), AMCs, SICAVs, Italian and foreign-law Funds, insurance companies, as well as territorial, governmental and supranational agencies; some of these economic entities have a rating attributed by important international agencies.
The lending process also requires a decision by the Parent Bank BMPS to determine a limit "country risk" assigned to the Bank, 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 Service is tasked with carrying out all stages of the lending process, from collecting the necessary documentation to the initial investigation review from the assessment of creditworthiness to the loan proposal.
The credit granted is of a dynamic nature, that is it can be used up to the total limit for operations of a financial nature, in its various technical forms and among the various companies related to a single Group, if not otherwise indicated at the moment of acceptance. In order to absorb the total counterparty risk the Parent Company's Risk Management Unit identifies the calculation algorithms differentiated in relation to the different financial nature of the operations.
The Counterparty Assessment Service, also on the basis of the operating needs expressed by the Front Office units, periodically reviews and revises the creditworthiness of the borrower counterparties. If anomalous situations emerge, the Service proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an appropriate reduction in its amount. Each revision is immediately notified to the involved corporate functions.
With quarterly periodicity, the Counterparty Assessment Service 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 overdrafts relative to the credit lines granted, together with comments on the causes and nature of the overdrafts; 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 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 the same.
Regarding operational controls, the Counterparty Assessment Service oversees compliance with the total credit limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit granted and on the record of its use. Over-the-limit positions - in terms of amount and duration - are monitored daily by the Counterparty Assessment Service. The irregularities noted are notified to the Top Management and to the Internal Audit Department.
Monitoring takes place through the Murex3 application, which is 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.
During the first half of 2015 the Service collaborated on the implementation of the new version of the Murex/MLC system (Murex 3.1 project) and on defining the new rules, valid for the whole BMPS Group, for lending to financial counterparties. This project, which was launched completely at the system level on 13 July 2015, assumes particular significance both in view of the alignment of the different operating criteria previously used within the Group and for the reduction of the ICAAP gaps on the credit lines.
With the introduction of the new calculation methodologies a specific credit line was therefore created in which the collaterals paid in are collected. Over-the-limit positions, in terms of amount and duration, are monitored by the same Counterparty Assessment Service and are reported daily to the Top Management.

2.2 Management, measurement and control systems

Analysis of the credit risk is carried out internally for operating purposes by means of the Loan Portfolio Model developed by the Parent Company; as analytical output it produces the classic risk measurements of the Expected Loss and Unexpected Loss, both operating (diversified intra-risk, with a time frame of one year and a confidence interval calibrated to the target rating of the Group itself) and regulatory. The inputs are numerous: probability of default (PD), obtained using validated and non-validated models, operating and regulatory loss given default (LGD) rates, number and type of guarantees that back the single lending relationships, regulatory and operating Credit Conversion Factors (CCFs) on the basis of which, respectively, the regulatory and operating EAD is estimated.
The internal PD, LGD, and EAD (Exposure At Default) models for credit risk assessment represent one of the main elements used for evaluation for all the Group structures involved in the credit industry, both central (Risk Management, Credit Department, CFO, General Management, Risk Committee, Board of Directors) and peripheral (Ratings Agencies and Account Managers). Currently the Group is authorised to use Advanced Internal Rating-Based (AIRB) systems for determining the capital requirements to cover credit risk on business portfolios and retail exposures. For all the other portfolios the standardised approach is used; this is to be applied according to the provisions of the roll-out plan delivered to the Supervisory Authority. In particular, the MPS Group is authorised to use the internal estimates of Probability of Default (PD) and Loss Given Default (LGD), while for the risk parameter of Exposure at Default (EAD) the coefficients provided for by the standardised approach are used while awaiting validation of the internal estimates by the Supervisory Authority.

To develop the internal rating systems, rigorous advanced statistical methods have been used, in compliance with the requirements envisaged in the supervisory regulations. At the same time, models have been selected so that the results obtained are in line with the Group's historical experience in credit management. Finally, in order to optimise proper use of the new instruments, the rating models have been shared in a top-down manner - from Risk Management down to the individual customer managers. In the loss rate model estimate, internal evidence related to capital flows, recoveries, and expense effectively recorded for past bad loans have been used. The results obtained from the model are subsequently compared with that observed by the Credit Recovery Area which, within the Parent Company's Credit Department, is dedicated to managing and recovering non-performing loans.

The main features of the advanced rating systems are illustrated below:
- the rating for all validated regulatory portfolios is calculated using a counterparty approach, in line with management practices that envisage credit risk assessment, both during disbursement and monitoring stages, at the level of the individual borrower;
- the rating is based on a Group logic: each individual counterparty is attributed a single rating at the banking Group

level, on the foundation of the information set relative to all the lending Banks within the AIRB perimeter. The LGD is distinct for the different companies, due to the variation in the products disbursed and the type of customers to which they are offered;
- segmentation of the rating models has been defined so as to make the individual model clusters align with the commercial logics, credit process logics and the regulatory portfolios envisaged by law;
- the final ratings determination varies by counterparty type. The credit process envisages a level of study proportional to the risk associated with the counterparty: the assessment of loans granted has a complex detailed structure for medium/large corporate counterparties (Small and Medium-sized Enterprises -SME - and Large Corporate - LC- segments), with greater exposure and concentration risks, and a simplified structure for Small Business - SB - and Retail customers;
- in line with the process, the final rating for SME and LC companies is determined as the integration of several components: statistical rating, qualitative rating, override option and assessment of the economic group they belong to; for SB and Retail counterparties instead, the rating is determined on the basis of only the statistical component;
- the rating has an internal validity of 12 months and is normally reviewed once a year, except in the case of rating reviews that follow highly structured and codified rules or that are brought forward on the initiative of the account manager or following a serious ad impairment of the counterparty.
- the LGD rate refers to economic losses recorded and not only accounting losses; for this reason, costs sustained during the recovery process and the time factor are also included in the estimate stage;
- the loss given default (LGD) rate is distinct for the various types of financing and the attribution occurs at the level of the individual operations; it is differentiated by geographic area, having encountered, over time and currently, different recovery rates between Northern and Central Italy and the South and islands;
- the loss rate estimate on positions with default status other than bad loans is carried out using Cure Rates. For counterparties with an administrative status of impaired loan (with the old classification: Substandard, Restructured and Past-Due) percentages of return to Performing have been determined and these percentages are used to adjust the LGD rate estimated starting from disputed cases;
- The MPS Group has adopted a single Master Scale for all types of exposures: this allows all the structures involved in managing credit to have an immediate comparison of the risk associated with various counterparties or portfolios. In addition, the probability of default (PD) for internal rating classes are mapped to the external Standard&Poor's rating scale to make internal risk assessments comparable to those available on the financial market.

Activities to develop and monitor the rating systems are assigned to Risk Management and subjected to control on the part of the units responsible for Internal Validation and Internal Auditing.
The Bank used the PD, LGD and EAD parameters, estimated for regulatory purposes for the calculation of Risk Weighted Assets, also for other operational purposes and internal management. In effect, these constitute the foundation for calculation for the various systems of measurement and monitoring, specifically:
- for measurement of economic capital in the face of credit risk;
- for the process of calculating risk-adjusted performance and measuring value creation;
- for risk-adjusted pricing processes;
- in all credit processes (disbursement, review, management and continuation) which have been engineered within the PEF application (Electronic Credit File), in the context of which the counterparty rating is the result of a process which evaluates all the economic, financial, performance and qualitative information relative to the customers with which credit risk exists in a transparent, structure and homogeneous process.

The prudential supervisory rules for banks, in line with the indications of the Basel Committee guidelines and the best practices, envisage that credit institutions carry out appropriate stress testing.
The Bank conducts stress tests regularly on all risk factors. Stress tests make it possible to assess the ability of the Bank

to absorb sizeable 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 developed on the basis of historical and discretionary scenarios:

- historical scenarios: shocks are hypothesized for a combination of risk factors observed in the past, which continue to have a certain degree of relevance and repeatability;
- discretionary scenarios: shocks are hypothesized for a combination of risk factors that could occur in the near future, in relation to the foreseeable environmental, social and economic context. 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.

The MPS Group's methodological approach to stress tests is based on the identification of the main risk factors, with the objective being the selection of events and combinations of events (scenarios) that highlight special vulnerabilities at the Group level. To this end, specific stress test plans have been established regarding the First Pillar risks (credit, market and operating) which were then combined - together with a given stress designed ad hoc with the other risk factors - in an overall Second Pillar stress test, aimed at determining the potential impact on the Group, in the context of the ICAAP process.

Specifically, as regards Credit Risk, the MPS Group has defined a regressive macro-economic model to estimate changes in Probabilities of Default (PDs), as a function of the main credit drivers. Initially, the credit drivers that explain variations in PD in a significant manner are identified. Then, on the basis of the regressive model, disturbances in the credit drivers are estimated, in line with the current and prospective economic situation. These shocks to the credit drivers determine the change in the PDs of the credit portfolio, triggering the simulation of a hypothetical downgrading of counterparties, with the consequent variation of risk in terms of Expected Loss, Unexpected Loss and the entry of new defaults.

The results of the stress tests are brought to the attention of Top Management and the Parent Company's Board of Directors. This latter body formally examines them in the context of the approval of the Annual ICAAP Report, with an eye to self-assessing the current and prospective capital adequacy of the MPS Group.

2.2.1 Lending policies

Since 2008, the year in which the MPS Group received from the Bank of Italy the authorisation for the use of the advanced internal approaches for determining the capital requirements against credit risk (AIRB - Advanced Internal Rating Based), the process of defining the MPS Group's lending policies has been founded on analytical portfolio estimates fed by the measurement metrics described in the previous paragraph, and is continually optimised and refined.
The model adopted, integrated into the Group's Budget process, has the aim of identifying the ways to develop and manage lending that make it possible to achieve the commercial targets within the limits of the economic and regulatory capital that the Group identifies as the maximum acceptable risk level, deriving the customer selection criteria and the logics for identifying the portfolios to reclassify/reduce, in a manner diversified by customer segment, economic sector, geographical area, quality of counterparties, technical forms and guarantees.
The process starts out from acceptance of the MPS Group's strategic objectives regarding lending, defined in the RAF (Risk Appetite Framework), and the existing structural constraints; taking into account the expected macroeconomic

scenario, it develops and defines strategic guidelines which can be divided into three main areas of action:
- Attractiveness analysis: classification of "attractiveness " of the portfolio clusters (Customer Segment, Economic Sector and Geographical Area, Quality of the Counterparty) obtained on the basis of risk/return and scenario logics; division of the loan portfolio into Direction Areas (Development and Requalification) characterised by diversified lending strategies;
- Allocation of the lending production: pursuit of the loan development objectives according to the degree of attractiveness and concentrated in the Development Area;
- Requalification actions: strategies to reduce short-term lending on the portions of portfolio at greater risk (Requalification Area), aimed at qualitative improvement of the performing portfolio. Management activities and organisational actions aimed at limiting default flows and improving recovery/cure performance of the impaired portfolio.

The process culminates in the approval of the lending policy guidelines by the Parent Company's Board of Directors, in the consequent revision of the relevant internal regulations and in the acceptance of these policies by the subsidiaries, including the Bank.

2.3 Credit risk mitigation techniques

The Bank does not apply processes for netting credit risk exposures with items of the opposite sign in the on-balance-sheet or "off-balance-sheet" contexts, as regards the commercial portfolio. It adopts instead policies to reduce the counterparty risk with institutional counterparties, signing netting agreements according to the ISDA (International Swaps and Derivatives Association)/ISMA (International Securities Market Association) standards and the related collateral agreements, for derivatives (CSAs, Credit Support Annexes), for repos (GMRAs: Global Master Repurchase Agreements) and, finally for securities lending operations (GMSLAs: Global Master Securities Lending Agreements).
The main credit protection forms of a real type used by the Bank are pledges and mortgages on properties but other types are also present (insurance policies, guarantee funds). On occasion the exposures are also backed by unsecured guarantees, mainly provided by private individuals (sureties) but also by companies (sureties and binding letters of patronage).
The Bank has provided itself with a single process for the acquisition of real guarantees, which at the same time is a working tool and expression of the management policies.
Management of guarantees is begun following the decision to grant the loan and the process is divided into several stages:
- acquisition (also multiple): in this stage, controls are carried out (formal and regarding the amount) to ensure that the guarantees proposed during the decision-making stage match those provided;
- adjustment/variation/correction: makes it possible to modify the features of the guarantee without interrupting credit protection;
- querying: makes it possible to learn the current figures and historical evolution of the guarantees received;
- termination/cancellation.

If monitoring measures regarding real guarantees indicate operational anomalies during the acquisition stage or possible inadequacies/losses of the values received as liens, events provided for in the credit monitoring policy are activated that aim to update the credit risk assessment.
Overall the Bank, to protect loans, accepts the various instruments summarised below:
- sureties (including omnibus sureties and unsecured guarantees provided by third party subjects);
- endorsements;

• surety policies;
• letters of comfort/binding letters of patronage;
• independent guarantee contracts;
• assumptions;
• unsecured guarantees under foreign law;
• credit derivatives;
  - credit default swaps;
  - total return swaps;
  - credit linked notes.

The main guarantors are indicated below:
• Sovereign States and Central Banks;
• entities in the public sector and regional entities;
• multilateral development banks;
• regulated intermediaries;
• guarantee bodies (joint facilities);
• companies and private individuals.

The disbursement of credit with the acquisition of guarantees is subject to specific control measures, which are differentiated by the guarantee type, applied at the time of disbursement and during monitoring.
The general requirements, aimed at ensuring the legal certainty and effectiveness of the guarantees are ensured in respect of the following significant elements:
• the binding nature of the legal commitment between the parties and the enforceability in court;
• the ability to be documented, the unenforceability of the instrument with third parties in all jurisdictions relevant for the purposes of establishment and enforcement;
• the timeframe for enforcement in the case of non-fulfilment;
• the respect for organisational requirements.

Regarding the respect for organisational requirements, attenuation of the risk is ensured:
• by the presence of an IT system that supports each stage in the life cycle of the guarantee (acquisition, assessment, management, revaluation, enforcement);
• by the formulation of guarantee management policies (principles, methods, processes), which are regulated and available to all users.

As already mentioned in the introduction, in the case of relations with market counterparties for operations in financial instruments (repurchase agreements, securities trading and lending, forex, and financial and credit derivatives), the Bank uses (bilateral) netting agreements which allow, in the case of default, for offsetting within its own operating sphere of all the existing credit and debit positions.
To optimise the credit risk management and mitigation, the Bank adopts the following protocols: ISDA (with CSAs for derivatives), GMSLA (Global Master Securities Lending Agreements for securities lending) and GMRA (Global Master Repurchase Agreements for repurchase agreements). At the end of 2015, 99.9% of uses of derivatives are for counterparties with whom an ISDA Master Agreement exists, of which 99.5% are also supported by collateral agreements (CSAs).
Another risk mitigation technique used by the Bank during 2015 is indirect adhesion to the “SwapClear” service, through the brokers Barclays Bank PLC, Merrill Lynch International and Morgan Stanley & Co. International PLC. This 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 legal mechanism of novation. This "circuit" not only entails an initial margin, but also the liquidation of a daily variation margin on individual transactions, deriving from automatic netting of mutual credit and debit positions. The possibility of making use of the "SwapClear" service directly is being examined.

2.4 Impaired financial assets

The activity of managing, monitoring and controlling impaired receivables (with the exception of bad loans of which only the administrative part) is followed by the Non-Performing Portfolio Management Office which took on that name on 1.6.2015 (previously it was called the Credit Management and Credit Quality Office). The activity of recovering positions classified as "bad loans" is entrusted to the Parent Company's Credit Recovery Area; the Bad Loans Administration Sector of the aforementioned Office, provides to the said Area the necessary assistance and represents the administrative support for the per accounting recognition of the recovery activity and the consequent correct measurement of the receivables.
During the early months of 2015, the Supervisory Authority conducted an audit on the loan exposures of the Group and also of the Bank, in relation to the Residential Real Estate, Institutional, Project Finance and Shipping portfolios, not included in the audit carried out during 2014. The Credit File Review determined by this audit entailed an impact, recognised in March 2015, of approximately € 21.8 million; it also entailed the downgrading of two customers to Probable Defaults.
During 2015 the activity underwent significant changes determined by the publication of the 7th update of Circular No. 272 by the Bank of Italy with which the European standards adopted by the European Banking Authority on the subject of loan classification (Implementing Technical Standards) were introduced into the national regulations.
On 30 April 2015, the Parent Company approved the new "Group Policy on Loan Classification and Measurement" accepted by our Bank with a resolution of the Board of Directors of 12 June 2015 following which Document No. 371 was issued on 22 June.
The new classification rules came into force starting from 1 January 2015; for the whole of 2015 and also for 2016, management according to the old categories will however be maintained in parallel.
The new classification scheme distinguishes between Performing and Non-Performing exposures.
Performing loan exposures included performing receivables attributable to:

a) "fully performing" exposures: loans not over the limit and for which no reasons can be seen for considering complete repayment at risk;
b) Non-impaired past-due/over-the-limit exposures: loans that are past due/over the limit for not more than 90 days for which the materiality thresholds have not been exceeded.

Non-Performing exposures include instead the following categories:

a) Bad loans**:** the set of on- and off-balance-sheet exposures in relation to a customer in a state of insolvency (even if not legally ascertained) or in substantially equivalent situations.
b) Probable defaults (unlikely to pay): exposures for which it is considered improbable that, without recourse to actions such as enforcement of the guarantees, debtors will be able to settle (in principal and interest) their loan obligations fully. The assessment is independent of the presence of any amounts (or instalments) past-due and unpaid (unless there are the conditions for classifying the debtor among bad debts). This category also includes the former restructured loans.
c) Impaired past-due and/or over-the-limit: on-balance-sheet exposures, other than those classified among bad debts or probable defaults, which, at the reference date of the report, are past due or over the limit for more than 90 days.

Besides the new loan classification categories, the aforementioned Bankit Circular introduced the new concept of "Forborne Exposures" which comprises relationships that have benefited from an intervention in support of a situation of financial difficulty; exposures subject to concessions (contractual amendments determined by changes in the repayment schedule, moratoriums and also re-financings) in relation to customers in financial difficulty, and that the Bank would not have granted if the customer were not in this state of difficulty, are in fact considered forborne.
Forborne concessions refer to a specific relationship, that is at the level of individual loans and cannot be classified as Forborne Performing and Forborne Non-Performing in relation to the customer's state of financial difficulty (medium or serious).
The forborne type is however closely connected to the classification of the customer: for a Performing customer, the concession of forborne is performing while for a non-performing customer the concession of forborne is non-performing.
When forbearance is granted critical elements may be encountered (serious financial difficulty) such as to entail reclassifying a performing customer as non-performing and in this case the forbearance is obligatorily non-performing.
Following the entry into force of the new classification criteria, on 16.11.2015 Document 56 was updated; this governs the activity as a whole, including the management of arrears connected with financial derivatives in being with corporate customers.

The mission of the Bad Loan Portfolio Management Office, which manages all impaired positions that are not bad debts, is to recover the arrears and bring the position back to performing. On the basis of the analysis of each individual position and joining up with the other Group banks, the Office makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position and the assessment of the related receivable.

The return of "impaired loans" to performing status takes place in various ways according to the classification category:
- or "past-due and/or over-the-limit impaired exposures" the simple payment of the arrears present for more than 90 days is sufficient;
- for "probable defaults", besides payment of the arrears, the cessation of any subjective conditions must also be verified, with particular reference to the customer's state of financial difficulty, which had determined this classification; in this last case the monitoring of forborne non-performing concessions begins; this provides for a cure period of 12 months during which the customer must necessarily be classified as a Probable Default; after this period, in the event of regular payments, or after the regular payment of at least one instalment after the forbearance measure granted comes into effect if with maturity of more than the 12 months as above, the customer can come back to performing and the forborne position is transformed into performing, but remains still under observation for a further 24 months (probation period).
  In the case of a shared customer, the removal from the "Probable Default" classification must be agreed with the other Group banks.
- Bad loans can become performing loans if, as well as the payment of the arrears (and any instalments shortly falling due), the following conditions are fulfilled: i) the absence of enforcement procedures or reports of legal action to the Central Credit Register; ii) the economic-financial difficulties which led to the classification must have been overcome. Since bad positions, as already previously mentioned, are handled by the Parent Company Credit Recovery Area, returns to performing status must be analysed and proposed to the Bank by the assignee.

The analysis and management of "impaired assets" includes obviously also the estimate of the writedowns of the nominal values of the receivables (doubtful outcomes and discounting according to the criteria identified in application of the IAS/IFRS accounting standards) for all non-performing customers including impaired over-the-limit loans, "above the threshold" according to what is laid down in the group's policy.

The analytical quantification of the doubtful outcome can be carried out by measuring cash flows or by assessment of the guarantees that must by constantly updated or, on the contrary, subject to the application of sharp haircuts. During the second half of 2015 an intense activity was carried out to reappraise the properties mortgaged for non-performing customers classified as Probable Defaults; the activity involved 470 loans and was completed for 434, for which the valuation of the related exposures was adjusted.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Impaired and performing credit exposure: amounts, value adjustments, trend, economic and geographical distribution

A.1.1. Quality Distribution of exposures by portfolio category and credit quality (carrying amount)

Portfolios/Quality	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired past-due exposures*	*Other assets*	***Total***
1. Financial assets available for sale					53,149	**53,149**
2. Financial assets held to maturity						
3. Loans to banks					8,867,669	**8,867,669**
4. Loans to customers	2,246,138	2,414,213	125,320	192,003	5,305,545	**10,283,219**
5. Financial assets designated at fair value						
6. Financial assets pending disposal						
Total 31/12/2015	**2,246,138**	**2,414,213**	**125,320**	**192,003**	**14,226,363**	**19,204,037**
Total 31/12/2014	**2,104,611**	**2,220,244**	**408,249**	**344,034**	**15,945,229**	**21,022,367**

The figures related to 31 December 2014 are presented, for solely illustrative purposes, in accordance with the new notion of impaired assets adopted by the Bank of Italy in the 7th update of 20 January 2015 of Circular 272 “Account Matrix”, in force since 1 January 2015. Impaired financial assets are divided into the categories “bad loans”, “probable defaults” and “past-due and/or over-the-limit impaired exposures” and include cash assets (loans and debt securities) and “off-balance-sheet” assets (guarantees issued, irrevocable and revocable commitments to grant finance) other than financial instruments allocated to the accounting portfolios “Financial assets held for trading” and “Hedging derivatives” which are all classified in the category “other assets”.
The notions of substandard exposures and restructured exposures were therefore abrogated and included in the aggregate probable defaults, with the exception of objective substandard positions (€ 180,798 thousand at 31 December 2014) included among impaired past-due exposures.

A.1.1.a Analysis of forborne loan exposures by portfolio and credit quality (carrying amount)

Portfolios/Quality	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired past-due exposures*	*Other assets*	***Total***
1. Financial assets available for sale						
2. Financial assets held to maturity						
3. Loans to banks						
4. Loans to customers	204,653	2,142,995	20,032	68,070	590,826	**3,026,576**
5. Financial assets designated at fair value						
6. Financial assets pending disposal						
Total 31/12/2015	**204,653**	**2,142,995**	**20,032**	**68,070**	**590,826**	**3,026,576**

A.1.1.b Analysis of non-impaired loan exposures: seniority of past-due positions

Portfolios/Quality	*Past due up to 3 months*	*Past due for more than 3 months up to 6 months*	*Past due for more than 6 months up to 1 year*	*Past due for more than 1 year*	*Not past due*	***Total***
1. Financial assets available for sale					53,149	**53,149**
2. Financial assets held to maturity						
3. Loans to banks					8,867,669	**8,867,669**
4. Loans to customers	64,181	64,238	61,791	1,793	5,305,545	**5,497,548**
5. Financial assets designated at fair value						
6. Financial assets pending disposal						
Total 31/12/2015	**64,181**	**64,238**	**61,791**	**1,793**	**14,226,363**	**14,418,366**

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

Portfolios / Quality	Impaired assets			Non-Impaired assets			Total (net exposure)
	Gross exposure	Adjustments specific	Exposure net	Gross exposure	Portfolio value adjustments	Exposure net	
1. Financial assets available for sale				53,149		53,149	**53,149**
2. Financial assets heldto maturity							
3. Loans to banks				8,867,681	(12)	8,867,669	**8,867,669**
4. Loans to customers	8,072,674	(3,287,002)	4,785,672	5,577,418	(79,870)	5,497,548	**10,283,220**
5. Financial assets carried at fair value							
6. Financial assets pending disposal							
Total 31/12/2015	**8,072,674**	**(3,287,002)**	**4,785,672**	**14,498,248**	**(79,882)**	**14,418,366**	**19,204,038**
Total 31/12/2014	**7,715,443**	**(2,982,338)**	**4,733,105**	**16,386,590**	**(97,328)**	**16,289,262**	**21,022,367**

The figures related to 31 December 2014 are presented, for solely illustrative purposes, in accordance with the new notion of impaired assets adopted by the Bank of Italy in the 7th update of 20 January 2015 of Circular 272 "Account Matrix", in force since 1 January 2015.

A.1.2.a Analysis of financial assets held for trading and hedging derivatives

Portfolios / Quality	Assets of evident low credit quality		Other assets
	Accumulated capital losses	Net exposures	Net exposures
1. Financial assets held for trading	62,442	7,482	22,915,469
2. Hedging derivatives			
Total 31/12/2015	**62,442**	**7,482**	**22,915,469**

A.1.2.b Impaired financial assets purchased

Portfolios / amounts	Nominal value (A)	Purchase price (B)	Difference (A-B)
1. Financial assets held for trading	21,482	16,048	5,434
2. Loans to customers	3,250	50	3,200
Total 31/12/2015	**24,732**	**16,098**	**8,634**

The partial derecognitions carried out by the Bank during the year on impaired financial assets totalled € 30,293 thousand (€ 16,193 thousand in 2014).

A.1.3 On- and off-balance-sheet exposures to banks: gross and net amounts

Type of exposure / Balances	*Gross exposure*					*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
	Impaired assets							
	Up to 3 months	*From more than 3 and up to 6 months*	*From more than 6 months up to 1 year*	*Due after 1 year*	*Assets non-impaired*			
A. On-balance-sheet exposures								
a) Bad loans								
- of which forborne exposures								
b) Probable defaults								
- of which forborne exposures								
c) Impaired past-due exposures								
- of which forborne exposures								
d) Non-impaired past-due exposures								
- of which forborne exposures								
e) Other non-impaired exposures					13,915,223		(12)	13,915,211
- of which forborne exposures								
Total A					**13,915,223**		**(12)**	**13,915,211**
B. Off-balance sheet exposures								
a) Impaired								
b) Other					4,848,373			4,848,373
Total B					**4,848,373**			**4,848,373**
Total A+B					**18,763,596**		**(12)**	**18,763,584**

A.1.4 On-balance-sheet loan exposures to banks: trend of gross impaired exposures

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2015 or the financial statements at 31 December 2014.

A.1.5 On-balance-sheet loan exposures to banks: trend of total value adjustments

No value adjustments on-balance-sheet loan exposures to banks were made in either the financial statements at 31 December 2015 or the financial statements at 31 December 2014.

A.1.6 On- and off-balance-sheet exposures to customers: gross and net amounts

Type of exposure / Balances	Gross exposure – Impaired assets – Up to 3 months	From more than 3 and up to 6 months	From more than 6 months up to 1 year	Due after 1 year	Assets non-impaired	Specific value adjustments	Portfolio value adjustments	Net exposure
A. On-balance-sheet exposures								
a) Bad loans				4,705,075		(2,458,937)		**2,246,138**
- of which forborne exposures				*380,519*		*(175,866)*		***204,653***
b) Probable defaults	1,223,002	30,624	460,536	1,503,124		(803,072)		**2,414,214**
- of which forborne exposures	*1,120,006*	*25,401*	*350,142*	*1,317,149*		*(669,703)*		***2,142,995***
c) Impaired past-due exposures	13,056	26,529	55,202	55,526		(24,993)		**125,320**
- of which forborne exposures	*1*	*4,506*	*17,788*	*1,061*		*(3,324)*		***20,032***
d) Non-impaired past-due exposures					199,957		(7,954)	**192,003**
- of which forborne exposures					*71,430*		*(3,360)*	***68,070***
e) Other non-impaired exposures					17,836,145		(71,915)	**17,764,230**
- of which forborne exposures					*611,008*		*(20,182)*	***590,826***
Total A	**1,236,058**	**57,153**	**515,738**	**6,263,725**	**18,036,102**	**(3,287,002)**	**(79,869)**	**22,741,905**
B. Off-balance sheet exposures								
a) Impaired	349,423					(12,540)		**336,883**
b) Other					9,580,578		(64,182)	**9,516,396**
Total B	**349,423**				**9,580,578**	**(12,540)**	**(64,182)**	**9,853,279**
Total A+B	**1,585,481**	**57,153**	**515,738**	**6,263,725**	**27,616,680**	**(3,299,542)**	**(144,051)**	**32,595,184**

We must note that non-impaired off-balance-sheet exposures include exposures generated by derivative contracts of low credit quality for a gross amount of € 69,924 thousand; accumulated writedowns amounted to € 62,442 thousand and are conventionally recognised among “Portfolio value adjustments”. For further details on the credit quality of derivative instruments and assets held for trading please see the disclosure provided in table A.1.2.a.

A.1.7 On-balance-sheet loan exposures to customers: trend of gross impaired exposures

	Reasons / Categories	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*
A.	**Initial gross exposure**	**4,194,157**	**3,022,492**	**498,794**
	- of which: exposures sold but not derecognised			
B.	**Increases**	**617,743**	**992,216**	**71,500**
B.1	transfers from non-impaired loan exposures	20,755	420,270	65,120
B.2	transfers from other categories of			
	impaired exposures	431,194	312,275	
B.3	other increases	165,794	259,671	6,380
C.	**Other decreases**	**106,825**	**797,422**	**419,981**
C.1	transfers to non-impaired loan exposures	548	120,716	26,200
C.2	derecognitions	9,614	43,298	364
C.3	collections	90,908	267,315	19,188
C.4	disposals			
C.5	losses on disposal		1,310	
C.6	transfers to other categories of			
	impaired exposures	5,755	363,485	374,229
C.7	other decreases		1,298	
D.	**Gross closing balance**	**4,705,075**	**3,217,286**	**150,313**
	- of which: exposures sold but not derecognised			

A.1.8 On-balance-sheet loan exposures to customers: trend of total value adjustments

	Reasons / Categories	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*
A.	**Initial value adjustments**	**2,089,546**	**802,247**	**90,545**
	- of which: exposures sold but not derecognised			
B.	**Increases**	**564,643**	**357,448**	**1,091**
B.1	value adjustments	468,824	351,231	1,076
B.2	losses on disposal		1,310	
B.3	transfers from other categories of			
	impaired exposures	95,804	4,113	
B.4	other increases	15	794	15
C.	**Other decreases**	**195,252**	**356,623**	**66,643**
C.1	writebacks from valuation	177,628	208,446	60,918
C.2	writebacks from collection	7,792	8,953	278
C.3	gains on disposal			
C.4	derecognitions	9,614	43,298	364
C.5	transfers to other categories of			
	impaired exposures	218	94,616	5,083
C.6	other decreases		1,310	
D.	**Final total value adjustments**	**2,458,937**	**803,072**	**24,993**
	- of which: exposures sold but not derecognised			

EXPOSURE TO SOVEREIGN RISK

As contemplated by the main international accounting standards (in particular IAS 1 and IFRS7) related to disclosures on exposures to sovereign credit risk (such as issuers of debt securities, counterparties of OTC derivative contracts, reference entities of credit derivatives and financial guarantees), details of the Bank's exposures at 31 December 2015 are given.

Overall, exposure to sovereign credit risk, in net nominal values, amounted to € 7,038 million (€ 2,529 million at 31 December 2014) and for € 7,043 million is represented by the net long position with the Republic of Italy (€ 2,470 million at 31 December 2014) and for € 5 million by a short position with the rest of the world (net long position of € 59 million at 31 December 2014).

The exposures indicated in the following table, including the interest accrued at the end of the year, include the short positions of the HFT portfolio. For credit derivatives the net amount (long or short) of the notional values underlying protection purchases and sales is given. The column "total exposure" shows the net total asset/liabilities, at nominal value, related to the single countries and included in the assets at the end of every year. Any derivative contracts listed on regulated markets are excluded since the economic effects of these are directly posted as an offsetting entry in the cash and cash equivalents, as a result of the settlement of the changes in the margins on a daily basis.

Exposure to sovereign risk

Country	*Debt securities*							*Loans*			*Credit derivatives*	*31/12/2015*
	Financial assets held for trading		*Financial assets available for sale*		*Receivables*			*Receivables*			*Financial assets held for trading*	*Total*
	Nominal	*Market value of book*	*Nominal*	*Market value of book*	*Nominal*	*Market value*	*Value of book*	*Nominal*	*Market value*	*Value of book / nominal*	*Nominal*	*Nominal*
Argentina	7,426	6,724										7,426
Austria	59	85									25,000	25,059
Belgium	(7,776)	(8,044)										(7,776)
Bosnia and Herzeg,	14	5										14
Brazil	218	239										218
China											15,650	15,650
France	(3,549)	(3,725)									(1,000)	(4,549)
Germany	(27,010)	(27,871)										(27,010)
Greece	8	5										8
Ireland	2	2										2
Italy	3,776,906	3,815,775						12,548	12,548	12,548	3,253,656	7,043,110
Netherlands	(7,471)	(7,782)										(7,471)
Poland	781	967										781
Portugal											3,000	3,000
United Kingdom	40	47										40
Romania	1,170	1,248										1,170
Spain	1,470	1,597									(14,200)	(12,730)
United States	287	320										287
Turkey	(2)	(2)										(2)
Hungary	674	778										674
Venezuela	(331)	(174)										(331)
TOTAL	**3,742,916**	**3,780,194**						**12,548**	**12,548**	**12,548**	**3,282,106**	**7,037,570**

OTHER INFORMATION

The Bank does not have exposures with government issues in the "Financial assets available for sale" portfolio.

Credit derivatives in Italy	*31/12/2015*	*31/12/2014*
Protection purchases		
- Nominal	9,185	3,791,284
- Positive fair value		*285,652*
- Negative fair value	*30*	*145*
Protection sales		
- Nominal	3,263,656	4,292,158
- Positive fair value		*157*
- Negative fair value	*29,536*	*357,374*

The change in the nominal values of credit derivatives is due to the rebooking of Credit Default Swap contracts on the Italy risk, underlying the activity of hedging the AXA policies distributed through the MPS Group network. The change, motivated by the need to improve the management of these transactions in the systems, entailed the replacement of the two spot start contracts (one a protection sale with a longer maturity and one a purchase with a shorter maturity) with a single forward start protection sale contract. The activity did not generate changes in the Bank's risk positioning.

A.2 Classification of the exposures according to external and internal ratings

A.2.1 Distribution of on- and "off-balance-sheet" loan exposures by external rating class

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. **On-balance-sheet exposures**	160,376	333,578	7,029,644	494,978	13,512,456	97,082	15,034,297	**36,662,411**
B. **Derivatives**	165,787	900,960	587,285	36,906	112,735	420	5,193,040	**6,997,133**
1. Financial derivatives	*91,699*	*375,401*	*103,687*	*718*	*96,149*		*1,390,409*	***2,058,063***
2. Credit derivatives	*74,088*	*525,559*	*483,598*	*36,188*	*16,586*	*420*	*3,802,631*	***4,939,070***
C. **Guarantees issued**					8,676		233,433	**242,109**
D. **Commitments to grant finance**	191	326	2,120,210	2,511	1,938,341	535	1,927,537	**5,989,651**
E. **Other**	6,135	34,819	57,011		1,364,994		10,045	**1,473,004**
Total	**332,489**	**1,269,683**	**9,794,150**	**534,395**	**16,937,202**	**98,037**	**22,398,352**	**51,364,308**

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) including U.C.I.T.S. (excluding equity instruments).
Exposures in financial derivatives are expressed net of the short positions for counterparties with which netting agreements are in force.
The commitments to issue finance refer mainly to mortgages stipulated and to be issued, unsecured loans and commitments to underwrite equity investments.
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, transcoding 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 on- and off-balance sheet exposures by internal rating classes

Exposures	*Internal rating classes*						*Group administrative default*	*Unrated*	*Total*
	High quality	*Good quality*	*Quality sufficient*	*Mediocre quality*	*Quality weak*	*Default*			
A. **On-balance-sheet exposures**	115,883	492,570	2,227,685	1,705,311	247,113	4,752,044	77,761	27,038,749	**36,657,116**
B. **Derivatives**	1,000	35,662	88,794	40,573	254	7,509	48	6,823,294	**6,997,134**
1. Financial derivatives	*2,438*	*83,794*	*40,573*	*254*	*7,509*	*48*	*1,923,447*	***2,058,063***	
2. Credit derivatives	*1,000*	*33,224*	*5,000*					*4,899,847*	***4,939,071***
C. **Guarantees issued**		2,641	83,274	17,505	12,763	110,957		14,969	**242,109**
D. **Commitments to grant finance**	7,815	38,719	208,012	159,770	35,675	225,926	470	5,313,263	**5,989,650**
E. **Other**								1,473,004	**1,473,004**
Total	**124,698**	**569,592**	**2,607,765**	**1,923,159**	**295,805**	**5,096,436**	**78,279**	**40,663,279**	**51,359,013**

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 transcoding 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 also indicated as "unrated" in the internal rating models. As per Bank of Italy orders on-balance-sheet exposures, unlike in the statement related to external ratings, do not include units in collective investment undertakings (of € 5,295 thousand).

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								
	Exposure value net	*real estate - mortgages*	*fixed assets held under financial leases*	*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 on-balance sheet loan exposures	**3,652,826**			**3,639,174**											**3,639,174**
1.1 fully secured	3,652,826			3,639,174											**3,639,174**
- of which impaired															
1.2 partially secured															
- of which impaired															
2. Guaranteed “off-balance-sheet” loan exposures	**2,481,163**			**1,940,026**	**507,835**										**2,447,861**
2.1 fully secured	2,109,701			1,940,026	169,673										**2,109,699**
- of which impaired															
2.2 partially secured	371,462				338,162										**338,162**
- of which impaired															

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty’s full availability.

Secure guarantees backing “off book” exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties. These guarantees are recognised at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)				Unsecured guarantees (2)									
						Credit derivatives					Endorsement credits				
							Other derivatives								
	Exposure value net	*real estate - mortgages*	*fixed assets held under financial leases*	*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 on-balance-sheet loan exposures	**13,711,971**	**7,124,015**		**5,015,957**	**50,974**						**996**	**13,555**	**4,661**	**589,464**	**12,799,622**
1.1 fully secured	11,998,176	6,699,142		4,846,570	46,188						920	12,146	2,359	372,135	**11,979,460**
- of which impaired	*4,059,677*	*3,846,891*		*34,126*	*3,526*						*920*	*4,323*	*1,925*	*167,966*	***4,059,677***
1.2 partially secured	1,713,795	424,873		169,387	4,786						76	1,409	2,302	217,329	**820,162**
- of which impaired	*587,381*	*394,743*		*49,536*	*301*						*76*	*849*		*28,267*	***473,772***
2. Guaranteed "off-balance-sheet" loan exposures	**2,567,951**	**195,470**		**1,073,926**	**1,105,240**									**118,270**	**2,492,906**
2.1 fully secured	1,962,331	178,499		1,065,194	657,305									61,332	**1,962,330**
- of which impaired	*185,831*	*156,029*												*29,802*	***185,831***
2.2 partially secured	605,620	16,971		8,732	447,935									56,938	**530,576**
- of which impaired	*5,556*	*4,983*												*360*	***5,343***

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty's full availability.

Secure guarantees backing "off book" exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties. These guarantees are recognised at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

B. LOAN EXPOSURE DISTRIBUTION AND CONCENTRATION

B.1 Sectoral distribution of on- and off-balance-sheet loan exposures to customers (carrying amount)

B.1.1 Sectoral distribution of loan exposures: on-balance-sheet exposures to customers (carrying amount)

	Bad loans		*Probable defaults*		*Impaired past-due exposures*		*Non-impaired exposures*			
Counterparties / Exposures	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	***Total 31/12/15***	***Total 21/12/14***
Governments										
- Net exposure							6,646,320		**6,646,320**	**5,147,902**
- Specific value adjustments										
- Portfolio value adjustments										**(4)**
Other public entities										
- Net exposure			1,048	*962*			11,574		**12,622**	**14,255**
- Specific value adjustments			(476)	*(435)*					**(476)**	**(679)**
- Portfolio value adjustments							(15)		**(15)**	**(180)**
Financial companies										
- Net exposure	15,737		77,669	*72,058*	613		6,394,942	*47,583*	**6,488,961**	**4,988,774**
- Specific value adjustments	(42,512)		(29,316)	*(26,021)*	(133)				**(71,961)**	**(22,032)**
- Portfolio value adjustments							(2,351)	*(48)*	**(2,351)**	**(6,247)**
Insurance companies										
- Net exposure							6,019		**6,019**	**34,001**
- Specific value adjustments										
- Portfolio value adjustments										

B.1.1 Sectoral distribution of on-balance-sheet loan exposures to customers (carrying amount) - continued

	Bad loans		*Probable defaults*		*Impaired past-due exposures*		*Non-impaired exposures*			
Counterparties / Exposures	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	***Total 31/12/15***	***Total 21/12/14***
Non-financial companies										
- Net exposure	2,179,777	*202,910*	2,325,927	*2,061,662*	120,343	*18,516*	4,784,327	*607,797*	**9,410,374**	**10,353,029**
- Specific value adjustments	(2,366,847)	*(175,188)*	(771,239)	*(641,556)*	(24,356)	*(3,201)*			**(3,162,442)**	**(2,871,330)**
- Portfolio value adjustments							(77,186)	*(23,459)*	**(77,186)**	**(87,413)**
Other operators										
- Net exposure	50,624	*1,743*	9,569	*8,313*	4,364	*1,516*	113,052	*3,517*	**177,609**	**265,754**
- Specific value adjustments	(49,578)	*(678)*	(2,041)	*(1,691)*	(504)	*(123)*			**(52,123)**	**(88,297)**
- Portfolio value adjustments							(318)	*(35)*	**(318)**	**(2,704)**

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

Counterparties / Exposures	*Bad loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/15*	*Total 31/12/14*
Governments						
- Net exposure				5,750,578	**5,750,578**	**8,771,157**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				132,793	**132,793**	**156,660**
- Specific value adjustments						
- Portfolio value adjustments						
Financial companies						
- Net exposure				2,484,114	**2,484,114**	**2,623,915**
- Specific value adjustments						**(2,284)**
- Portfolio value adjustments				(1,123)	**(1,123)**	**(41)**
Insurance companies						
- Net exposures				20,298	**20,298**	**508,245**
- Specific value adjustments						
- Portfolio value adjustments						
Non-financial companies						
- Net exposure	22	336,272	486	1,116,610	**1,453,390**	**3,368,955**
- Specific value adjustments	(61)	(12,479)			**(12,540)**	**(82,107)**
- Portfolio value adjustments				(63,059)	**(63,059)**	**(2,049)**
Other operators						
- Net exposure		104		11,227	**11,331**	**120,699**
- Specific value adjustments						
- Portfolio value adjustments						

The above data differ from the quantitative information indicted in the preceding table A.1.6. "Cash and off balance sheet exposure towards customers: gross and net values" for the total of the exposures connected with the counterparty risk relative to operations for the acquisition of disposal of securities or goods on loan.

B.2 Geographical distribution of on- and "off-balance sheet" loan exposures to customers (carrying amount)

B.2.1 Geographical distribution of exposures: on-balance-sheet loan exposures to customers (carrying amount)

Geographic area / Exposures	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired exposures*	*Total 31/12/15*	*Total 31/12/14*
Italy						
- Net exposure	2,242,839	2,393,071	125,320	17,489,736	**22,250,966**	**20,216,302**
- Total value adjustments	(2,444,318)	(800,742)	(24,993)	(79,551)	**(3,349,604)**	**(3,056,795)**
Other European countries						
- Net exposure	3,299	20,981		439,010	**463,290**	**547,399**
- Total value adjustments	(14,619)	(2,300)		(282)	**(17,201)**	**(21,994)**
America						
- Net exposure		161		25,077	**25,238**	**39,428**
- Total value adjustments		(30)		(36)	**(66)**	**(97)**
Asia						
- Net exposure						**481**
- Total value adjustments						
Rest of world						
- Net exposure				2,410	**2,410**	**105**
- Total value adjustments						

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

Geographic area / Exposures	*Bad loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/15*	*Total 31/12/14*
Italy						
- Net exposure	22	336,272	486	6,835,684	**7,172,464**	**7,955,949**
- Total value adjustments	(61)	(12,479)		(63,863)	**(76,403)**	**(86,153)**
Other European countries						
- Net exposure		104		2,456,228	**2,456,332**	**6,784,469**
- Total value adjustments				(318)	**(318)**	**(328)**
America						
- Net exposure				172,950	**172,950**	**696,158**
- Total value adjustments						
Asia						
- Net exposure				23,882	**23,882**	**38,868**
- Total value adjustments						
Rest of world						
- Net exposure				26,877	**26,877**	**74,187**
- Total value adjustments						

The above data differ from the quantitative information indicted in the preceding table A.1.6. "Cash and off balance sheet exposure towards customers: gross and net values" for the total of the exposures connected with the counterparty risk relative to operations for the acquisition of disposal of securities or goods on loan.

B.3 Geographical distribution of on- and "off-balance-sheet" loan exposures to banks (carrying amount)

B.3.1 Geographical distribution of exposures: on-balance-sheet loan exposures to banks (carrying amount)

Geographic area / Exposures	*Bad loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired exposures*	*Total 31/12/15*	*Total 31/12/14*
Italy						
- Net exposure				13,461,748	**13,461,748**	**13,781,310**
- Total value adjustments				(11)	**(11)**	**(678)**
Other European countries						
- Net exposure				349,114	**349,114**	**335,775**
- Total value adjustments				(2)	**(2)**	**(102)**
America						
- Net exposure				82,249	**82,249**	**215,681**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure					22,100	**22,100**
- Total value adjustments						

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

Geographic area / Exposures	*Bad loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/15*	*Total 31/12/14*
Italy						
- Net exposure				2,939,963	**2,939,963**	**2,248,918**
- Total value adjustments						
Other European countries						
- Net exposure				968,497	**968,497**	**2,451,774**
- Total value adjustments						
America						
- Net exposure				276,362	**276,362**	**312,569**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure						**3,552**
- Total value adjustments						

The above data differ from the quantitative information indicted in the preceding table A.1.3. "On- and off-balance-sheet exposure towards banks: gross and net values" for the total of the exposures connected with the counterparty risk related to operations for the acquisition of disposal of securities or goods on loan.

B.4 Large exposures

	31/12/2015	*31/12/2014*
a) amount (carrying amount)	48,887,126	44,032,173
b) amount (weighted value)	2,226,006	3,213,852
c) number	41	33

The Supervisory Regulations define a position as a “large exposure” on the basis of the unweighted exposure for credit risk. A position is considered a “large exposure” if of an amount equal to or greater than 10% of the regulatory capital.
As provided for in the aforementioned regulations, exposures in Government Securities were also considered.
No positions exceed the risk concentration limit.

C. 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 and pricing for the transactions carried out by the MPS Group and support, in terms of pricing, both to the Parent Company and to customers that have invested in the Group's securitisations. To this end 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 or in any case attributable to the collaterals accepted by the ECB in its monetary policy operations.
For deals originating outside the MPS Group, the Desk's activity is oriented to seizing the various opportunities that the market offers, in order to maximise the income returns of the portfolios as an investor in this segment also and mainly in the light of the operations carried out by the Central Bank following approval of the purchase programme on this Asset Class. The process for assessing and measuring the risks connected to the positions temporarily held is centralised at the Risk Management Area of the Parent Company BMPS within the scope of market risk measurement. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows, all by the use of advanced models.
In 2015, operations were carried out both through the trading channel on the secondary market and by credit lines made available through the ECB (in fact, they are mainly high rating securities, eligible for operations with central banks).
The amount held in the trading book (item 20 of the Assets "Financial assets held for trading") was € 1,096 million (€ 880.2 million at 31 December 2014) with an almost total exposure on the senior part of the capital structure.
The Bank holds only on-balance-sheet exposures and has not issued either guarantees or credit lines to securitisation vehicles.

QUANTITATIVE INFORMATION

C.1 Exposures deriving from the main "own" securitisation transactions divided by type of asset securitised and type of exposure

Nothing to report.

C.2 Exposures deriving from the main "third party" securitisation transactions divided by type of asset securitised and type of exposure

Type of underlying assets/Exposure	On-balance-sheet exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	Writedowns/ writebacks	Carrying Amount	Writedowns/ writebacks	Carrying Amount	Writedowns/ writebacks
- residential mortgage loans	25,846	(98)				
- non-residential mortgage loans	827,797	4,764	131,128	(1,501)		
- bonds	70,650	4,213				
- consumer credit	39,290	(212)				
- other assets	658	(1)	1,068	4		
Total 31/12/2015	**964,241**	**8,666**	**132,196**	**(1,497)**		
Total 31/12/2014	**761,372**	**7,163**	**118,070**	**20,282**	**773**	**(756)**

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

C.3 Special purpose vehicles for securitisation

Name of securitisation / Name of special purpose vehicle	*Registered Offices*	*Consolidation*	*Assets*			*Liabilities*		
			Receivables	*Debt securities*	*Other*	*Senior*	*Mezzanine*	*Junior*
Alba 7 SPV Srl	Via V. Alfieri, 1 Conegliano (TV)	NO	669,829			455,200	150,000	191,700
Asti Finance Srl	Via Eleonora Duse 53 Rome	NO	271,078			206,510	46,400	
Claris Finance Srl	Via V. Alfieri, 1 Conegliano (TV)	NO	686,831			510,581		176,250
Colombo Srl	Viale Majno, 45 Milan	NO	26,911				7,189	19,722
Credico Finance Srl	Via Barberini, 47 Rome	NO	63,154			35,206	18,600	9,347
Creso 2 Srl	Via Pestalozza 12/14 Milan	NO	253,336			122,491		101,389
Fip Funding Srl	Via Parigi, 11 Rome	NO	986,876			896,875		
Marche M6 Srl	Via V. Alfieri, 1 Conegliano (TV)	NO	1,720,378			1,239,008		496,566
Quarzo Srl	Galleria del Corso, 2 Milan	NO	694,217			738,000		82,000
Sunrise Srl	Via Bernina, 7 Milan	NO	1,016,657			555,700	161,500	266,100
Tagus Sociedade de Titularizacao de Creditos S,A,	Rua Castilho, 20 Lisbon	NO	1,770,000			405,149	2,016	410
Siena Mortgages 10-7 SRL	Via V. Alfieri, 1 Conegliano (TV)	YES	2,349,466			1,512,358	817,600	76,625
Patagonia Finance SA	6, Rue E. Ruppert L-2453 Luxembourg	YES	186			249,800		
Casaforte SRL	Via Eleonora Duse 53 Rome	YES	1,669,640			1,125,393	130,000	3,000
TOTAL			**12.178.559**			**8.052.271**	**1.333.305**	**1.423.109**

(*) The liabilities do not show the remaining items different from the financial instruments issued, including the accumulated profits (losses) for the year.

The Bank owns no interests in special purpose vehicles relating to its own securitisations.
With reference to the consolidated securitisations, we can inform you that:
Siena Mortgages 10-7 Srl is a securitisation transaction carried out in 2010. The transaction took the form of the sale by BMPS to the vehicle of a portfolio of performing residential mortgage loans for approximately € 2.5 bln. The Parent Company did not derecognise the underlying receivables, because it maintained substantially all the risks and benefits associated with ownership of the receivables transferred;

- Patagonia is a Luxembourg-law vehicle whose assets (the collateral) consist mainly of Lower Tier II type subordinated debt securities issued by Banca Monte dei Paschi di Siena SpA. The vehicle's liabilities consist instead of two zero coupon securities with the same maturity as the subordinated securities issued by MPS (30 December 2016) and held in the assets. The vehicle collects annually a coupon from the MPS security which is immediately reinvested in securities with the same characteristics (coupon, maturity and subordination);
- Casaforte is a securitisation transaction carried out in 2010, which took the form of the sale to the special purpose vehicle "Casaforte Srl" of the receivable originating from the mortgage loan granted to the consortium 'Perimetro Gestione Proprietà Immobiliari'. The underlying receivable was fully derecognised by the Parent Company, because the related risks and benefits were transferred to the special purpose vehicle not only in the form but also in the substance. The residual debt at 31.12.2015 amounted to € 1,414.3 million. In December 2014 the Parent Company completed the full repurchase of the Financial Equity Instruments PGPI 2010 and of the related Class Z Securities for an amount of approximately € 70 million. As a result of these purchases the Bank gained control over the Company, with consequent consolidation of the same in the financial statements.

C.4 Special purpose vehicles for securitisation (non-consolidated)

Accounting items / Type of structured entity	*Item 20 Financial assets held for trading*	*Total assets (A)*	*Item 40 Financial liabilities held for trading*	*Total liabilities (B)*	*Net book value (C=A-B)*	*Maximum exposure to risk of loss (D)*	*Difference between exposure to risk of loss and carrying amount (E=D-C)*
ALSPV 7 A1-TV 15/38	658	658			658	658	
ASTIF 1A-TV 10/52	2,374	2,374			2,374	2,374	
CLARF A1-TV 14/61	908	908			908	908	
COLOMBO 01/26 TV	1,068	1,068			1,068	1,068	
CREDI 5 A-TV 14/61	897	897			897	897	
CRESO 2A-TV 12/60	6,642	6,642			6,642	6,642	
FIP FUND 05/23 TV	66	66			66	66	
MARCH 6 A1-TV 13/64	10,539	10,539			10,539	10,539	
QUARC 1A TV 15/30	21,111	21,111			21,111	21,111	
SUNRISE-TV 15/35	3,002	3,002			3,002	3,002	
VERSE -TV 15/19	15,177	15,177			15,177	15,177	
TOTAL	**62,442**	**62,442**			**62,442**	**62,442**	

ALSPV 7 A1-TV 15/38: vehicle set up pursuant to Italian Law 130/1999. Originator Alba Leasing S.p.A.. This is a portfolio made up of 12,900 leasing contracts guaranteed by debtors with registered offices in Italy.
ASTIF 1A-TV 10/52: vehicle set up pursuant to Italian Law 130/1999. Originator Cassa di Risparmio di Asti S.p.A.. This is a portfolio made up of 4,171 residential mortgage loans granted to individuals resident for 99.5% in northern Italy.
CLARF A1-TV 14/61: vehicle set up pursuant to Italian Law 130/1999. Originator for 50% of the portfolio Veneto Bank S.p.A. and for the remaining 50% Bank Apulia S.p.A.. This is a portfolio made up of residential mortgage loans granted to individuals resident in Italy.
COLOMBO 01/26 TV: vehicle set up pursuant to Italian Law 130/1999. Originator Credito Fondiario. This is a portfolio of Italian loans to the Italian public administration. Specifically it consists of 97 loans to institutions such as Italian Regions (52.7%), the Ministry of the Treasury (13.2%), Provinces and Municipalities (28.8%) and Health Trusts (5.3%).
CREDI 5 A-TV 14/61: vehicle set up pursuant to Italian Law 130/1999. Originator: a pool of Cooperative Banks. This is a portfolio made up of residential mortgage loans granted to individuals resident in Italy.
CRESO 2A-TV 12/60: vehicle set up pursuant to Italian Law 130/1999. Originator Cassa di Risparmio di Chieti S.p.A.. This is a portfolio made up of 4,278 Italian residential mortgage loans, distributed mainly in Emilia-Romagna (30.90%) and in Lombardy (62.11%).
FIP FUND 05/23 TV: FIP Funding is the first investment fund promoted by the Italian Republic in the context of a wider process of value enhancement promoted by the MEF (Ministry for the Economy and Finance) through the transfer/contribution of property assets to real estate mutual investment funds.
MARCH 6 A1-TV 13/64: vehicle set up under the terms of the Law on Securitisation of 20 March 2013. Originator Banca delle Marche S.p.A.. This is a portfolio made up of residential mortgage loans granted to residents in Italy.

QUARC 1° TV 15/30: vehicle set up pursuant to Italian Law 130/1999. Originator Compass S.p.A.. This is a portfolio of consumer loans granted to individuals resident in Italy.
SUNRISE-TV 15/35: vehicle set up pursuant to Italian Law 130/1999. Originator Agos Ducato S.p.A.. This is a portfolio of personal consumer loans (73.68%), loans for the purchase of new cars (12.03%), loans for the purchase of used cars (7.87%), furniture (3.23%) and special purpose loans (3.19%) granted to individuals resident in Italy.
VERSE -TV 15/19: vehicle subject to the law of Portugal having as collateral a portfolio of electricity receivables. Originator EDP Servico Universal SA.

The maximum exposure to risk of loss was determined as an amount equal to the book value. During the year of reference the bank did not provide and has no intention to provide financial or any other type of support.
The Bank owns no interests in special purpose vehicles relating to its own securitisations.

D. DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION)

QUALITATIVE INFORMATION/QUANTITATIVE INFORMATION

	Asset accounting portfolios			*Liability accounting portfolios*				
Accounting items / Type of structured entity	*Item 20 Financial assets held for trading*	*Item 40 Financial assets available for sale*	*Total assets (A)*	*Item 40 Financial liabilities held for trading*	*Total liabilities (B)*	*Net book value (C=A-B)*	*Maximum exposure to risk of loss (D)*	*Difference between exposure to risk of loss and carrying amount (E=D-C)*
1, Special purpose vehicles								
2, Collective investment undertakings	1,244,521	1,553	1,246,074	330,996	330,996	915,078	1,361,729	446,651
3, Other								
TOTAL	**1,244,521**	**1,553**	**1,246,074**	**330,996**	**330,996**	**915,078**	**1,361,729**	**446,651**

The aggregate includes, in correspondence to the column "Financial assets held for trading":
- € 3.7 million (€ 2.9 million at 31.12.2014) related to the interests held by the Bank in units of Open-ended Investment Funds and Exchange Traded Funds that invest in equities, bonds and derivatives. These units are purchased for the purpose of hedging the risks generated structured bonds issued on funds placed through the Parent Company's network or for the purpose of repurchase on the secondary market of structured funds of which the original structuring has been handled;
- € 1,240.8 million (€ 1,442 million at 31.12.2014) related to exposures in credit and financial derivatives with fair positive value with Rainbow counterparties for € 795.5 million (€ 1,287 million at 31.12.2014), with the foreign-law open-ended investment fund (PRIMA PR 100 CE) managed by Anima Funds PLC for € 31.5 million (€ 155 million at 31.12.2014) and with the Axa Im Deis investment funds for € 413.8 million. Rainbow and Axa Im Deis are Irish-law funds managed respectively by Anima Asset Management and AXA Investment Managers. These funds are divided into segments that are purchased by MPS AXA Financial Limited and represent the funds to which are linked the performance of the Unit-Linked policies placed with its customers with the name "AXA MPS Valore Performance". The bank operates with Rainbow and with Axa Im Deis as the counterparties with which the derivatives included in the Funds' assets are traded.

The column Financial assets available for sale includes:
- € 1.5 million related to the units of a closed-end real estate fund reserved for qualified investors (Fondo Cosimo I), held by the Bank. The fund's objective is to maximise the returns for its investors through both a growing dividend yield and enhancing the value of the assets in the portfolio.

The column Financial liabilities held for trading includes:
- € 77.9 million (€ 177.5 million at 31.12.2014) related to short positions on Units in collective investment undertakings, namely Anima Liquidity I, Prima Med Term BD I, Prima Sh Term BD I, Prima Fd Europe Eqt. These are Open-ended Investment Funds that invest primarily in bonds denominated in euro and with rating higher than investment grade. The Bank finances the short sales borrowing the securities, indirectly, from the Parent Company's customers and at the same time enters into a Total Return Swap where it receives the performance of the securities and pays an interest rate;

- € 253.1 million (€ 689.9 million at 31.12.2014) related to the negative fair value of financial and credit derivatives with Rainbow counterparties for € 178.8 million (€ 545.3 million at 31.12.2014), with the foreign-law open-ended investment fund (PRIMA PR 100 AZ) managed by Anima Funds PLC for € 28.9 million (€ 144.6 million at 31.12.2014) and with the AXA IM DEIS investment funds managed by AXA Investment Managers for € 45.4 million.

The entities in question finance themselves by issuing units.
The maximum exposure to risk of loss was indicated as an amount equal to the book value for exposures in units in collective investment undertakings other than financial and credit derivatives, for which the reference is to the positive fair value plus the add-on (calculated taking into account also the positions with negative fair value).
During the year of reference the Group did not provide and has no intention to provide financial or any other type of support to the unconsolidated structured entities indicated above.
There are no sponsored unconsolidated structured entities for which the Group, at the reporting date, holds interests.

E. SALE TRANSACTIONS

Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The assets indicated in the following tables are debt and credit securities and have been sold in the context of repurchase agreements and securities lending with repurchase obligations at maturity.
Repurchase agreements, as for similar securities lending operations described in paragraph 7 of the Notes - part B - Other transactions, are carried out, largely, to cover similar consistent operations in the context of the dynamic and complex management of trading activities.
Considering Securities Financing Transactions (SFT) as a whole, a total net funding position emerges, correlated to the financing of long positions in securities, with the objective of optimising carrying costs for portfolios, benefiting from the relative value approach, in particular on the BTP market.
The underlying assets of repurchase agreements are mainly Italian government securities, mostly BTPs. The bank-owned securities used for repurchase agreements are posted among assets in the balance sheet, under item 20, and the related benefits and risks remain, in any case, those of the Bank. Securities transferred are shown as "committed" but this status does not exclude the possibility of selling them, by covering the momentary lack of the availability of the security through securities lending or reverse repurchase agreements.

QUANTITATIVE INFORMATION

E.1 Financial assets sold but not derecognised: carrying amount and full value

The financial assets sold but not derecognised are shown below at full and at carrying amount.

	Portfolio / Technical forms	*Financial assets held for trading*	*Financial assets designated at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Loans to banks*	*Loans to customers*	*Total 31/12/2015*	*Total 31/12/2014*
A.	**Cash assets**	**7,508,363**						**7,508,363**	**5,769,166**
1.	Debt securities	7,477,671						**7,477,671**	**5,723,859**
2.	Equity securities	30,692						**30,692**	**45,307**
3.	Collective investment undertakings								
4.	Loans								
B.	**Derivative instruments**								
	Total 31/12/2015	**7,508,363**						**7,508,363**	
	of which impaired								
	otal 31/12/2014	**5,729,991**		**39,175**					**5.769.166**
	of which impaired								

Repurchase agreements carried out using own securities, shown in table E.1.a below, were stipulated for 49.54% with the Parent Company BMPS and for 26.95% with Cassa Compensazione e Garanzia.

E.1.a Type of sale transaction relating to financial assets not derecognised

Type of transaction / Balances	*31/12/2015*	*31/12/2014*
Repurchase agreements	7,508,363	5,682,104
Securitisations		
Pool securities lending		87,061
Disposals		
Total	**7,508,363**	**5,769,165**

E.2 Financial liabilities with respect to financial assets sold but not derecognised: carrying amount

Financial liabilities with respect to financial assets sold but not derecognised as per point E.1 above, recorded in the liability item 40 "Financial liabilities held for trading", can be broken down as follows:

Portfolio assets / liabilities	*Financial assets held for trading*	*Financial assets designed at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Loans to banks*	*Loans to customers*	*Total*
1. Due to customers	**3,655,689**						**3,655,689**
a) against assets recognised in full	3,655,689						**3,655,689**
b) against assets recognised partially							
2. Due to banks	**3,806,169**						**3,806,169**
a) against assets recognised in full	3,806,169						**3,806,169**
b) against assets recognised partially							
Total 31/12/2015	**7,461,858**						**7,461,858**
Total 31/12/2014	**5,471,944**		**28,645**				**5,500,589**

E.3 Sale transactions with liabilities with recourse only on assets sold: fair value

There is nothing to report.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

There is nothing to report.

Quantitative information

There is nothing to report.

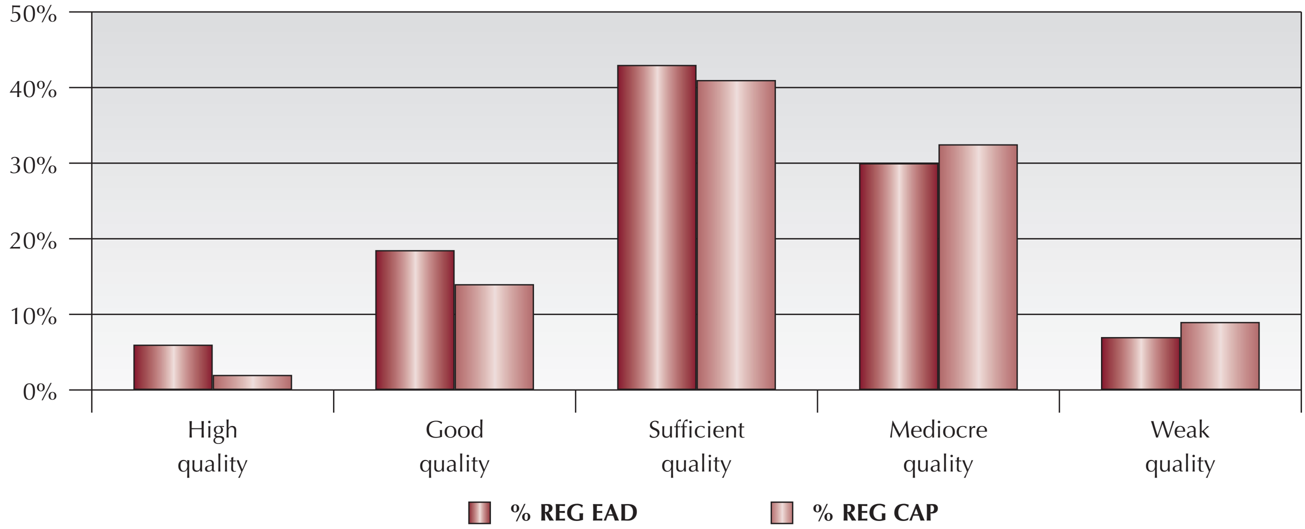
E. 4 Covered bond transactions

The Bank issued no covered bank bonds.

F. CREDIT RISK MEASUREMENT MODELS

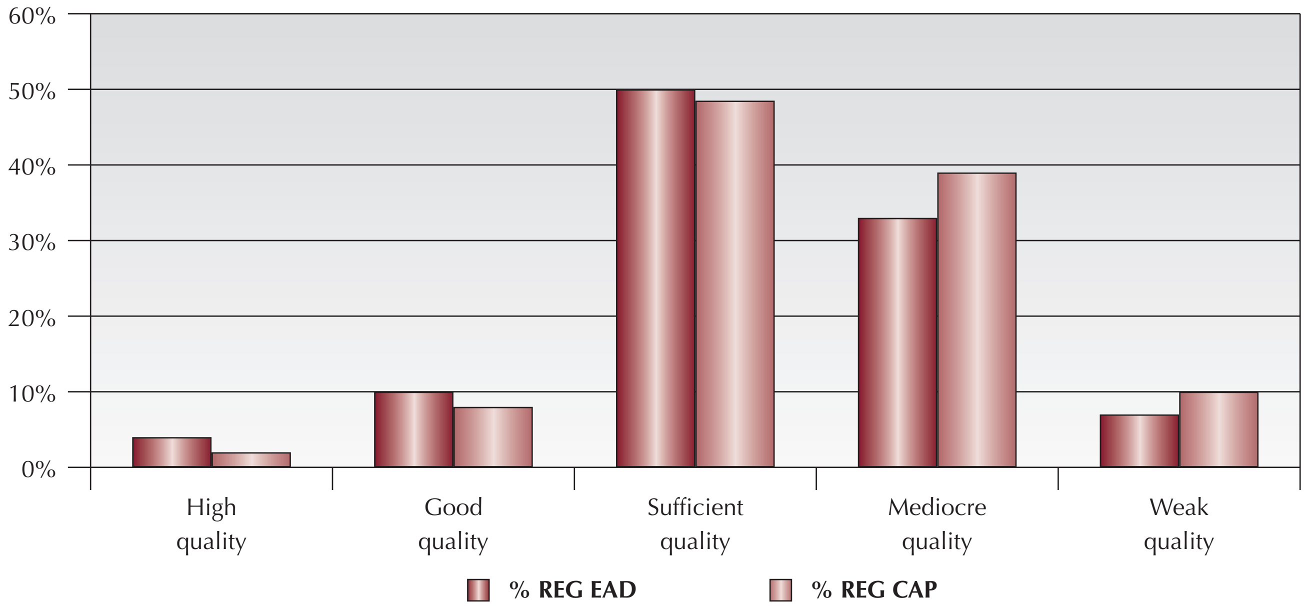
For the purposes of the quantitative disclosure on credit risk, the distribution of the credit quality of the Bank's portfolio at 31.12.2015 for risk exposure (REG EAD) and Regulatory Capital (REG CAP) is presented below. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking entities, not included in the AIRB models. For these counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

QUALITY DISTRIBUTION OF PERFORMING LOAN PORTFOLIO
BANCA MPS CAPITAL SERVICES - 31/12/2015



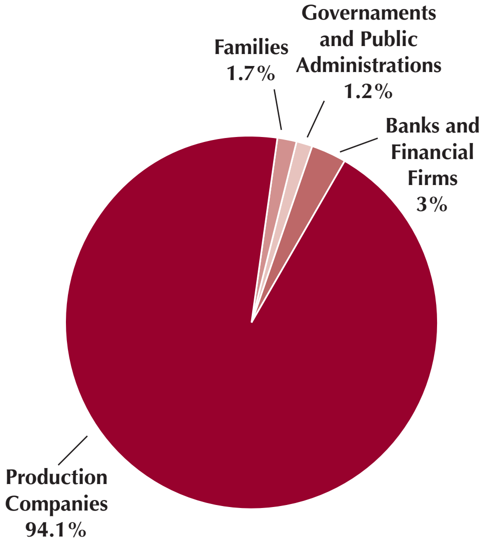
The chart below, by contrast, shows the distribution of credit quality only in relation to the Corporate and Retail portfolios for which the MPS Group has received from the Supervisory Authority the authorisation for use of the advanced internal models relating to the PD and LGD parameters.

QUALITY DISTRIBUTION OF PERFORMING LOAN PORTFOLIO CORPORATE RETAIL SEGMENTS BANCA MPS CAPITAL SERVICES - 31/12/2015

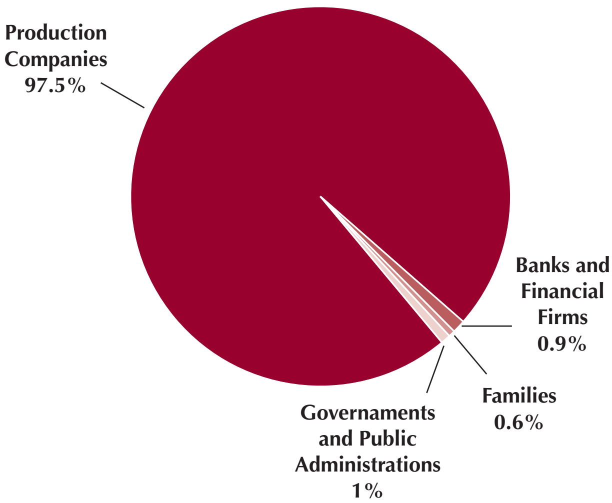


The findings obtained at the end of 2015, indicate that the exposures at risk are mainly related to the sectors “Production Companies” (94.1% of total disbursements) and “Banks and Financial Firms” (3%). The remaining portion is divided between the “Family” and “Governments and Public Administration” sectors, with 1.7% and 1.2%, respectively.
In terms of Regulatory Capital, this is absorbed for 97.5% by the segment of customers of “Production Companies”. These are followed by “Governments and Public Administration” with 1%, “Banks and Financial Firms” with 0.9%, and “Families” with 0.6%:

RISK EXPOSURE
MPS CAPITAL SERVICES - 31/12/2015



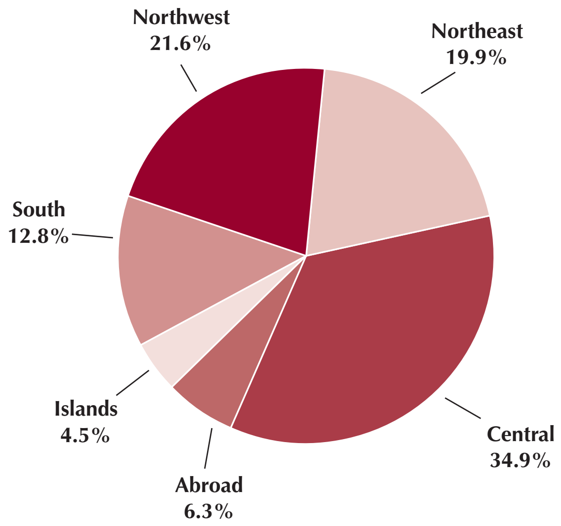
REGULATORY CAPITAL
MPS CAPITAL SERVICES - 31/12/2015



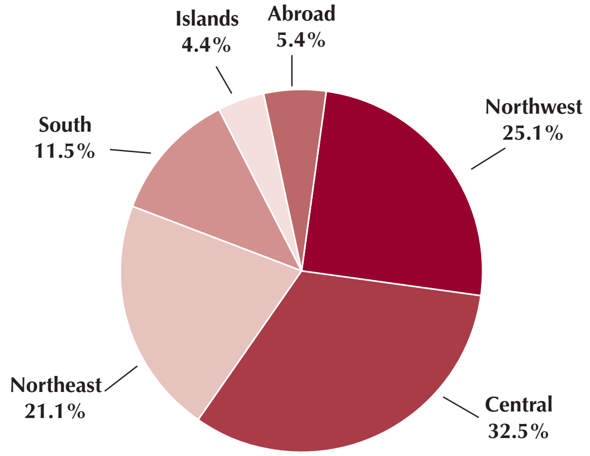
Analysis of the geographic distribution of the Bank's customers shows that risk exposures are mainly concentrated in the Central regions (34.9%), followed by the North West and North East (with 21.6% and 19.9%, respectively), the South (12.8%) and the Islands (4.5%). Foreign countries account for 6.3%.

The absorption of Regulatory Capital also finds more explanation in the composition of lending more concentrated in the Centre (32.5%), the North West (25.1%), the North East (21.1%), the South (11.5%), Foreign Countries (5.4%) and the Islands (4.4%).

RISK EXPOSURE
MPS CAPITAL SERVICES - 31/12/2015



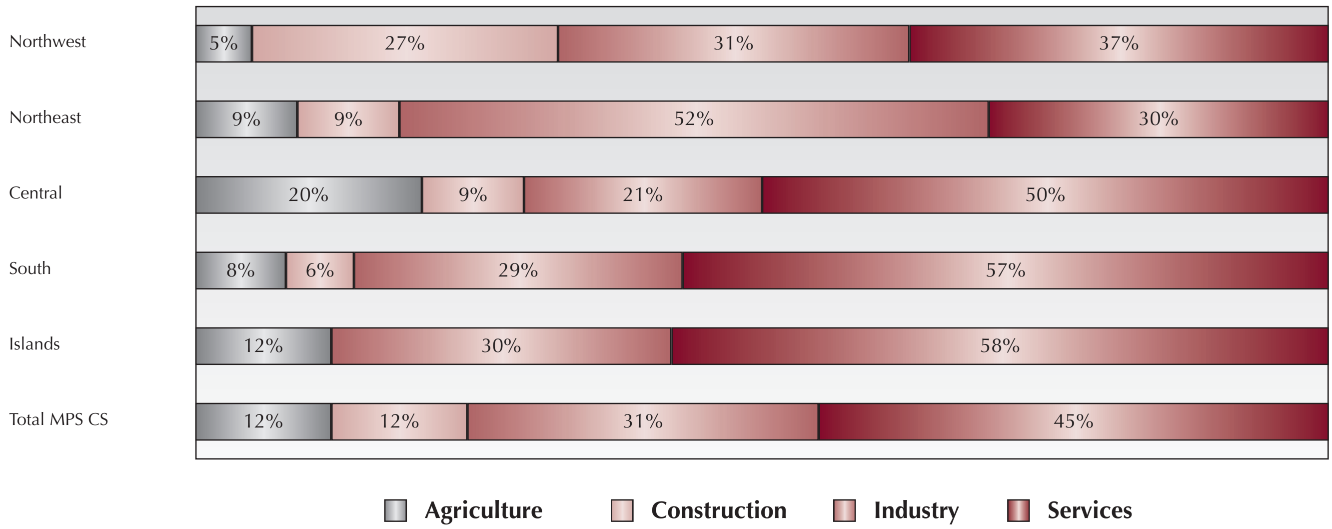
REGULATORY CAPITAL
MPS CAPITAL SERVICES - 31/12/2015



The charts below, finally, show only for Corporate customers in Italy, the percentage distribution by individual Geographical Area of the exposure to Default and of the absorption of Regulatory Capital by sector of economic activity.

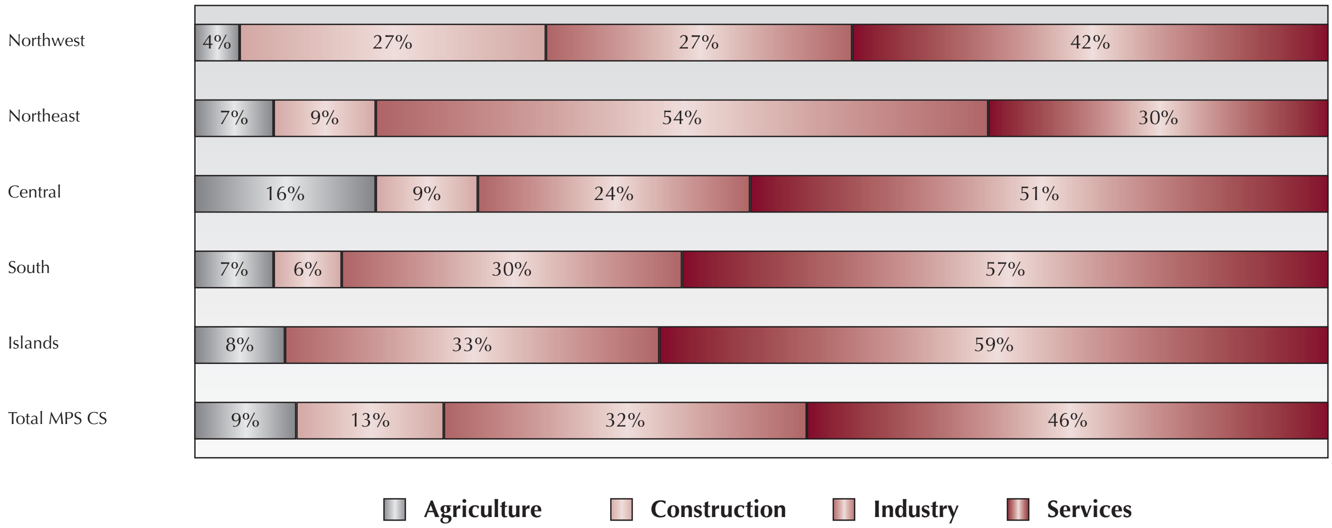
The largest proportion of Exposure to default of Companies in all Geographical Areas is concentrated in the Services sector, except in the North East where Industry predominates with 52%. Out of the total, the concentration on Services is 45% and is followed by that of industry (31%), of Building (12%) and finally of Agriculture with 12%.

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS 31/12/2015
Default exposure distribution by geographic area and business division



Also as regards Regulatory Capital (CAP), the largest concentration in total is related to the Services sector. Only in the North East predominance of the Industry sector (54%) is recorded.

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS 31/12/2015
Distribution of Regulatory Capital (REG CAP)
by geographic area and business area



SECTION 2 - MARKET RISKS

2.1 Interest rate risk and price risk - supervisory trading book

The risk management model for market risks related to the Trading Book

The MPS Group's Supervisory Trading Book (STB) - or Trading Book - is made up of the set of Supervisory Trading Books managed by the Parent Company and by the Bank. The STBs of the other subsidiaries are closed to market risks. Transactions in derivatives, carried out on behalf the retail customers, are centralised and the risk is monitored by the Bank.
The market risks of the trading book are monitored for operating purposes in terms of Value-at-Risk (VaR). The Group Finance and Liquidity Committee is tasked with directing and coordinating the overall process for management of the Group's proprietary finance, ensuring consistency between the management actions of the different business units.
The Group's Trading Portfolio is subject to daily monitoring and reporting by the Parent Company's Risk Management Area, 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 reporting purposes, on the subject of Market Risks the Group employs in any case the standardised methodology.
The operating limits on trading activities, resolved by 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 and Stress. In addition, the credit risk of the trading book, 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 for types 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 Management Committee, to the Managing Director, to the Chairperson and to the Board of Directors of the Parent Company in the Risk Management Report, the instrument through which the Top Management and the Governing Bodies are informed about the Group's overall risk profile. During the year a specific information flow for the Bank's Governing Bodies was also prepared every quarter.
The macro-types of risk factors considered within the Internal Markets Risks Model are IR, EQ, CO, FX, CS, as illustrated below:
• IR: interest rates on all the relevant curves, inflation curves and related volatility;
• EQ: equity prices, indexes and related volatility;
• CO: commodity prices, indexes on commodities;
• 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,
• for Financial Instruments,
• for Risk Families.

It is then 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 Commodity VaR (CO 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 makes it possible to produce diversified VaR metrics for the entire 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.

The Bank, in line with the choices adopted at the Group level, does not currently use the internal model based on the VaR in the calculation of capital requirements for market risks.

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 make it possible to assess the ability of the Bank to absorb sizeable 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 developed 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 happened historically in the identified stress period.

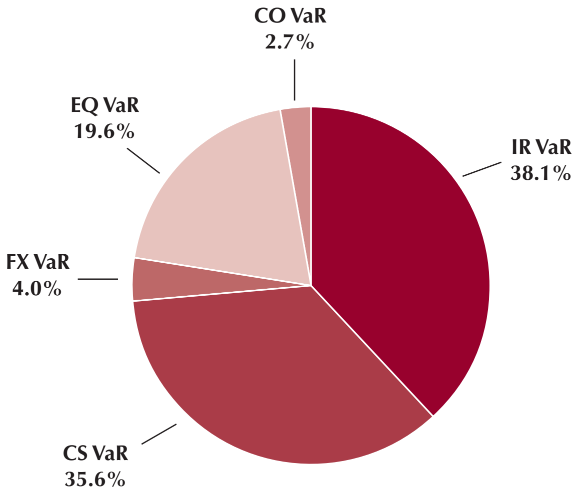
Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective 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.

We can note that the VaR methodology described above is also applied, for management purposes, to that portion of the banking book which consists of financial instruments that are similar to those held for trading (e.g. AFS equity securities/bonds).

During 2015, market risks for the Bank's Supervisory Trading Book demonstrated, in terms of VaR, a trend characterised by a contraction of the volatility and of the absolute risk level with respect to the previous year. The VaR trend was affected by the IR and CS segments owing to liquidity providing and proprietary trading activities in government securities and ABSs, proprietary trading in the IR segment (Long Futures and Interest Rate Future Options) and the EQ segment (Options and Futures on the main market indexes) and by activities associated with structuring and hedging of policies. The changes in the market parameters recorded during the year, mainly in the IR segment, contributed to the variability of the VaR (an effect made more acute by the methodological assumptions on risk factors implicit in the internal historical simulation model).

In terms of VaR composition by risk factors, as of 31.12.2015 the Bank's portfolio is mainly absorbed by the interest rate risk factor (IR VaR, 38.1%). This is followed by the Credit Spread risk factor (CS VaR, 35,6%), the equity risk factor (EQ VaR, 19.6%), the exchange rate risk factor (FX VaR, 4.0%) and the commodity risk factor (CO VaR, 2.7%).

VAR MPS CAPITAL SERVICES
Supervisory Trading Portfolio
VaR Breakdown per Risk Factor 31/12/2015



During 2015, the Bank's STB VaR oscillated between a minimum of € 2.03 million at 23/01/2015 and a maximum of € 7.31 million at 17/12/2015, recording an average value of € 4.75 million. The STB VaR at 31.12.2015 was € 6.59 million.

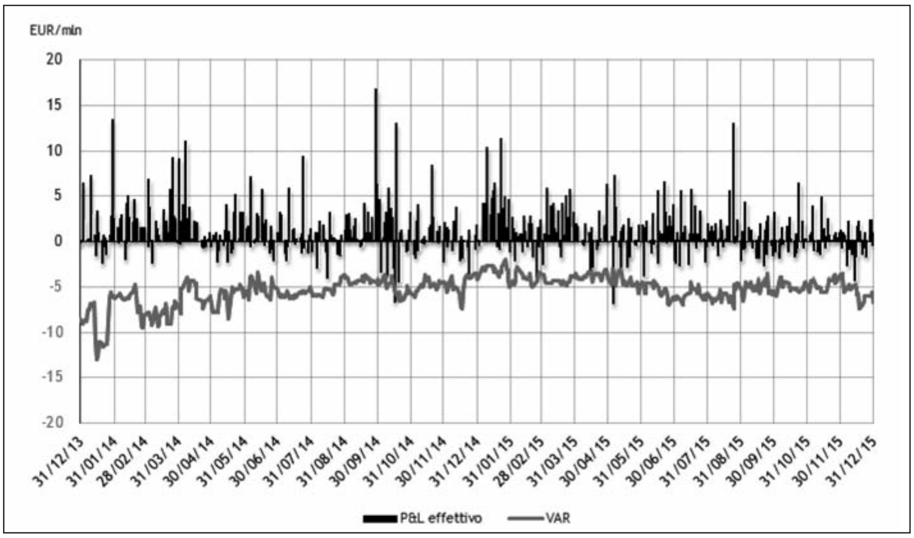
MPS CAPITAL SERVICES
VaR PNV 99% 1 day in €/mln

	VaR	Data
Period End	6.59	31/12/2015
Minimum	2.03	23/01/2015
Maximum	7.31	17/12/2015
Average	4.75	

Backtesting of the VaR Model

The MPS Group has implemented a structure of retrospective tests in compliance with the current regulations for Market Risks within its risk management system.
Backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the portfolio value, in order to evaluate the predictive ability of the model in terms of the accuracy of the risk measurements produced. If the model is robust, then the periodic comparison of the daily estimate of the VaR with the daily losses from trading activities related to the following day should show that the effective losses are higher than the VaR with a frequency in line with that defined by the confidence level.
In the light of the current regulatory provisions, the Risk Management Area has found it appropriate to carry out the test using theoretical and effective backtesting, and to integrate it within the Group's management reporting systems.
The first type of test (Theoretical Backtesting) has greater statistical significance in reference to the evaluation of the accuracy of the VaR model ("non-contaminated test").
The second type of test (Effective Backtesting), answers the need to verify the predictive reliability of the VaR model in reference to the actual operations of the Bank (daily trading losses and gains), net of the effects of interest maturing between day t-1 and t for securities and the effect of fees.
These "net" P&L results are compared with the VaR of the previous day. If the losses are greater than those predicted by the model, a so-called "exception" is recorded.
The graph below shows the results of the Effective Backtesting of the internal Market Risk Model, in relation to the Bank's Supervisory Trading Book, for the years 2014 and 2015:

MPS CAPITAL SERVICES: EFFECTIVE BACKTESTING OF SUPERVISORY



The retrospective test shows two mismatches during the second quarter of 2015 for the Bank's trading book, which we indicate here:
- 14 April 2015: a negative market day (adverse movement of the market parameters amplified by the exposure in equity options on the S&P MIB index and interest rate future options on CBOT US 6%);
- 05 May 2015: a negative market day (adverse movement of the market parameters, in particular attributable to the widening of the Italian credit spread).

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

The Bank manages a portfolio of its own which contains trading positions on rates and on credit. The trading is carried out by the Global Markets Department.

In general, interest rate positions are taken on through the purchase or sale of bonds, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example IRSs, swaptions). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.

As regards the credit risk present in the trading book, in general the positions on securities are managed both by purchase or sale of bonds issued by companies, and through the construction of synthetic positions in derivative instruments. The activity aims to obtain long or short positions on single issuers, or a long or short exposure on particular types of securities. The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, and in compliance with the further specific issuer and concentration risk limits resolved by the Board of Directors.

A.2 Price Risk

With reference to the price risk factor the Bank manages an owned portfolio and assumes trading positions on equities, indexes and commodities. In general, equity security positions are taken on through the purchase or sale of shares, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example options). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits of VaR and monthly and annual Stop Loss. The trading is carried out by the Global Markets Department.

B. Interest rate risk and price risk: management processes and measurement 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 the section "The risk management model for market risks inherent to the trading portfolio."

QUANTITATIVE INFORMATION

1. **Supervisory trading book: breakdown by residual life (repricing date) of the on-balance-sheet financial assets and liabilities and the financial derivatives.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.

2. **Supervisory trading book: breakdown of exposures for equity securities and stock indexes for the main stock market countries.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.

3. **Supervisory trading book - internal models and other methods for sensitivity analysis**
   The interest rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 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 interest rate risk, when permitted) 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 Book are all classified, for accounting purposes, as Held For Trading and 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 and inflation curves,
• parallel shift of -100bp on all the interest rate curves and inflation 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
Figures in € millions

Risk Family	Scenario	Total Effect
Interest Rate	+ 100bp on all curves	(45.62)
Interest Rate	- 100bp on all curves	(5.33)
Interest Rate	+1% Interest Rate Volatility	(0.01)

The asymmetry related to the interest rate +100bp e -100bp scenarios is mainly due to the effect of the floor applied to the curves.
To complete the interest rate risk analysis, the sensitivity analysis of the Bank's Trading Book 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
Figures in € millions

Risk Family	Scenario	Total Effect
Credit Spread	+ 1bp on all curves	(1.03)

3.2 Price Risk
The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The simulated price scenarios are:
• +1% of each equity, commodity, index price,
• -1% of each equity, commodity, index price,
• +1% of all the volatility surfaces of all the equity and commodity risk factors.
The positions pertaining to the Trading Book are all classified, for accounting purposes, as Held For Trading and Market Value changes are recorded directly in the Income Statement. The overall effect of the scenario analyses for the Equity and Commodity segments is presented below:

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes)	0.74
Equity	- 1% Equity Prices (prices, indexes)	(0.49)
Equity	+ 1% Equity Volatility	(0.15)

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Effetto totale
Commodity	+1% Commodity prices	(0.06)
Commodity	-1% Commodity prices	0.05
Commodity	+1% Commodity Volatility	(0.01)

2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A.Interest rate risk and price risk: general aspects, management processes and measurement methods

A.1 Interest Rate Risk

In accordance with the international best practices, the Banking Book contains the Bank's commercial operations connected with the transformation of the maturities of accounting assets and liabilities, of the Treasury and of hedging derivatives. The definition of the perimeter of the Banking Book (aligned with that of the regulatory banking book) and of the process of centralising the Asset & Liability Management (ALM) are governed by resolutions passed by the Parent Company's Board of Directors, subsequently endorsed by the Boards of Directors of the subsidiaries, in keeping with the set-up outlined by the supervisory regulations (Bank of Italy Circular 285). The framework foresees the centralisation of Asset & Liability Management in the Parent Company's Finance, Cash and Capital Management Department and the definition and monitoring of the operating limits in view 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 and Liquidity Committee and monitored by the Parent Company's Risk Management 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 the regulations issued by the Basel Committee.

Sensitivity analyses of the Interest Margin are also regularly carried out for different interest rate change assumptions.

The ALM model of the MPS Group incorporates in the measurements of interest-rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk).

Starting from January 2015, a methodological update was introduced with the aim of sterilising the development of the cash flows from the components not directly related to interest-rate risk.

The Group is engaged in the continual updating of the risk measurement methods, through a gradual refinement of the estimation models, in order to include the main phenomena that over time modify the interest-rate risk profile of the banking book.

The Group has adopted a system for governing and managing the interest-rate risk which, in accordance with the provisions of the Supervisory Authorities, employs:

- a quantitative model, on the basis of which the exposure of the Group and of its individual companies/structures to interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at 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 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 Group Companies included in the application perimeter 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 competent Supervisory Authorities.
Within the defined model, the Parent Company's Finance, 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 Finance, Cash and Capital Management Department, the Strategic Risk Governance Service handles the short-term interest rate risk and the structural interest rate risk. The Department also monitors and manages hedges in accordance with the accounting policies, single monitoring for the formation of the internal interest rates of the "network" (BMPS and other Group companies) for the Euro and currency transactions with maturities beyond the short-term.

A.2 Price Risk
Measurement of price risk on the Bank's Banking Book is carried out on equity positions held for mainly strategic or institutional/instrumental purposes. The relevant portfolio for these purposes consists mainly of AFS equity investments and shares.
The instrument used for measuring the price risk for the equity investment portfolio is the Value-at-Risk (VaR), which represents the loss which the portfolio in question, carried 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 Book) 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 Parent Company's Risk Management Area develops and maintains the internal measurement system also with reference to the alternative funds component and, for the purposes of determining the Internal Capital, it uses a measurement derived from the Regulatory approach.

B. Fair value hedging activities

C. Cash flow hedging activities

In relation to the management of interest rate risk, the MPS Group uses IAS compliant hedges. The main existing types are the following:
- Micro Fair Value Hedge: hedging of the commercial asset (loans/mortgage loans), of the securities portfolio and of bond funding;
- Macro Fair Value Hedge: hedging of the commercial asset (loans/mortgage loans);
- Micro Cash Flow Hedge: hedging of items at floating rate.

In addition to this type of operation the MPS Group adopts the Fair Value Option for some types of operation. In particular, the Fair Value Option has been adopted for debt securities (structured and at fixed rate), which have the following characteristics:
- the hedging of the risk of changes in fair value was entered into at the moment of issue, with the intention of maintaining the hedging for the entire contractual duration and for the entire amount of the object hedged;
- normally these are issues for which the Group has assumed the commitment to repurchase at the issue spread.

We can note that the Bank, at 31 December 2015, had no hedging operations in place.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities
This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the banking book on the basis of internal models.

2. Banking book: internal models and other methods for sensitivity analysis

2.1 Interest Rate Risk
The Bank's sensitivity, at 31 December 2015, presented 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 € -59.67 million (€ 39.97 million for a shift of -100bp).
The sensitivity of the Group's interest margin (Margin Sensitivity) in the event of a rise in interest rates of 25bp amounted at the end of 2015 to € -0.08 million (€ 0.92 million for -25bp).

2.2 Price Risk
The equity investment portfolio of the Bank comprises about 16 equity investments in companies outside the Group, that is in companies not consolidated at the Group level either line-by-line or proportionally, and about 88% of its value is concentrated on 5 investments.
The VaR of the equity investment portfolio (99%, holding period of 1 quarter) amounted at year end to around 19% of the Fair Value of the portfolio, with a concentration of the risk on the 5 most significant equity investments.
A scenario analysis is provided below; it contemplates all the equity investments.

MPS CAPITAL SERVICES Banking Book
Figures in € millions

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes, basket)	0.06
Equity	- 1% Equity Prices (prices, indexes, basket)	- 0.06
Equity	+ 1% Equity Volatility	0.00

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. Exchange rate risk: general aspects, management processes and measurement methods.

Exchange rate risk hedging activities.

A.1 Supervisory trading book:
Exposure to exchange rate risk is substantially of a limited amount and derives mainly from the role played by the Bank in the activity of:
- trading of structured products and of the related hedges put in place, which owing to the their characteristics entail exposure in non-euro currencies;
- market maker for derivatives carried out for the purpose of hedging the MPS Group's corporate customers.

Operations are in fact concentrated mainly on the crosses 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 a substantial balance of the risks originated from commercial transactions. As a risk mitigation strategy, the Bank in fact 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 into Euro. The main financial instruments used in this segment are spot forwards, options, futures. The risks are measured and monitored, as in the other segments, via sensitivities and VaR; consequently reference should be made to the description provided above. Management of this risk takes place by aggregating all the risk factors indicated above using the Risk Management system of the Murex application. The activity is carried out mainly by the Global Markets Department, 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, at the date of the closure of this financial statement the Bank had an essentially balanced foreign exchange position for the banking book.

QUANTITATIVE INFORMATION

1. Distribution by currency of assets, liabilities and derivatives

Items / Currency	*Dollar USA*	*Swiss Franc*	*Yen*	*English Pound*	*New Turkish Lira*	*Other currencies*
A. Financial assets	**467,033**	**39,288**	**6,350**	**7,607**	**1,917**	**22,081**
A.1 Debt securities	27,539			7,297		
A.2 Equity securities	4,963	371	53	1		
A.3 Loans to banks	76,962	32,657	4	56	1,917	20,900
A.4 Loans to customers	357,569	6,260	6,293	253		1,181
A.5 Other financial assets						
B. Other assets	**64**					**439**
C. Financial liabilities	**(482,505)**	**(18,711)**	**(23,420)**	**(24,647)**		**(11,647)**
C.1 Due to banks	(478,854)	(18,711)	(22,871)	(24,647)		(11,647)
C.2 Due to customers	(3,651)		(549)			
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	(73)	(500)	(241)			(13)
E. Financial derivatives						
- Options						
+ long positions	387,833	2,894	84,613	126,174		11,279
+ short positions	568,850	2,154	186,871	87,808		210,773
- Other derivatives						
+ long positions	1,662,712	2,584	53,179	108,215	18,391	454,674
+ short positions	1,761,977	2,584	7,805	115,416	18,360	257,908
Total assets	**467,097**	**39,288**	**6,350**	**7,607**	**1,917**	**22,520**
Total liabilities	**(482,578)**	**(19,211)**	**(23,661)**	**(24,647)**		**(11,660)**
Differences (+/-)	**(15,481)**	**20,077**	**(17,311)**	**(17,040)**	**1,917**	**10,860**

After the closure of the period, no significant economic effects were registered subsequent to the variations in the currency exchange rates. The table below summarises the exchange rates into Euro from the main currencies of the assets and liabilities, at the end of the period and at 22 February 2016 (final date for the updating of the Notes to the Statements).

Currency	*Code*	*31/12/2015*	*22/02/2016*	*Change*
UNITED STATES Dollar	USD	1.0887	1.1026	1.28%
SWISS Franc	CHF	1.0835	1.1008	1.60%
JAPANESE Yen	JPY	131.07	124.85	(4.75%)
UNITED KINGDOM Pound	GBP	0.73395	0.78243	6.61%
TURKEY New Lira	TRY	3.1765	3.2512	2.35%

2. 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 risk management model for market risks related to the trading book").

The simulated scenarios on exchange rates are:
• +1% of all exchange rates against EUR,
• -1% of all exchange rates against EUR,
• +1% of all volatility surfaces of all exchange rates.

The effect on operating income and on profit for the year was estimated considering only positions classified in the accounts as Held For Trading, for which changes in Market Value are recognised directly in the Income Statement. The effect on shareholders' equity is estimated instead with reference to positions classified in the accounts as AFS and to the related hedging under a Fair Value Hedge (FVH) scheme, which however was not present at 31 December 2015. The total effect is reflected by the algebraic sum of the two components. A summary of the scenario analysis follows.

MPS CAPITAL SERVICES
Figures in € millions

Risk Family	Scenario	Effect on net & other banking income & econ. result	Effect on Shareholders' Equity	Total Effect
Forex	+1% exchange rates against EUR	(0.47)	0.00	0.47
Forex	-1% exchange rates against EUR	(0.46)	0.00	(0.46)
Forex	+1 Forex volatility	(0.01)	0.00	(0.01)

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Supervisory trading book: period-end notional values

Underlying assets / Type of derivatives	*31/12/2015*		*31/12/2014*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**148,416,311**	**21,843,635**	**133,649,691**	**509,208**
a) options	24,480,231	21,332,093	29,658,080	
b) swaps	123,862,115		103,700,057	
c) forwards	73,965		291,554	
d) futures		511,542		509,208
e) other				
2. Equity securities and stock market indices	**10,428,575**	**11,952,438**	**13,596,871**	**6,944,879**
a) options	10,303,290	10,486,533	13,151,667	5,172,659
b) swaps	125,285		445,204	
c) forwards				
d) futures		1,465,905		1,772,220
e) other				
3. Currencies and gold	**5,539,927**		**5,128,759**	**0**
a) options	1,839,887		1,577,486	
b) swaps	2,429,794		1,730,358	
c) forwards	1,270,246		1,820,915	
d) futures				
e) other				
4. Goods	**419,073**	**625,689**	**505,136**	**381,846**
5. Other underlying assets				
Total	**164,803,886**	**34,421,762**	**152,880,457**	**7,835,933**

Note:
for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options..

A.2 Banking book: period-end notional values

A.2.1 For hedging

Underlying assets / Type of derivatives	*31/12/2015*		*31/12/2014*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**0**		**37,500**	
a) options				
b) swaps			37,500	
c) forwards				
d) futures				
e) other				
2. Equity securities and stock market indices				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
3. Currencies and gold				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
4. Goods				
5. Other underlying assets				
Total	**0**		**37,500**	

At 31/12/2014 a hedge against the risk of a change in interest rates (fair value hedge) was present; the hedging was carried out using derivative contracts of the interest rate swap type. The hedging relationship ceased in November 2015 owing to the natural maturity.

A.2.2 Other derivatives

No agreements were extant on 31 December 2015 and 31 December 2014.

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

Underlying assets / Type of derivatives	*31/12/2015*		*31/12/2014*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading book	**5,715,897**	**251,721**	**6,903,689**	**281,562**
a) options	398,387	251,165	868,175	279,980
b) interest rate swaps	5,114,880		5,842,647	
c) cross currency swaps	87,816		74,602	
d) equity swaps	6,296		15,484	
e) forward	57,562		70,747	
f) futures		556		1,582
g) other	50,956		32,034	
2. Banking book - hedging				
a) options				
b) interest rate swaps				
c) cross currency swaps				
d) equity swaps				
e) forward				
f) futures				
g) other				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
Total	**5,715,897**	**251,721**	**6,903,689**	**281,562**

Note:
for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options.

A.4 Financial derivatives: negative gross fair value - breakdown by product

Underlying assets / Type of derivatives	*31/12/2015*		*31/12/2014*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading book	**3,980,162**	**137,429**	**5,233,809**	**149,317**
a) options	742,637	134,269	1,106,245	147,932
b) interest rate swaps	3,045,369		3,962,601	
c) cross currency swaps	108,141		62,172	
d) equity swaps	1,851		14,087	
e) forward	46,831		62,138	
f) futures		3,160		1,385
g) other	35,333		26,566	
2. Banking book - hedging	**0**		**804**	
a) options				
b) interest rate swaps			804	
c) cross currency swaps				
d) equity swaps				
e) forward				
f) futures				
g) other				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
Total	**3,980,162**	**137,429**	**5,234,613**	**149,317**

Note:
for completeness, we note that 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 book: notional values, positive and negative gross fair values by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Others*
1. Debt securities and interest rates							
- notional value			1,848,310	220,252		2,166,443	135,627
- positive fair value			1,258	5,339		129,096	1,167
- negative fair value				271		2,703	
- future exposure			12,765	467		15,144	2
2. Debt securities and share indices							
- notional value		2	13,085	9,509			
- positive fair value		22	12,478	8,554			
- negative fair value							
- future exposure			939	618			
3. Currencies 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 book: notional values, positive and negative gross fair values by counterparty - contracts part of netting agreements

Agreements included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Financial companies*	*Insurance companies*	*Non-financial companies*	*Others*
1. Debt securities and interest rates							
- notional value				75,791,179	67,834,486	420,014	
- positive fair value				2,989,218	2,062,696	70,624	
- negative fair value				2,434,024	802,275	217	
2. Debt securities and share indices							
- notional value				5,260,928	4,594,455	550,595	
- positive fair value				139,875	70,741	863	
- negative fair value				178,038	232,161	102,976	
3. Currencies and gold							
- notional value				4,921,248	618,679		
- positive fair value				167,448	5,425		
- negative fair value				178,291	13,826		
4. Other values							
- notional value				413,701			5,372
- positive fair value				50,350			743
- negative fair value				32,904			2,475

A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts not part of netting agreements

At 31 December 2015 there were no contracts of the kind not part of netting agreements.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts part of netting agreements

At 31 December 2015 there were no contracts of the kind part of netting agreements.

A.9 Residual life of OTC financial derivatives: notional values

	Underlying elements / Residual life	*Within 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A.	**Supervisory trading book**	**29,212,690**	**71,476,377**	**64,114,819**	**164,803,886**
A1	Financial derivatives on debt securities and interest rates	24,161,648	63,675,642	60,579,020	**148,416,311**
A2	Financial derivatives on equity securities and stock indexes	2,540,395	5,357,187	2,530,992	**10,428,575**
A3	Financial derivatives on exchange rates and gold	2,194,715	2,340,405	1,004,807	**5,539,927**
A4	Financial derivatives on other valuables	315,930	103,143		**419,073**
B.	**Banking book**	**0**	**0**		**0**
B1	Financial derivatives on debt securities and interest rates				**0**
B2	Financial derivatives on capital securities and share indices				
B3	Financial derivatives on exchange rates and gold				
B4	Financial derivatives on other valuables				
	Total 31/12/2015	**29,212,690**	**71,476,377**	**64,114,819**	**164,803,886**
	Total 31/12/2014	**24,842,968**	**74,382,318**	**53,692,672**	**152,917,958**

In this table the remaining life is determined with reference to the contractual maturity of the derivatives in question, except for the interest rate swaps (irs) with variable notional capital, for which the remaining life have been calculated with reference to the single IRS into which they can be broken down.

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

The Bank, like the MPS Group, does not currently use EPE models, either for internal management purposes or for signalling purposes.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: period-end notional values

Transaction categories	Regulatory trading book		Banking book	
	on one item	on several items (basket)	on one item	on several items (basket)
1. Protection purchases				
a) credit default products	*2,106,664*	*168,179*		
b) credit spread products				
c) total rate of return swaps				
d) others				
Total 31/12/2015	**2,106,664**	**168,179**		
Total 31/12/2014	**8,317,951**	**4,535,845**		
2. Protection sales				
a) credit default products	*5,354,752*	*193,564*		
b) credit spread products				
c) total rate of return swaps	*7,825*			
d) others				
Total 31/12/2015	**5,362,577**	**193,564**		
Total 31/12/2014	**8,980,066**	**4,607,931**		

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

Portfolio / Type of derivative	31/12/2015	31/12/2014
A. Supervisory trading book	**64,733**	**525,590**
a) credit default products	*33,207*	*406,715*
b) credit spread products		
c) total rate of return swaps	*31,526*	*118,875*
d) others		
B Banking book		
a) credit default products		
b) credit spread products		
c) total rate of return swaps		
d) others		
Total	**64,733**	**525,590**

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

	Portfolio / Type of derivative	31/12/2015	31/12/2014
A.	**Supervisory trading book**	**70,532**	**487,410**
	a) credit default products	*70,532*	*487,410*
	b) credit spread products		
	c) total rate of return swaps		
	d) others		
B	**Banking book**		
	a) credit default products		
	b) credit spread products		
	c) total rate of return swaps		
	d) others		
	Total	**70,532**	**487,410**

B.4 OTC credit derivatives: fair values (positive and negative) by counterparty - contracts not part of netting agreements

All OTC derivative contracts are included in netting agreements.

B.5 OTC credit derivatives: fair values (positive and negative) by counterparty - contracts part of netting agreements

Agreements included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Financial companies*	*Insurance companies*	*Non-financial companies*	*Others*
1. Protection purchase							
- notional value			1,722,693	552,150			
- positive fair value			3,017	2,675			
- negative fair value			22,697	12,577			
- future exposure							
2. Protection sale							
- notional value			1,759,587	3,473,690	322,863		
- positive fair value			14,386	44,656			
- negative fair value			3,764	28,196	3,297		
- 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 derivatives: notional values

Underlying elements / Residual life	*Within 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A. Supervisory trading book	**2,693,961**	**2,425,852**	**2,711,171**	**7,830,984**
A.1 Credit derivatives with “qualified” “reference obligation“	2,193,509	1,959,709	2,636,171	6,789,389
A.2 Credit derivatives with “unqualified” “reference obligation“	500,452	466,143	75,000	1,041,595
B. Banking book				
B.1 Credit derivatives with “qualified” “reference obligation“				
B.2 Credit derivatives with “unqualified” “reference obligation“				
Total 31/12/2015	**2,693,961**	**2,425,852**	**2,711,171**	**7,830,984**
Total 31/12/2014	**9,012,900**	**11,053,666**	**6,375,226**	**26,441,792**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

B.7 Credit derivatives: counterparty and financial risk - Internal models

The Bank, like the MPS Group, does not currently use 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 value and future exposure by counterparty

	Governments and Central Banks	*Other public entities*	*Banks*	*Financial companies*	*Insurance companies*	*Non-financial companies*	*Others*
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			638,401	1,143,508			
- negative fair value			123,827	46,351	35,004	1,732	
- future exposure			680,250	780,061	22,123	247	
- net counterparty risk			800,293	770,354	22,123	247	

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. Liquidity risk: general aspects, management processes and measurement methods

Within the sphere of the periodic review of the models and processes, the MPS Group revised the approach for identifying, measuring and managing Liquidity Risk (the Group Liquidity Risk Framework).

Group Liquidity Risk Framework

The Group's Liquidity Risk Framework is the series of tools, methods, organisational and governance systems which ensures both compliance with national and international regulations and adequate management of the liquidity risk in the short and medium/long term, under normal business conditions and in the case of turbulence.

Management of the Group's Operating Liquidity pursues the purpose of ensuring the Group's capacity to satisfy the short-term cash payment commitments. The essential condition for normal operational continuity of the banking activity is to maintain a sustainable difference between the incoming and outgoing cash flows in the short term. The measure of reference in this sphere is the difference between the accumulated net cash flow and the Counterbalancing Capacity, i.e. the liquidity reserve which allows for dealing with stress conditions in the short term. From the point of view of the very short term, during the year the system of analysis and monitoring of the intraday liquidity was formalised with the objective of guaranteeing the normal development of the treasury day and its ability to meet its intra-day payment commitments.

Management of the Group's Structural Liquidity aims to ensure the financial balance of the structure according to due dates over a period of time of more than one year, at both Group level and at that of the single subsidiaries. Maintaining an adequate dynamic ratio between medium/long term liabilities and assets is aimed at avoiding pressure in respect of both present and future short term collections. The measure of reference, to which the mitigation system is applied by means of specific internal operating limits established by the Parent Company's Board of Directors subsequently endorsed by the Boards of Directors of the subsidiaries, are gap ratios which measure both the ratio between total commitments and collections falling due between 1 and 5 years, and the ratio between commitments and collections regardless of due dates.

During the year, the Group defined and formalised the Asset Encumbrance management and monitoring framework with the objective of analysing:

- the overall degree of commitment of the total assets;
- the existence of a sufficient quantity of assets committable but free with respect to what is defined in the Liquidity Risk Tolerance;
- the Group's ability to transform bank assets into eligible assets (or equivalently to commit non-eligible assets in bilateral operations).

The liquidity position is monitored both under normal conditions in the course of business and in Stress Scenarios of a specific and/or systemic nature. The exercises have the dual objective of bringing to light immediately the Bank's main vulnerability to liquidity risk and allowing for prudential determination of the supervisory limits in terms of Counterbalancing Capacity (liquidity buffer). During the year the stress tests for intraday liquidity were also defined.

The Contingency Funding Plan, which is drawn up by the Finance, Treasury and Capital Management Area, is the document which describes all the tools, policies and processes to be implemented in the case of stress or liquidity crisis.

System of limits

Within the budget process, especially as regards Risk Appetite, the Liquidity Risk Framework contemplates the identification of the liquidity risk tolerance thresholds, understood as maximum exposure to risk deemed sustainable under normal business conditions and incorporating situations of stress. The short term and medium/long term limits for the liquidity risk are based on the definition of these Risk Appetite thresholds.

The system of limits for the short term is defined at three different levels, which allow for immediately noticing the approach of the operating limit, i.e. the maximum appetite for liquidity risk defined in the annual Risk Tolerance process.

For immediate warning of the onset of vulnerability in the Group's position, a set of early warnings has been put in place, distinguishing them as generic or specific according to whether the purpose of the single indicator is to warn of possible critical aspects regarding the entire economic contest of reference or the Group's situation. If one or more early warning signals are triggered off, this represents a first alert level and contributes to the overall assessment of the Group's short term liquidity position.

Liquidity indicators introduced by the Basel accord (Basel 3)

As regards liquidity, the Basel accords provide, among other things, for the introduction of a short-term indicator (Liquidity Coverage Ratio, or "LCR"), with the objective of establishing and maintaining a liquidity buffer that enables the bank's survival for a time period of thirty days in the event of serious stress, and a structural liquidity indicator (Net Stable Funding Ratio, or "NSFR") with a time horizon of more than a year, introduced to guarantee that assets and liabilities have a sustainable maturity structure.

These indicators will be applied, and consequently are recognised, exclusively at the consolidated level.

In relation to the introduction of regulatory minimum thresholds, it must be stressed that:

- for the LCR indicator a minimum value of 60% is provided for starting from 1 October 2015, with a minimum increasing gradually until it reaches 100% from 1 January 2018 in accordance with Regulation (EU) No. 575/2013 ("CRR");
- for the NSFR indicator, although the proposal of the Basel Committee envisaged a minimum threshold of 100% to be observed from 1 January 2018, the "CRR" regulation for the moment does not contemplate a regulatory limit on structural liquidity.

We can note that the LCR indicator is currently calculated on the basis of the non-binding indications contained in the "CRR" regulation. The definitive rules are contained in Delegated Regulation (EU) 2015/61 of 10 October 2014 which comes into force from 1 October 2015. However entry into force is subordinated to publication of the EBA schemes that define the calculation rules (ITSs) and these schemes have not yet been officially issued by the competent European organisations. In any case, the figures recorded by the MPS Group, although they were calculated with non-definitive rules, are much higher than the minimum limits set in the Delegated Regulation (60% from 1 January 2015, 70% from 1 January 2016, before reaching 100% from 1 January 2018). In fact the MPS Group's liquidity reserves, at the end of 2015, were particularly high with a level of the LCR indicator of more than 200% and a level of the NSFR indicator of more than 100%.

Another indicator introduced by the "CRR" regulation is the financial leverage index, the Leverage Ratio, determined on the basis of the ratio between the Tier 1 and a denominator based on the assets and off-balance-sheet elements not weighted for the risk. The exposures must be reported net of the regulatory adjustments provided for in the determination of Tier 1 in order to avoid double calculation; in fact the items fully deducted from the equity do not contribute to financial leverage and must be deducted also from the measurement of the exposure. The indicator will become binding in 2018; the transition period of observation will continue until 1 January 2017.

At the moment also for the Leverage Ratio the minimum thresholds to be observed have not yet been set, although the Basel Committee has indicatively provided for a threshold of 3%; the actual value of the Leverage ratio requirement, applicable starting from 1 January 2018, will be defined by the competent bodies.

However, starting from 1 January 2015, to the reporting obligation already in force has been added the quarterly obligation of disclosure to the public for the Parent Company, which must publish the elements needed to calculate the indicator: numerator, denominator and leverage ratio.
At the consolidated level, the indicator in question, at 31 December 2015, was 5.22% (3.49% at 31 December 2014).

The tables presented below show the calculation elements and the coefficients related to the Bank:

(in € thousands/%)

	at 31/12/2015	*at 31/12/2014*
Amount of the exposure - Transitory denominator	51,974,807	53,267,958
Own Funds - Transitory numerator	364,711	553,573
Amount of the exposure - Definitive denominator	51,879,406	53,267,958
Own Funds - Definitive numerator	269,310	548,221
Leverage Ratio - Transitory system until 31 December 2017	**0.70%**	**1.04%**
Leverage Ratio - system starting from 1 January 2018	**0.52%**	**1.03%**

The Bank presents a particularly low leverage indicator level owing both to the insufficient level of capitalisation and to the current method of calculating the assets (the denominator of the indicator): this latter in fact in the calculation of the individual indicator currently includes also the intra-group relationships which instead are not considered for the purposes of calculating the consolidated indicator. The new regulation on calculating the leverage indicator (Delegated Regulation EU 2015/62 of 10/10/2014, in force since 1/10/2015) states that intra-group relationships must be excluded. Therefore, following the application of this regulatory change and the execution of the Capital Increase, in progress at the reporting date and completed in February 2016, the indicator will increase significantly.

We can note finally that the Bank does not carry out financing operations with the ECB, since access to the ECB occurs for Italy directly through the Banking Parent Company and for other countries via the Foreign Banks belonging to the Group.

QUANTITATIVE INFORMATION

Quantitative information regarding liquidity risk is shown below and is broken down based on exposures in Euro and other currencies.

1.1.A Breakdown by contractual residual maturity of financial assets and liabilities - EURO

Items / Maturities	*On demand*	*From more than 1 day to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 months to 6 months*	*From more than 6 months up to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Duration unspecified*
Cash assets	**8,206,621**	**3,603,084**	**2,557,811**	**1,874,638**	**851,151**	**1,154,111**	**3,261,933**	**6,182,596**	**8,512,311**	**25,981**
A.1 Sovereign securities	6,422	15	17,309	38,069	323,007	185,435	2,328,315	1,898,716	1,431,440	
A.2 Other debt securities	1,762	1,585	16,704	81,311	151,739	145,318	128,016	845,313	1,214,360	21,343
A.3 Units in collective investment undertakings	3,354									
A.4 Loans	8,195,083	3,601,484	2,523,798	1,755,258	376,405	823,358	805,602	3,438,567	5,866,511	4,638
- banks	7,290,006	1,558,511	1,599,235	573,937	181,351	92,447	219,593	565,681	326,790	4,638
- customers	905,077	2,042,973	924,563	1,181,321	195,054	730,911	586,009	2,872,886	5,539,721	
On-balance-sheet liabilities	**1,194,757**	**9,546,697**	**5,787,669**	**2,428,157**	**1,632,835**	**258,665**	**4,456,877**	**5,355,368**	**5,550,833**	**2,050**
B.1 Current accounts and deposits	472,655		0	937,558	1,175,000	245,000	4,371,128	4,701,362	3,309,488	
- banks	469,502			937,558	1,175,000	245,000	4,371,128	4,701,362	3,309,488	
- customers	3,153									
B.2 Debt securities				3,680	6,882		10,562		450,000	
B.3 Other liabilities	722,102	9,546,697	5,787,669	1,486,919	450,953	13,665	75,187	654,006	1,791,345	2,050
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	631	513,905	481,017	112,567	1,300,769	1,720,643	372,286	1,337,569	647,197	241,500
- short positions	25,217	2,097,237	712,537	80,278	889,705	756,774	437,590	1,758,316	911,311	241,500
C.2 Credit derivatives with exchange of capital										
- long positions			206,216		928,150	650,500	967,800	1,206,822	2,197,383	
- short positions			412,432		891,575	655,100	951,900	1,625,784	4,394,765	
C.3 Financial derivatives without exchange of principal										
- long positions	5,009,048									
- short positions	3,047,625									
C.4 Credit derivatives without exchange of principal										
- long positions	33,061									
- short positions	926									
C.5 Deposits and loans to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments to grant finance										
- long positions	43,277	2,116,686	867,375		2,430	13,715	6,153	209,348	338,304	196,108
- short positions	3,597,288									196,108
C.7 Financial guarantees given	8,954							56	101,800	
C.8 Financial guarantees received										

1.1.B Breakdown by contractual residual maturity of financial assets and liabilities - OTHER CURRENCIES

Items / Maturities	*On demand*	*From more than 1 day to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 months to 6 months*	*From more than 6 months up to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Duration unspecified*
Cash assets	**113,867**	**6,387**	**902**	**71,652**	**10,489**	**15,450**	**13,570**	**184,778**	**147,148**	**8,254**
A.1 Sovereign securities	258		3	29	48	16	65	978	1,041	
A.2 Other debt securities	5	1,523	3	6	2,517	15	240	5,624	27,817	8,254
A.3 Units in collective										
investment undertakings	1,941									
A.4 Loans	111,663	4,864	896	71,617	7,924	15,419	13,265	178,176	118,290	
- banks	56,533	4,864	896	71,120	4,340			566		
- customers	55,130			497	3,584	15,419	13,265	177,610	118,290	
On-balance-sheet liabilities	**122,536**			**52,818**	**198,262**	**171,252**	**2,159**	**4,568**	**11,124**	**3,490**
B.1 Current accounts and deposits	96,407			51,613	198,232	171,249	2,126			
- banks	96,407			51,613	198,232	171,249	2,126			
- customers										
B.2 Debt securities										
B.3 Other liabilities	26,129			1,205	30	3	33	4,568	11,124	3,490
Off-balance sheet transactions										
C.1 Financial derivatives with										
exchange of capital										
- long positions		15,374	548,452	13,134	689,386	612,318	429,036	443,737	16,716	498,357
- short positions		11,895	283,700	133,434	1,162,629	503,083	280,217	290,986	36,988	529,226
C.2 Credit derivatives with										
exchange of capital										
- long positions					398,817	256,231	612,747	1,819,108	66,150	
- short positions					338,817	223,231	635,697	1,956,187	60,950	
C.3 Financial derivatives without										
exchange of principal										
- long positions	358,877									
- short positions	243,449									
C.4 Credit derivatives without										
exchange of principal										
- long positions										
- short positions										
C.5 Deposits and loans										
to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments										
to grant finance										
- long positions									42,666	3,780
- short positions	16,628									3,780
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.2. Self-securitisation transactions

At 31 December 2015 there were no self-securitisation transactions. The only self-securitisation transaction carried out by the Bank pursuant to Italian Law 130/99 was closed in advance in November 2014.

SECTION 4 - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. Operational risks: general aspects, management processes and measurement methods

General aspects and Framework Structure

In an Order of 12 June 2008, the MPS Group was authorised 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) requires banks to:

- develop an internal organisation which defines the roles of the bodies and the corporate departments involved in the operational risk management process;
- develop a control department for gathering and storage of data, calculation of the requirement, assessment of the risk profile and reporting;
- check on the quality of the management system and compliance with the legislative prescriptions on an ongoing basis;
- delegate the internal auditing body to make periodic checks on the Operational Risk management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For this purpose, the MPS Group has developed an integrated system for the management of operational risk, an internal framework built on a governance model which sees all the companies in the scope of application of the AMA model involved. 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 area.

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 Loss Distribution Approach - Scenario Model).

The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historical figures on internal and external loss (provided by the DIPO Consortium - Italian Database of Operating Losses).

The qualitative component 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 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 discussions with the central units of the priorities and technical-economic feasibility of the mitigation measures.

This is followed by the monitoring of the implementation of the planned measures and of compliance with targets and deadlines.

The Framework identifies the operational risk control unit as the Operational Risk Management (ORM) Department (within the Parent Company's Risk Management office).

The Group ORM calculates 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 collects, also for the other companies in the perimeter, the internal loss data and identifies the risks to be assessed in qualitative analyses.

All the main domestic banking and financial components come within the perimeter of the advanced approach (AMA), while for the remaining components and for the foreign companies the basic methods are instead adopted. At 31 December 2015 the coverage of the internal model, in terms of the relevant indicator, was more than 95%.

The ORM has also set up a reporting system that provides timely information about operational risks to the Top

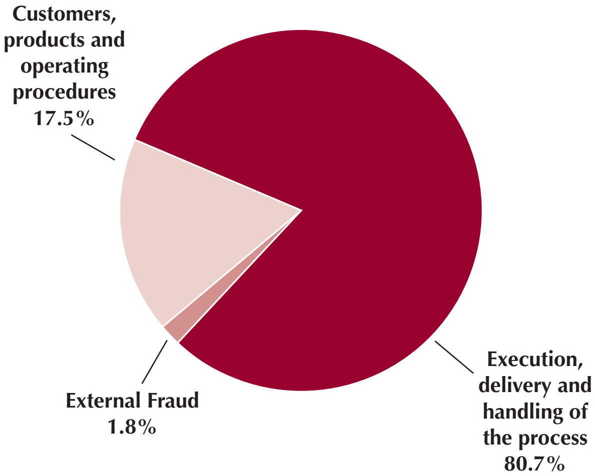
Management, which translates the strategic principles of the management system into specific management policies. The reports are regularly submitted to the Risk Committee and the decision making bodies.
The adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in fact a progressive reduction in the operational risk of the Bank and the Group.

QUANTITATIVE INFORMATION

The percentage distribution of the number of events and of the operating losses recorded in 2015 is given below, divided into the various risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium and long-term credit products and those of a specialist type, corporate finance assets, capital market products and structured loans):

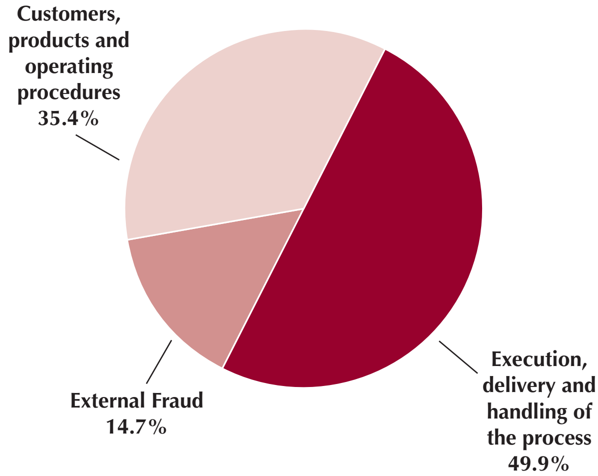
- customers, products and operating procedures: losses deriving from breaches relating to professional obligations vis-à-vis customers or from the nature or features of the product or service provided;
- Process execution, delivery and handling: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

% DISTRIBUTION OF NUMBER OF EVENTS MPS CAPITAL SERVICES - 31/12/2015



Internal Fraud	0%
Lending Ratios	0%
Damages to property, plant	0%
System malfunctions	0%

% DISTRIBUTION OF LOSSES MPS CAPITAL SERVICES - 31/12/2015



Internal Fraud	0%
Lending Ratios	0%
Damages to property, plant	0%
System malfunctions	0%

At 31 December 2015 the total loss was less than in 2014.
The types of events with impact on the income statement are mainly due to shortcomings in the completion of operations or in the management of processes ("Execution, delivery and management of the process" class: approximately 50% of the total) and to the breach of professional obligations to customers ("Customers, products and operating procedures" class: approximately 35%).

Contingent liabilities related to legal actions

The risks inherent in or related to legal disputes - understood as such those involving judicial bodies and arbitrators - are subject to specific and careful examination by the Bank. In the case of disputes for which the outflow of economic resources to fulfil the implicit legal obligation is estimated as "*probable*", and it also seems possible to make a reliable estimate of the related amount, Provisions for Risk and Charges are set aside with statistical or analytical criteria. If an outflow of economic resources is possible, or when, although it is probable, it is not possible to make a reliable estimate of the financial expense, the contingent liability must be described in the Notes to the Statements.
As provided for in paragraph 92 of IAS 37, in extremely rare cases the indication of some or all the information required by the said standard on the subject of disclosure could have a serious adverse effect on the company's position in a dispute with third parties. In these cases the company does not have the obligation to provide the detailed information, but can limit itself to indicating the general nature of the dispute, explaining in any case the reasons that underlie the simplified disclosure.
The only contingent liability of a significant amount in being at 31 December 2015 is described below:

Civil case brought by the limited liability consortium Oromare Bankruptcy Administration before the Court of Torre Annunziata

The limited liability consortium Oromare Bankruptcy Administration, with a writ served in February 2015, instituted legal proceedings against the Bank asking for it to be ascertained, with reference to the two mortgage loans contracts signed with the same, the abusive granting of credit identifiable, according to the plaintiff, on the basis of the following conditions: i) renewed disbursement of finance when the consortium financed requested an extension of the repayment agreed with the first loan, ii) false representation, as the purpose of the second mortgage loan, of the higher costs of the construction works, in the absence of suitable technical/documentary justification and iii) failure to report to the system (Central Credit Register) Oromare's constant inability to repay, generating the impression of regular payments in line with the terms agreed. Owing to all this, the Bankruptcy Administration asked for the Bank to be ordered to compensate for the damages, quantifying the related claim at € 22,473,00.00.
The Bank first argued for the lack of active legitimacy of the Receiver given the jurisprudence of the Combined Sections of the Court of Cassation which found that an action aimed at ascertaining the abusive granting of credit is the responsibility of the individual creditors and, as regard the merit, reconstructed analytically the disbursements and the actions supplementary to the loan contracts providing the proof of its correct operations.
The pleadings authorised under the terms of Art. 183, paragraph 6, of the Italian Code of Civil Procedure were filed and the investigating magistrate, following the hearing of 3 March 2016, reserved the right to decide on the preliminary procedural arguments and on the investigatory pleadings. The risk of losing, currently, seems merely possible and in any case cannot be concretely estimated.

Part F
Information on Equity

SECTION 1 - THE BANK'S CAPITAL

A. QUALITATIVE INFORMATION

The MPS Group pursues strategic objectives focused on the quantitative and qualitative strengthening of the capital, on structural rebalancing of the liquidity and on achieving sustainable levels of profitability.
With this in view the capital management, capital planning and capital allocation activities are of fundamental importance for guaranteeing observance over time both of the minimum capital requirements established by the regulations and by the supervisory authorities and of the degree of Risk Appetite approved by the Parent Company's strategic supervisory body.

These activities are carried out in the context of the Risk Appetite Framework (RAF), an annual exercise performed under the supervision of the competent units of the Parent Company through which the MPS Group defines the risk appetite by setting in advance risk/return targets to be achieved over a multi-year time horizon, determines their related permitted tolerance thresholds and, finally, checks that the capital assets, over a multi-year horizon, are sufficient to guarantee observance of the minimum requirements in both normal and stress conditions.
The analyses are carried out both at the Group level and at the level of all the single legal entities subject to regulatory capital requirements. Achievement of the targets and compliance with the minimum regulatory requirements are monitored continuously during the year.
The formal corporate processes in which the RAF is applied on at least an annual basis are the budget, the risk appetite review and the ICAAP.
The MPS Group defines the budget targets on the basis of a method for measuring correct corporate performance for the risk, the Risk Adjusted Performance Measurement (RAPM), through which the earnings results are determined net of the cost of the capital to be held for regulatory purposes against the level of risk assumed.
The concepts of capital used are the regulatory supervisory ones: Common Equity Tier 1, Tier 1 and Own Funds. In the context of the RAPM metrics the concept of Invested Capital is also used; this consists of the amount of Risk Capital needed to achieve the Common Equity Tier 1 figures, both established in advance as target levels and reached afterwards final results.
The concepts of capital at risk used are the both the regulatory ones and that of economic capital which corresponds to the estimated maximum losses on the measurable risks at a pre-set confidence interval and on the basis of internal models and rules internal to the Group. In the context of the RAPM metrics both measurements are used.

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2015*	*31/12/2014*
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	1,300,617	689,068
- of profits	76,032	443,125
a) legal	*41,019*	*41,019*
b) statutory	*34,338*	*34,338*
c) treasury shares (of the Parent Company)		
d) other	*675*	*367,768*
- others	1,224,585	245,943
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	(8,519)	(2,764)
- financial assets available for sale	*(6,241)*	*(295)*
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- cash flow hedging		
- exchange differences		
- non-current assets held for sale		
- actuarial gains (losses) relating to defined-benefit pension plans	*(2,278)*	*(2,469)*
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (Loss) for the period	6,100	(587,503)
Total	**1,802,722**	**603,325**

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

Assets / Balances	*31/12/2015*		*31/12/2014*	
	Positive Reserve	*Negative Reserve*	*Positive Reserve*	*Negative Reserve*
1. Debt securities		10,247	693	2,087
2. Equity securities	625		647	
3. Units in collective investment undertakings	53		53	
4. Loans				
Total	**678**	**10,247**	**1,393**	**2,087**

Note:
the values indicated are gross of tax effects.

B.3 Valuation reserves relating to financial assets available for sale: annual changes

	Debt securities	*Equities securities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(1,394)**	**647**	**53**	
2. **Positive changes**	**643**	**9,869**		
2.1 Increases in fair value				
2.2 Transfer to income statement of negative reserves	643	9,869		
- due to impairment		*9,869*		
- due to conversion	*643*			
2.3 Other changes				
3. **Negative changes**	**9,496**	**9,891**		
3.1 Fair value decreases	8,803	9,891		
3.2 writedowns for impairment				
3.3 Transfer to income statement of positive reserves	693			
- due to conversion	*693*			
3.4 Other changes				
4. Closing balances	**(10,247)**	**625**	**53**	

B.4 Valuation reserves for defined benefit plans: yearly changes

	Severance indemnities	*Defined benefit pension funds*	*Tax effect*	*Total*
Opening balances	**(1,454)**	**(1,716)**	**701**	**(2,469)**
Revaluation of net liabilities/assets for defined benefits				
Return on plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions				
Actuarial gains/losses deriving from changes in financial assumptions	252	73	(103)	**222**
Actuarial gains/losses deriving from past experience		(41)	11	**(30)**
Changes in the effect of limitations on the availability of a net asset for defined benefit plans				
Gains/losses from termination of the fund envisaged in the terms of the plan				
Closing balances	**(1,202)**	**(1,684)**	**609**	**(2,277)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

The prudential supervisory rules applicable to banks and banking groups have been in force since 1 January 2014. They are aimed at making the national regulations compliant with the changes introduced in the international regulatory framework (Basel 3) with particular regard to the new legislative and institutional structure of banking supervision in the European Union.
The legislative structure in force has the purpose of strengthening the ability of banks to absorb shocks deriving from financial and economic tensions, irrespective of their origin, of improving risk management and governance, and at reinforcing the transparency and disclosure of banks, taking into account the lessons of the financial crisis.
The approach is based on three Pillars and aims at increasing the quantity and quality of the capital assets of intermediaries and provides for anticyclical supervisory instruments, rules on the management of liquidity risk and on the containment of financial leverage.

In particular, the First Pillar governs capital requirements to reflect the potential riskiness of assets and the requirements of capital assets. In addition to the system of capital requirements aimed at countering credit, counterparty, market and operational risks, the introduction of a limit on financial leverage (including off-balance-sheet exposures) is envisaged with the function of backstop of the capital requirement based on the risk and to contain the growth of leverage at the system level.
"Basel 3" also provides for requirements and system for supervising liquidity risk, focused on a short-term liquidity requirement (Liquidity Coverage Ratio - LCR) and on a long-term structural balance rule (Net Stable Funding Ratio - NSFR), as well as on principles for the management and supervision of liquidity risk at the level of individual institutions and of the system.

The Second Pillar requires banks to develop a current and prospective capital adequacy monitoring strategy and process, leaving the Supervisory Authority responsible for verifying the reliability and conformity of the related results and for adopting, when the situation requires it, the appropriate corrective measures. Growing importance is attributed to the corporate governance structures and to the internal control system of intermediaries as a determining factor for the stability of the single institutions and of the financial system as a whole. In this area the regulatory requirements concerning the following have been reinforced: the role, qualifications and composition of the governing bodies; the awareness on the part of these bodies and of the top management on the organisational structure and the risks of the Parent Company and the banking group; the corporate auditing units, with particular reference to the independence of the managers of the unit, the recognition of the risks of off-balance-sheet assets and securitisations, the measurement of assets and stress tests; the remuneration and incentive systems.

The Third Pillar - regarding the obligations of disclosure to the public on capital adequacy, on the exposure to risks and on the general characteristics of the related management and control systems, in order to encourage market discipline - provides, among other things, for transparency requirements concerning exposures to securitisations, detailed information on the composition of regulatory capital and on the methods with which the Parent Company calculates the capital ratios.

The Basel 3 framework is subject to a transitory system which projects the entry of the rules into full force (full application) at 2019 (2022 for the phase-out of certain equity instruments) and during which the new rules are applied in a growing proportion.
The regulatory capital, an element of the First Pillar, is therefore calculated according to the Basel 3 rules endorsed in Europe through structured legislation represented by the Capital Requirements Regulation (CRR), European

Regulation No. 575/2013, by the related supplements, by the Capital Requirements Directive (CRD IV), by the Regulatory Technical Standards and by the Implementing Technical Standards issued by the EBA as well as by the supervisory instructions issued by the Bank of Italy (in particular Circulars 285 and 286).

2.1 OWN FUNDS

A. QUALITATIVE INFORMATION

Own funds are made up of the following aggregates:
- Tier 1 capital (T1), made up of:
  - Common Equity Tier 1 (CET1);
  - Additional Tier 1 capital (AT1);
- Tier 2 capital (T2).

Own funds are subject, as are the other supervisory indicators, to particular transition rules. Therefore there are requirements on full application and requirements for the transitory period.

Common Equity Tier 1 (CET1);

Requirements on full application
Common Equity Tier 1 is mainly made up of:
- ordinary shares;
- share premium reserve deriving from the calculated share capital;
- profit reserves;
- valuation reserves.

The requirements for eligibility in CET1 of equity instruments are very stringent. Among these we can note that:
- ✓ they must be classified as equity for accounting purposes;
- ✓ the nominal amount may not be reduced except in the case of liquidation or discretionary repurchases of the issuer after specific authorisation from the supervisory authority;
- ✓ they must have perpetual duration;
- ✓ the issue is not obliged to carry out distributions;
- ✓ the issue may carry out distributions only of distributable profits;
- ✓ there can be no preferential treatment in the distributions, unless this reflects different voting rights;
- ✓ absence of caps in distributions;
- ✓ the cancellability of distributions does not entail restrictions on the issuer;
- ✓ with respect to the other equity instruments issued, they absorb as a priority and proportionally more the losses in the moment that they occur;
- ✓ they represent the most subordinated instruments in the event of bankruptcy or liquidation of the Bank;
- ✓ they give the right to holders to the issuer's remaining assets in the case of liquidation of the issuer;
- ✓ they are not subject to guarantees or contractual provisions that increase their seniority.

The profit for the period can be computed in CET1 before final approval of the financial statements, only on the authorisation of the Supervisory Authorities and on the condition that the conditions required have been fulfilled, in particular: verification by the external auditors and deduction from the profit of any dividends planned to be distributed.

The valuation reserve generated by cash flow hedging (the so-called cash flow hedge reserve) and the capital gains/capital losses deriving from changes in the company's own creditworthiness (liabilities in the fair value option and derivative liabilities) are excluded from the determination of CET1.

CET1 also takes into account additional adjustments (so-called prudent valuation adjustments). These adjustments are made to exposures presented in the financial statements at fair value and must take into account the uncertainty of the parameters (model risk, closure costs, etc.) and of the potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to whether they are on financial instruments of level 1 or levels 2 and 3.

Besides these components, which make up the so-called prudential filters, CET1 is subject to the following main deductions:
- loss for the period;
- intangible assets, including implicit goodwill in equity investments of significant influence and joint ventures measured with the equity method;
- tax assets based on future revenues and not deriving from temporary differences (tax losses and Economic Growth Aid - ACE);
- Deferred tax assets that depend on future revenues and deriving from temporary differences (net of the corresponding deferred tax liabilities); on the contrary deferred tax assets that do not depend on future revenues and are transformable into credits pursuant to Italian Law 214/2011 are not deducted; these last assets are instead included in RWAs and weighted at 100%;
- deferred tax assets connected with multiple exemptions of the same goodwill for the part not yet converted into current taxation;
- The excess of the expected loss on the value adjustments for portfolios validated for the purpose on adopting internal ratings - AIRB (so-called "expected loss delta");
- direct, indirect and synthetic investments in the company's own CET1 instruments;
- direct, indirect and synthetic non-significant investments (<10%) in CET1 instruments of financial institutions;
- direct, indirect and synthetic significant investments (>10%) in CET1 instruments of financial institutions;
- any deductions exceeding the AT1 equity instruments.

The deductions related to equity investments in financial institutions and to deferred tax assets apply only for the portions exceeding certain CET1 thresholds, called excesses, according to a particular mechanism which is described below:
- non-significant investments in CET1 instruments of financial institutions are deducted, for the part of the aggregate of the non-significant investments in CET1, AT1 and T2 instruments of financial institutions exceeding 10% of CET1, in proportion to the CET1 instruments themselves. The portions referred to AT1 and T2 instruments must instead be deducted respectively from the AT1 and T2 aggregates. The CET1 on which to calculate 10% is obtained after applying the prudential filters and all the deductions other than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- net deferred tax assets that depend on future revenue and derive from temporary differences are deducted for the part exceeding 10% of CET1 which is obtained after applying the prudential filters and all the deductions other

than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- significant investments in CET1 instruments of financial institutions are deducted for the part exceeding 10% of CET1 which is obtained after applying the prudential filters and all the deductions other than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- the amounts not deducted as a result of the 10% excess of significant investments in CET1 instruments of financial institutions and of net deferred tax assets that depend on future revenue and derive from temporary differences, added together, are deducted only for the portion exceeding 17.65% of CET1 which is obtained after applying the prudential filters and all the deductions, including investments in financial institutions and deferred tax assets computed in their entirety without taking into account the aforementioned thresholds, with the exception of any deductions exceeding the AT1 equity instruments.

The amounts not deducted as a result of the excesses are included in the RWAs and subject to weighting at a level of 250%.

Transitory system

The main aspects of the transitory system are presented below:
- the losses of the period are computed in CET1 with a gradual introduction of 20% a year (40% in 2015 and 100% from 2018); the portion transitionally not deducted from CET1 must be computed as a negative element of AT1;
- the actuarial gains/losses deriving from the valuation of liabilities connected with so-called Employee Benefits (employee severance indemnity, defined-benefit pension funds, etc.) are recognised, net of the tax effect, in the valuation reserves and are considered in CET1 with a gradual introduction of 20% starting from 2015 (20% in 2015 and 100% from 2019);
- unrealised gains on financial instruments classified in the AFS portfolio, other than those related to exposures to the central administrations of EU countries, are computed in CET1 only starting from 2015 for 40% and then with a gradual introduction of 20% a year (40% in 2015 and 100% in 2018); unrealised losses on financial instruments classified in the AFS portfolio, other than those related to exposures to the central administrations of EU countries, are computed in CET1 with a gradual introduction of 20% a year (40% in 2015 and 100% in 2018);
- the option to exclude from CET1 the unrealised gains and losses related to exposures to the central administrations of EU countries classified in the AFS category is provided for, until approval of IFRS 9 by the European Commission, as a result of the activation of the national discretionalities provided for in the CRR in the context of the transitory rules laid down by the Bank of Italy; the MPS Group in January 2014, as provided for in Circ. 285 of 17/12/2013, exercised this option;
- deferred tax assets that depend on future revenue and derive from temporary differences are deducted at 40% for financial year 2015 (100% from 2018); these are essentially deferred financial assets associated with tax losses and the ACE benefit;
- deferred tax assets that depend on future revenue and derive from temporary differences existing at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% a year starting from 2015 (10% in 2015 and 100% in 2024);
- the other deferred tax assets that depend on future revenue and derive from temporary differences generated after 1 January 2014 are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% in 2018);
- non-significant investments in Common Equity Tier 1 equity instruments in financial institutions held directly,

indirectly or synthetically exceeding the aforementioned excesses, are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% in 2018); direct investments in financial institutions transitionally not deducted from CET1 are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in the RWAs;
- significant investments in Common Equity Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically exceeding the aforementioned excesses, are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% from 2018); direct investments in financial institutions transitionally not deducted from CET1 are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in the RWAs;
- the excess of expected losses on value adjustments (expected loss delta) are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% from 2018); the portion transitionally not deducted from CET1 are deducted for 50% from and for 50% from T2.

The additional value adjustments on assets and liabilities carried at fair value are determined in proportion to the amount with which these assets and liabilities are computed in CET1 during the transition period. For example as unrealised gains and losses related to exposures to central administrations classified in the AFS category are not for the moment considered for CET1 purposes, correspondingly no additional value adjustments are made.

Additional Tier 1 Capital (AT1)

Requirements on full application

The main requirements for the instruments to be computed in AT1 are:
- the subscription and purchase must not be financed by the Bank or by its subsidiaries;
- they are subordinated with respect to the T2 instruments in the event of bankruptcy;
- they are not subject to guarantees given by the Bank, by its subsidiaries or by other companies that have close ties with them, which increase their seniority;
- they are perpetual and do not have characteristics which encourage their redemption;
- in the presence of call options these can be exercised with the sole discretionality of the issuer and in any case not before 5 years, unless authorised by the supervisory authority permitted in particular circumstances;
- the interest is paid against the distributable profits;
- the Bank has full discretionality in the payment of interest and may at any time decide not to pay it for an unlimited period; the cancellation works on a non-cumulative basis;
- cancellation of the interest does not constitute default of the issuer;
- in the case of trigger event the nominal value may be reduced permanently or temporarily or the instruments are converted into CET1 instruments.

AT1 is subject to the following main deductions:
- direct, indirect and synthetic investments in the company's own AT1 instruments;
- direct, indirect and synthetic investments in AT1 instruments of financial sector companies in which a significant equity investment is held;
- direct, indirect and synthetic investments in AT1 instruments of financial sector companies in which a significant equity investment is not held, for the part that exceeds the 10% excess, proportionally attributable to the AT1 instruments;
- any adjustments exceeding T2.

Transitory system

The main aspects of the transitory system for financial year 2015 are presented below:

- non-significant investments in Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically the amount exceeding the excess of which is temporarily not deducted from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- significant investments in Common Equity Tier 1 and Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically temporarily not deducted from CET1 and from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- the excess of expected losses on value adjustments (expected loss delta) temporarily not deducted from CET1 as a result of the transitory system, is deducted for 50% from AT1.

Tier 2 Capital (T2).

Requirements on full application

The main requirements for the equity instruments to be computed in T2 are:

- the subscription and purchase must not be financed by the Bank or by its subsidiaries;
- they are not subject to guarantees given by the Bank, by its subsidiaries or by other companies that have close ties with them, which increase their seniority;
- the original duration is not less than 5 years and not incentives are envisaged for early redemption;
- in the presence of call options these can be exercised with the sole discretionality of the issuer and in any case not before 5 years, unless authorised by the supervisory authority permitted in particular circumstances;
- the interest is not modified on the basis of the Bank's credit standing;
- the amortisation of these instruments for the purposes of computability in T2 is calculated *pro rata temporis* in the last 5 years.

T2 is subject to the following main deductions:

- direct, indirect and synthetic investments in the company's own T2 instruments;
- direct, indirect and synthetic investments in T2 instruments of financial sector companies in which a significant equity investment is held;
- direct, indirect and synthetic investments in T2 instruments of financial sector companies in which a significant equity investment is not held, for the part that exceeds the 10% excess, proportionally attributable to the T2 instruments;

Transitory system

The main aspects of the transitory system for financial year 2015 are presented below:

- non-significant investments in Tier 2 equity instruments in financial institutions held directly are deducted from T2 at 100% for the part that exceeds the excess; non-significant investments in Tier 2 equity instruments in financial institutions held indirectly or synthetically are deducted, for the part that exceeds the excess, with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% in 2018). The indirect or synthetic investments transitionally not deducted are subject to capital requirements and included in the RWAs;
- significant investments in Tier 2 equity instruments in financial institutions held directly are deducted from T2 at 100%; significant investments in Tier 2 equity instruments in financial institutions held indirectly or synthetically are deducted with a gradual introduction of 20% a year starting from 2014 (40% in 2015 and 100% in 2018). The indirect or synthetic investments transitionally not deducted are subject to capital requirements and included in

the RWAs;

- significant investments in Common Equity Tier 1 and Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically temporarily not deducted from CET1 and from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- the excess of expected losses on value adjustments (expected loss delta) temporarily not deducted from CET1 as a result of the transitory system, is deducted for 50% from T2.

Other transitory rules

For equity instruments issued previously and computed up to 31 December 2013 in the regulatory capital that do not comply with the requirements provided for in the new legislative framework a gradual exclusion from the pertinent level of own funds is provided for, on certain conditions. In particular the computability in CET1, AT1 and T2 of instruments issued or computed in the regulatory capital before 31 December 2011 that do not meet the new requirements is permitted, in financial year 2015, for an amount of 70% of the nominal value, falling by 10% a year until complete exclusion in 2022.
This case does not affect the Bank.

B. QUANTITATIVE INFORMATION

		31/12/2015	31/12/2014
A.	**Common Equity Tier 1 - (CET1)**		
	before application of the prudential filters	**603,679**	**603,325**
	of which CET1 instruments subject to transitory rules		
B.,	CET 1 prudential filters (+/-)	(21,444)	(47,687)
C.	**CET1 gross of ineligible elements and effects**		
	of the transitory system(A +/- B)	**582,235**	**555,638**
D.	**Ineligible elements of CET 1**	(310,447)	(3,910)
E.	**Transitory system - Impact on CET1** (+/-)	**92,922**	**1,845**
F.	**Total Common Equity Tier**		
	1 (CET1) (C - D +/-E)	**364,710**	**553,573**
G.	**Additional Tier 1 Capital (AT1) gross of**		
	ineligible elements and effects of the transitory system		
	of which AT1 instruments subject to transitory rules		
H.	**Ineligible elements of AT1**		
I.	**Transitory system - Impact on AT1** (+/-)		
L.	**Total Additional Tier**		
	1 Capital (AT1) (G - H +/- I)	**0**	**0**
M.	**Tier 2 Capital (T2) gross of ineligible elements**		
	and effects of the transitory system	**456,402**	**472,193**
	of which T2 instruments subject to transitory rules		
N.	**Ineligible elements of T2**	**(111,659)**	**(48,813)**
O.	**Transitory system - Impact on T2** (+/-)	**(92,949)**	**(1,309)**
P.	**Total Tier 2 Capital (T2)** (M - N +/- O)	**251,794**	**422,071**
Q.	**Total own funds** (F + L + P)	**616,504**	**975,644**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The minimum capital adequacy requirements provided for in the prudential regulations for financial year 2015 are the following:

- a Common Equity Tier 1 ratio of at least 4.5% of the total exposure to risk;
- a Tier 1 capital ratio of at least 6% of the total exposure to risk;
- a total capital ratio of at least 8% of the total exposure to risk;

In addition the prudential regulations for financial year states that banks must also hold the following reserves:

- the capital conservation buffer; this reserve is aimed at conserving the minimum level of regulatory capital in adverse market moments by setting aside high-quality capital resources in period not characterised by market tensions. It is obligatory and is equal, at the individual level, to 0.625% of the Bank's total exposure to risk; this reserve is made up of Common Equity Tier 1;
- the countercyclical capital buffer; this reserve has the purpose of protecting the banking sector in periods of excessive growth of lending; its settings, in fact, make it possible to accumulate, during phases of overheating of the lending cycle, Common Equity Tier 1 which will then be destined to absorb the losses in the descending phases of the cycle. Unlike the capital conservation buffer, the countercyclical capital buffer is obligatory only in periods of lending growth and it is calculated according to certain criteria; at the moment and until first quarter 2016, the ratio of the countercyclical capital buffer is set at zero;
- the capital reserves for global systemically important entities (G-SII buffer) and for systemically important entities (O-SII buffer); these reserves are aimed at imposing higher capital requirements on subjects that owing precisely to their systemic importance, at the global or domestic level, involve greater risks for the financial system and any crisis that affects them could have impacts on taxpayers. The MPS group is not among intermediaries of global systemic importance (G-SII), but is among the other intermediaries of systemic importance (O-SII), as defined by the Bank of Italy. The identification took into consideration, for each bank or banking group, the contribution of the four characteristics (dimensions, importance for the Italian economy, complexity and interconnection with the financial system) indicated in the EBA guidelines for establishing the systemic importance of each entity at the level of the single jurisdiction. The Bank of Italy's decision provided for an O-SII buffer of zero per cent for 2016.

As regards the capital requirements, we can note that for credit risks the MPS Group uses the advanced internal rating-based (AIRB) method with reference to the regulatory portfolios "Retail loan exposures" and "loan exposures to Businesses". For the remaining portfolios the capital requirements against credit risks are calculated according to the standardised approach.
The capital requirements against market risk are instead calculated applying the Standard approach.
The capital requirements against Operational Risk are calculated according to the AMA.
We can also note that during 2015, the ECB carried out further on-site inspections after the Comprehensive Assessment of 2014. Following these inspections there emerged, among other things, additional adjustments to be made to loan exposures substantially carried out during the year and recommendations aimed at improving, in particular, the loan exposure management processes.
In addition the ECB asked the Group to observe on a consolidated basis target ratios for Total Capital and Common Equity Tier 1 respectively of 10.9% and 10.2%. Starting from 31 December 2016, the CET 1 target ratio is raised to 10.75%. The target ratios requested by the ECB must be observed at all times in which the Decision of the Authority is in force; in the same way, in this period, the Parent Company may not distribute dividends to shareholders nor pass

cash flows to holders of additional Tier 1 equity instruments.
By extension the prohibition on distributing dividends applies also to the Bank; specific target ratios were not instead imposed on it.

B. QUANTITATIVE INFORMATION

Categories / Balances		Unweighted amounts		Weighted amounts/ requirements	
		31/12/2015	31/12/2014	31/12/2015	31/12/2014
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	**43,357,520**	**45,837,243**	**6,467,822**	**8,894,094**
	1. Standardised approach	30,518,832	34,996,717	1,998,891	6,021,810
	2. Internal ratings-based approach	12,838,688	10,840,526	4,468,931	2,872,284
	2.1 Basic				
	2.2 Advanced	12,838,688	10,840,526	4,468,931	2,872,284
	3. Securitisations				
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			**517,426**	**711,528**
B.2	Credit valuation adjustment risk			**51,053**	**83,688**
B.3	Regulatory risk				
B.4	Market risks			**266,194**	**276,577**
	1. Standard approach			266,194	273,541
	2. Internal models				
	3. Concentration risk				3,036
B.5	Operational risk			**68,344**	**83,674**
	1. Basic approach				
	2. Standardised approach				
	3. Advanced approach			68,344	83,674
B.6	Other calculation elements				
B.7	Total prudential requirements			**903,017**	**1,155,467**
C.	**RISK ASSETS AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets			**11,287,713**	**14,443,338**
C.2	Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			**3.23%**	**3.83%**
C.3	Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			**3.23%**	**3.83%**
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			**5.46%**	**6.76%**

The amount of the risk-weighted assets as per item C.1 is determined as the product of the total prudential requirements (item B.7) and 12.5 (inverse of the minimum mandatory ratio of 8%).

The Bank, considering also the capital conservation buffer requirement (0.625% of weighted assets), ended the year with a Common Equity Tier 1 deficit of approximately € 383 million (€ 331 million at 31 December 2014). The ratios, therefore, do not reach the minimums prescribed. This situation derives mostly from the significant loss, of € 587.5 million, recorded in the previous year following the Comprehensive Assessment. It also reflects the activation of the internal model for Specialised Lending and the revision of the grid related to Probability of Default (PD) and Loss Given Default (LGD), that occurred during the year.

To rebalance the capital position and ensure observance of the minimum capital ratios, the Extraordinary Shareholders' Meeting of 16 September 2015 resolved a share capital increase of up to € 1,200 million. The amount of the capital increase is such as to guarantee the performance of operations ensuring at the same time the maintenance of an adequate capital buffer also with the prospect of the growing impacts of the phase-in provided

for by Basel 3, as well as the coverage of potential adverse trends, at the moment not foreseeable, which could emerge in coming years.
The capital increase was completed in February 2016 after CONSOB, on 22 January 2016, had given its authorisation for publication of the Prospectus and, on 16 February 2016, it was registered at the Companies Registry. As a consequence, the payments made for a future capital increase by the Parent Company last year for a total amount of € 1,199,041,668.41, although already accounted for in Reserves following the waiver of the right to a refund by BMPS, were not included in the Regulatory Capital calculated at 31 December 2015.

Including in the calculation - *pro forma* - the above payments, the Regulatory Capital would come out at € 1,935,450,987 and the capital ratios would be the following:

- CET1: 13.955% (compared to a minimum level of 5.125%: 4.5% + capital conservation buffer 0.625%);
- Tier1: 13.955% (compared to a minimum level of 6.625%: 6% + capital conservation buffer 0.625%);
- Total Capital Ratio: 17.147% (compared to a minimum level of 8.625%: 8% + capital conservation buffer 0.625%) with a surplus of capital assets of approximately € 962 million.

Part G
Business Combinations regarding companies or business units

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2015, 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.

Part H
Transactions with related parties

In accordance with IAS 24 the "key management personnel" include the following: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the remuneration of key management personnel

	31/12/2015	*31/12/2014*
Short-term benefits	1,509	1,622
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	**1,509**	**1,622**

2. Information on transactions with related parties

The tables presented below show the accounting effects of the transactions carried out with related parties (2.a with the Parent Company and other group companies; 2.b with key management personnel and other related parties).
In accordance with the accounting standard IAS 24 the Bank has identified its related parties and has complied with the consequent disclosure obligations.
With a resolution of the Parent Company's Board of Directors of 12 November 2014, in compliance with the legislative provisions and with the opinions obtained in advance of the Committee for Transactions with Related Parties and of the Board of Statutory Auditors of the Parent Company, the "Global Policy on Transactions with Related Parties, Associated Subjects, Obligations with Bank Representatives" (hereinafter "Global Policy") was approved. This brings together in a single document the provisions for the Group on the governance of conflicts of interest on the subject of transactions with related parties under the terms of the aforementioned CONSOB Regulation No. 17221/2010, with associated subjects under the terms of Bank of Italy Circular No. 263/2006 in Title V, Chapter 5, and those on the subject of obligations with bank representatives under the terms of Art. 136 of the Consolidated Law on Banking, laying down the rules also for the subsidiaries.
The Global Policy sets forth the principles and rules which must be followed to monitor the risk deriving from situations of possible conflict of interest with certain subjects close to the decision-making centres of the parent company and replaces and abrogates the "Procedure on related party transactions" adopted on 25.11.2010 and updated on 24.06.2012.
The Global Policy was endorsed by the Bank with a resolution of 27 February 2015, by adopting the "Policy on Transactions with Related Parties, Associated Subjects, Obligations with Bank Representatives and Internal Policies on Controls" (hereinafter the "Policy").
The Policy was published on the Bank's website and the full version can be consulted at the following web address:
http://www.mpscapitalservices.it/NR/rdonlyres/782FF399-FA35-4059-A7E1-E4D7FB7C9C8D/76741/PolicyMPSCSparticorrsoggcollespbancari2015vsINTERN.pdf

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

Items / Balances	*Parent Company*	*Companies of the MPS Group*	*Proportion % of the aggregate*
Total financial assets	**13,505,711**	**1,206,423**	**34.8%**
- Receivables due from banks/customers	8,532,520	142,224	45.3%
- HFT and AFS assets	4,966,664	1,060,739	26.2%
- Other assets	6,527	3,460	30.6%
Total financial liabilities	**24,632,126**	**2,740**	**60.2%**
- Receivables due from banks/customers	15,674,335		93.7%
- HFT liabilities	8,489,669	94	36.0%
- Outstanding securities	456,992		100.0%
- Other liabilities	11,130	2,646	12.8%
Income statement			
Interest income	78,675	25,378	27.3%
Interest expense	(201,536)		96.9%
Fee income	26,116		37.4%
Fee expense	(43,841)		74.8%
Administrative expenses	2,035	(13,020)	9.3%
Other income	957	47	18.1%
Guarantees given	**817,354**		**6.5%**
Guarantees received	**191,491**	**26,395**	**1.0%**

2.b Transactions with key management personnel and other related parties

Items / Balances	*Key management personnel*	*Other related parties*	*Proportion*
Total financial assets	**21**	**91,706**	**0.2%**
- Receivables due from banks/customers	21	88,127	0.5%
- HFT and AFS assets		3,579	0.0%
- Other assets			
Total financial liabilities		**1,088**	**0.0%**
- Other liabilities		1,088	1.0%
Guarantees given		**56**	**0.0%**
Guarantees received		**87,501**	**0.4%**

2.d Fees paid to the independent auditing firm and the bodies belonging to its network
(pursuant to Art. 149 duodecies of CONSOB Resolution No. 15915 of 3 May 2007)

Type of services	*Party providing service*	*Fees*
Independent auditing	Reconta Ernst & Young S.p.A.	197
Certification services	Reconta Ernst & Young S.p.A.	95
Consultancy	Ernst & Young Financial-Business Advisors S.p.A.	34
Total		**326**

Note:
the afore-mentioned amounts are net of VAT and ancillary expenses. The fees for "independent auditing" include € 15 thousand for the six-monthly audit of the accounts required in the context of the process related to the capital increase. In addition, with reference to this process, the "certification services" include € 55 thousand related to auditing of the figures presented in the Prospectus drawn up under the terms of CONSOB Resolution No. 11971 of 14 May 1999, as subsequently amended and supplemented, as well as € 35 thousand related to issuing the opinion on the liquidation value of the shares under the terms of Art. 2437-ter of the Italian Civil Code.

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 (2014) 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 € 9,001,756,820.70 fully paid up
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 31.12.2014

Balance sheet *(amounts in € millions)*

Assets		Liabilities and Shareholders' Equity	
Cash and cash equivalents	974	Due to banks	39,294
Financial assets held for trading	2,416	Due to customers	91,282
Financial assets available for sale	22,679	Outstanding securities	29,688
Loans to banks	38,710	Financial liabilities held for trading	2,045
Loans to customers	102,157	Financial liabilities designated at fair value	3,010
Hedging derivatives	878	Hedging derivatives	4,261
Value adjustment of financial assets subject to macrohedging	112	Tax liabilities	89
Equity investments	1,673	Liabilities associated with non-current assets	0
Property, plant and equipment	1,102	Other liabilities	3,810
Intangible assets	120	Employee severance indemnities	263
Tax assets	6,330	Provisions for risks and charges	1,015
Non-current assets	17	**Total liabilities**	**174,757**
Other assets	2,404	Shareholders' equity	4,815
Total Assets	**179,572**	**Total Liabilities and Shareholders' Equity**	**179,572**

Income statement

	(amounts in € millions)
Interest and similar income	4,834
Interest expense and similar charges	(3,138)
Net interest income	**1,696**
Fee income	2,009
Fee expense	(367)
Net fee and commission income	**1,642**
Dividends and similar income	132
Net trading gains (losses)	(12)
Net hedging gains (losses)	(25)
Gains (losses) on disposal or repurchase of:	169
Net gains/(losses) on financial assets and liabilities carried at fair value	(22)
Net interest and other banking income	**3,580**
Net value adjustments/writebacks due to impairment	(6,289)
Net income from financial management	**(2,709)**
Administrative expenses	(3,241)
Net provisions for risks and charges	(180)
Net value adjustments on property, plant and equipment	(91)
Net value adjustments on intangible assets	(28)
Other operating income/charges	299
Operating costs	**(3,241)**
Profit (loss) on equity investments	(678)
Goodwill value adjustments	(662)
Gains/(losses) on disposal of investments	28
Profit (Loss) from current operations before tax	**(7,262)**
Income taxes on current operations	1,826
Profit (Loss) from current operations net of taxes	**(5,436)**
Gain (Loss) on discontinued operations, net of taxation	0
Profit (Loss) for the period	**(5,436)**

Part I
Share-based Payments

QUALITATIVE INFORMATION

The Bank's Shareholders' Meeting, on 16 September 2015, approved the *2015 Remuneration Report*, compliant in its contents with the analogous Report approved by the Shareholders' Meeting of Banca Monte dei Paschi di Siena on 16 May 2015 under the terms of Art. 123-ter of the Consolidated Finance Act, supplemented by a specific *addendum* for the Bank.
The remuneration and bonus policies adopted by the Group state that the variable component for the so-called "significant personnel" must comply with the prescriptive requirements in terms of:

- maximum potential amount expressed as a percentage of the fixed component (Gross Annual Remuneration - GAR);
- payment times (at least 50% of the bonus must be paid after three years);
- method of payment (at least 50% both of the up-front part and of the deferred part, must be paid in shares of the Parent Company).

In the remuneration policies a materiality threshold of the bonus of € 40,000 is also established, under which each payment is entirely cash/up-front; this threshold applies only if the amount of the bonus to be paid is no more than 50% of the beneficiary's GAR.

We can inform you that, as the above materiality threshold was not exceeded, the liquidation will be made entirely in cash.

Part L
Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the Notes to the Statements to its consolidated financial statements as of 31 December 2015.

ATTACHMENTS TO THE NOTES TO THE STATEMENTS

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

STATEMENT OF ACCOUNT as of 31 DECEMBER 2015

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

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2015
(amounts in Euro)

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 section of the "defined contribution" Fund has its own separate and autonomous capital. The following are paid into the said section, which does not have a separate legal identity:
  - 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 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 31.12.2015 was € 5,365,819= 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 41 members, all retired, of which 17 men and 12 women receiving a direct pension, along with 1 man and 12 women receiving an indirect and survivor's pension.
The periodic benefits disbursed in 2015 amounted to € 542,629=.
During the year, it was necessary to increase the fund by € 6,378= to adjust it to the value of the mathematical reserve as calculated 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 2015 amounted to € 44,039,548=.
During 2015, 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.
From the segment there were capital outflows for "transfers and redemptions" of € 2,456,706 and no disbursement in the form of principal.
The disbursements by way of advances on the total position accrued, concerned requests for a total of € 1,213,407=

in 2015.
A total of 554 persons are enrolled in the segment of the "Fund" as of 31 December 2015, of which 514 are active, 23 enrolled only in the so-called "Guaranteed" line and 17 are no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with Article 8, section 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.
The features of the investment lines are as follows:

Description	*Line C001* GPM 386133	*Line C002* GPM 386134	*Line C003* GPM 386135	*Line C004* GPM 386164	*Line C005* GPM 386072	*Line C006* GPM 386163	*Guaranteed line*
Time Horizon (years)	7-10	10-20	20-30	5	5		Collective policy
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Equity component	27%	48%	65%	7%	14%		

2015 annual return and average returns during the period from asset management

	GPM 386133 *Line C001*	GPM 386134 *Line C002*	GPM 386135 *Line C003*	GPM 386164 *Line C004*	GPM 386072 *Line C005*	GPM 386163 *Line C006*	*Guaranteed line*
2015 Return	**4.30%**	**6.70%**	**8.20%**	**1.80%**	**1.60%**	**0.30%**	**2.60%**
Annual average return for five-year period **2011/2015**	**6.77%**	**7.51%**	**8.04%**	**3.30%**	**4.14%**	**1.15%**	**2.66%**
Annual average return for three-year period **2013/2015**	**7.26%**	**8.87%**	**10.07%**	**3.05%**	**3.93%**	**0.69%**	**2.78%**

N.B. The figures express only the performance of the asset management portfolios underlying the single segments

The values of the individual portions of the different lines during the five years 2011-2015 are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31/12/2011	**1.156**	**1.225**	**1.290**	**1.067**	**1.100**	**1.029**	*(1)*
31/12/2012	**1.306**	**1.398**	**1.482**	**1.132**	**1.189**	**1.051**	*(1)*
31/12/2013	**1.395**	**1.536**	**1.668**	**1.162**	**1.237**	**1.064**	*(1)*
31/12/2014	**1.537**	**1.688**	**1.829**	**1.213**	**1.307**	**1.067**	*(1)*
31/12/2015	**1.592**	**1.776**	**1.944**	**1.231**	**1.323**	**1.070**	*(1)*

(1) the insurance policy provides for the management of individual positions

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 2015, which maintained the trends and positions shown in 2014, are as follows.

The monetary component of the portfolio was characterised by a slightly overweight positioning in terms of financial duration relative to the reference index and by the absence of spread products. Further, it was decided to concentrate the investment in securities issued by the Republic of Italy at a fixed and floating rate with average maturities of about six months. This positioning made it possible to achieve positive performance, both absolute and relative.

The bond component in the portfolios featured dynamic management relative to the positioning of the yield curve and in terms of geographic allocation. During the year the portfolio featured overexposure of duration for peripheral countries and a slight underexposure of duration for the core countries. Diversification choices were made on the peripheral component through investment in Italian and Spanish government securities and, in order to optimise the overall risk/return profile of the portfolio, a choice was made to limit the exposure to the core component to German bonds. The active management of the portfolio was therefore the main driver of the positive results achieved.

The equity component was characterised by the allocation in ETFs and funds with low tracking error for a liability component aimed at replicating the reference index, guaranteeing exposure to the stock markets, while for the asset part of the management funds with active management were chosen, and these gave a benefit in terms of return, thanks above all to the dynamic management of the sectoral allocation. During the entire year a generally positive positioning was maintained, in favour of the equity asset class, which was brought back to neutrality at the beginning of the last quarter.

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 Euro.

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 2015, 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.

BENEFITS OF THE "DEFINED CONTRIBUTION" SEGMENT
STATEMENT OF ACCOUNT AS OF 31 December 2015

BALANCE SHEET

(amounts in Euro)

ACCUMULATION PHASE ASSETS	*31/12/2015*	*31/12/2014*
10 Direct investments	**-**	**-**
20 Assets under management	**44,914,407**	**42,850,329**
20-a) Bank deposits	2,175,048	1,737,242
20-b) Receivables for repurchase agreements	-	-
20-c) Securities issued by Governments or by international bodies	22,280,781	22,120,494
20-d) Listed debt securities	-	-
20-e) Listed equity securities	-	-
20-f) Unlisted debt securities	-	-
20-g) Unlisted equity securities	-	-
20-h) Units in collective investment undertakings	19,938,968	18,318,940
20-i) Options purchased	-	-
20-l) Accrued income and prepaid expenses	325,859	289,546
20-m) Result guarantees released to pension fund	-	-
20-n) Other assets of financial operations	-	222,332
20-o) Investments in insurance operations	193,751	161,775
20-p) Margins and receivables on forward/future transactions	-	-
30 Result guarantees acquired on individual positions	**-**	**-**
40 Assets of administrative operations	**245,714**	**-**
40-a) Cash and bank deposits	215,162	-
40-b) Intangible fixed assets	-	-
40-c) Property, plant and equipment	-	-
40-d) Other assets of administrative operations	30,552	-
50 Tax credits	**1,045**	**-**
TOTAL ACCUMULATION PHASE ASSETS	**45,161,166**	**42,850,329**

(amounts in Euro)

ACCUMULATION PHASE LIABILITIES	*31/12/2015*	*31/12/2014*
10 Liabilities of welfare operations	**650,987**	**203,822**
10-a) Payables of welfare operations	650,987	203,822
20 Liabilities of financial operations	**8,580**	**-**
20-a) Payables for repurchase agreements	-	-
20-b) Options issued	-	-
20-c) Accrued expenses and deferred income	-	-
20-d) Other liabilities of financial operations	8,580	-
20-e) Payables on forward/future transactions	-	-
30 Result guarantees recognised on individual positions	**-**	**-**
40 Liabilities of administrative operations	**350**	**-**
40-a) Employee severance indemnity	-	-
40-b) Other liabilities of administrative operations	114	-
40-c) Deferral of contributions for coverage of administrative charges	236	-
50 Tax payables	**461,701**	**448,267**
TOTAL ACCUMULATION PHASE LIABILITIES	**1,121,618**	**652,089**
100 Net assets destined for benefits	**44,039,548**	**42,198,240**

The item "Tax liabilities" represents the substitute tax applied to the results of financial operations.

INCOME STATEMENT

(amounts in Euro)

		31/12/2015	31/12/2014
10	**Balance of welfare operations**	**(100,914)**	**233,171**
	10-a) Contributions for benefits	3,634,387	3,180,366
	10-b) Advances	(1,213,407)	(800,613)
	10-c) Transfers and redemptions	(2,456,706)	(2,129,817)
	10-d) Transformations into annuities	-	-
	10-e) Disbursements under the form of principal	-	(113,838)
	10-f) Premiums for ancillary benefits	(64,975)	(57,284)
	10-g) Periodic benefits	-	-
	10-h) Other welfare outgoings	(239)	(72,772)
	10-i) Other welfare incomings	26	227,129
20	**Result of financial operations**	**-**	**-**
30	**Result of indirect financial operations**	**2,437,295**	**3,942,652**
	30-a) Dividends and interest	990,266	958,837
	30-b) Profits and losses from financial transactions	1,447,029	2,983,815
	30-c) Fees and commission on securities lending	-	-
	30-d) Income and charges for repurchase agreements	-	-
	30-e) Spread on result guarantees issued to the pension fund	-	-
40	**Operating charges**	**(34,418)**	**(48,265)**
	40-a) Management company	(34,418)	(48,265)
	40-b) Custodian bank	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**2,402,877**	**3,894,387**
60	**Balance of administrative operations**	**-**	**-**
	60-a) Contributions to cover administrative expenses	3	
	60-g) Sundry expenses and income	233	-
	60-i) Deferral of contributions to cover administrative expenses	(236)	-
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**2,301,963**	**4,127,558**
80	**Substitute tax**	**(460,655)**	**(448,267)**
	Change in net assets destined for benefits (70)+(80)	**1,841,308**	**3,679,291**

The items “Other welfare incomings” and “Other welfare outgoings” represent the yield spreads between the accounting date and the value date of transfers from and to the so-called “guaranteed” line.

STATEMENT OF ACCOUNT AT 31 DECEMBER 2015
BREAKDOWN BY INVESTMENT LINE

(amounts in Euro)

BALANCE SHEET

ACCUMULATION PHASE ASSETS	C001	C002	C003	C004	C005	C006	C007
10 Direct investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20 Assets under management	**8,563,073**	**14,105,054**	**15,553,959**	**2,143,080**	**3,102,881**	**1,252,609**	**193,751**
20-a) Bank deposits	334,606	569,031	329,915	295,803	318,272	327,421	-
20-b) Receivables for repurchase agreements	-	-	-	-	-	-	-
20-c) Securities issued by Governments or by international bodies	5,789,517	6,617,780	4,950,468	1,681,710	2,317,226	924,080	-
20-d) Listed debt securities	-	-	-	-	-	-	-
20-e) Listed equity securities	-	-	-	-	-	-	-
20-f) Unlisted debt securities	-	-	-	-	-	-	-
20-g) Unlisted equity securities	-	-	-	-	-	-	-
20-h) Units in collective investment undertakings	2,343,859	6,808,110	10,192,078	151,532	443,389	-	-
20-i) Options purchased	-	-	-	-	-	-	-
20-l) Accrued income and prepaid expenses	95,091	110,133	81,498	14,035	23,994	1,108	-
20-m) Result guarantees released to pension fund	-	-	-	-	-	-	-
20-n) Other assets of financial operations	-	-	-	-	-	-	-
20-o) Investments in insurance operations	-	-	-	-	-	-	193,751
20-p) Margins and receivables on forward/future transactions	-	-	-	-	-	-	-
30 Result guarantees acquired on individual positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40 Assets of administrative operations	**37,325**	**72,246**	**85,852**	**17,175**	**19,225**	**13,777**	**114**
40-a) Cash and bank deposits	37,324	72,244	85,852	17,175	1,753	700	114
40-b) Intangible fixed assets	-	-	-	-	-	-	-
40-c) Property, plant and equipment	-	-	-	-	-	-	-
40-d) Other assets of administrative operations	1	2	-	-	17,472	13,077	-
50 Tax credits	**-**	**-**	**-**	**-**	**-**	**1,045**	**-**
TOTAL ACCUMULATION PHASE ASSETS	**8,600,398**	**14,177,300**	**15,639,811**	**2,160,255**	**3,122,106**	**1,267,431**	**193,865**

ACCUMULATION PHASE LIABILITIES

		C001	C002	C003	C004	C005	C006	C007
10	**Liabilities of welfare operations**	**-**	**321,663**	**248,969**	**-**	**80,355**	**-**	**-**
	10-a) Payables of welfare operations	-	321,663	248,969	-	80,355	-	-
20	**Liabilities of financial operations**	**1,350**	**2,607**	**3,263**	**269**	**427**	**664**	**-**
	20-a) Payables for repurchase agreements	-	-	-	-	-	-	-
	20-b) Options issued	-	-	-	-	-	-	-
	20-c) Accrued expenses and deferred income	-	-	-	-	-	-	-
	20-d) Other liabilities of financial operations	1,350	2,607	3,263	269	427	664	-
	20-e) Payables on forward/ future transactions	-	-	-	-	-	-	-
30	**Result guarantees recognised on individual positions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40	**Liabilities of administrative operations**	**-**	**-**	**236**	**-**	**-**	**-**	**114**
	40-a) Employee severance indemnity	-	-	-	-	-	-	-
	40-b) Other liabilities of administrative operations	-	-	-	-	-	-	114
	40-c) Deferral of contributions for coverage of administrative charges	-	-	236	-	-	-	-
50	**Tax payables**	**60,296**	**163,794**	**225,279**	**4,800**	**6,854**	**-**	**678**
	TOTAL ACCUMULATION PHASE LIABILITIES	**61,646**	**488,064**	**477,747**	**5,069**	**87,636**	**664**	**792**
100	**Net assets destined for benefits**	**8,538,752**	**13,689,236**	**15,162,064**	**2,155,186**	**3,034,470**	**1,266,767**	**193,073**

INCOME STATEMENT	C001	C002	C003	C004	C005	C006	C007
10 Balance of welfare operations	**179,941**	**(563,705)**	**(256,764)**	**(285,256)**	**827,224**	**(29,531)**	**27,177**
10-a) Contributions for benefits	479,298	946,290	761,727	228,244	1,030,458	157,173	31,197
10-b) Advances	(101,095)	(508,668)	(383,573)	(27,553)	(153,453)	(39,065)	-
10-c) Transfers and redemptions	(186,344)	(981,422)	(614,170)	(481,000)	(45,926)	(143,824)	(4,020)
10-d) Transformations into annuities	-	-	-	-	-	-	-
10-e) Disbursements under the form of principal	-	-	-	-	-	-	-
10-f) Premiums for ancillary benefits	(11,918)	(19,905)	(20,535)	(4,947)	(3,855)	(3,815)	-
10-g) Periodic benefits	-	-	-	-	-	-	-
10-h) Other welfare outgoings	-	-	(239)	-	-	-	-
10-i) Other welfare incomings	-	-	26	-	-	-	-
20 Result of financial operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
30 Result of indirect financial operations	**349,020**	**859,039**	**1,133,585**	**39,586**	**45,948**	**4,719**	**5,398**
30-a) Dividends and interest	231,096	340,103	334,633	30,313	52,001	2,120	-
30-b) Profits and losses from financial transactions	117,924	518,936	798,952	9,273	-6,053	2,599	5,398
30-c) Fees and commission on securities lending	-	-	-	-	-	-	-
30-d) Income and charges for repurchase agreements	-	-	-	-	-	-	-
30-e) Spread on result guarantees issued to the pension fund	-	-	-	-	-	-	-
40 Operating charges	**(5,442)**	**(10,713)**	**(13,073)**	**(1,164)**	**(1,611)**	**(2,415)**	**-**
40-a) Management company	(5,442)	(10,713)	(13,073)	(1,164)	(1,611)	(2,415)	-
40-b) Custodian bank	-	-	-	-	-	-	-
50 Margin of financial operations (20)+(30)+(40)	**343,578**	**848,326**	**1,120,512**	**38,422**	**44,337**	**2,304**	**5,398**
60 Balance of administrative operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
60-a) Contributions to cover administrative expenses	1	2					
60-g) Sundry expenses and income	(1)	(2)	236				-
60-i) Deferral of contributions to cover administrative expenses			(236)				-
70 Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)	**523,519**	**284,621**	**863,748**	**(246,834)**	**871,561**	**(27,227)**	**32,575**
80 Substitute tax	**(60,296)**	**(163,794)**	**(225,278)**	**(4,800)**	**(6,854)**	**1,045**	**(678)**
Change in net assets destined for benefits (70)+(80)	**463,223**	**120,827**	**638,470**	**(251,634)**	**864,707**	**(26,182)**	**31,897**

CERTIFICATION REPORT

Certification Report

The Certification Report issued on 10th March 2016 by Reconta Ernst & Young Spa may be read in the original version of the 2015 Annual Report, written in Italian.

The Certification Report relates only to that version of the Annual Report.

REPORT OF THE BOARD OF STATUTORY AUDITORS

Report of the Board of Auditors to the Shareholders' meeting called for the approval of the Financial Statements for the year ending 31/12/2015

(pursuant to Art. 153 of Italian Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code)

To the Shareholders' Meeting of the company MPS Capital Services Banca per le Imprese S.p.A.

During the financial year ending at 31 December 2015, the undersigned Board of Auditors carried out supervisory activities in accordance with the provisions of the Italian Civil Code, Italian Legislative Decrees 385/1993 (TUB), 58/1998 (TUF) and 39/2010 (Consolidated Law on Auditing), the articles of association, those issued by the Independent Administrative Authorities that carry out supervisory and auditing activities, as well as the principles of conduct for Boards of Auditors recommended by the Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili (National Accountants and Auditors Council).

The Board of Auditors has received the draft financial statements approved by the Board of Directors under the terms of the law. Also on the basis of the indications provided by Consob with its communication of 6 April 2001, No. DEM/1025564, the Board reports the following.

The financial statements for the year 2015 show a profit of € 6.1 million, while those for the previous year showed a loss of € 587 million due essentially to higher provisions set aside for the AQR. The financial operations of the company maintained a positive performance and the lending activity showed signs of recovery, as can be seen in more detail in the report on operations. The profit for the year reflects in particular the following two items of a non-recurring nature: (I) the payment at the end of the year of a total amount of € 47.3 million (of which € 35.5 million for extraordinary contribution and € 11.8 million for year 2015 contribution) to the National Resolution Fund under the terms of Italian Legislative Decree No. 180 of 16 November 2015; (II) the recovery to the income statement of the amount of € 6.9 million from provisions for risks and charges, in excess of what was used following the Bank's acceptance of the charges brought by the Tax Authority.

For the analysis of loans and the measurement of the recoverability of doubtful positions, the Company carried on, both during the year and in preparing the financial statements, with the methodology already adopted for the financial statements at 31 December 2014, which is in keeping with the new policies adopted by the Bank and defined with the Parent Company.

The effects of the methods applied are described in the Notes to the Statements.

The Board of Statutory Auditors met 55 times during financial year 2015; it participated in 2 Shareholders' Meetings and in 16 meetings of the Board of Directors. It must be acknowledged that during the board meetings the legal information was provided by the Administrative Bodies, including exhaustive information on the activity carried out and the transactions of greatest economic and financial significance performed by the Bank.

On the basis of the activities and checks carried out by the Board of Auditors, we can affirm that the operations approved and implemented by the Company comply with the law and the Articles of Association and do not appear to be manifestly imprudent or hazardous, to create potential conflicts of interests, or to be contrary to the decisions made by the Shareholders' Meeting or such as to compromise the integrity of the company's equity. The Board of Auditors supervised observance of the laws and the Articles of Association.

Reference Bank Group

As you know, the Bank is subject to management and coordination activities by the Parent Company, Banca Monte dei Paschi di Siena SpA. Relations with the Parent Company, aimed at optimising synergy and the productivity of the Company within the Group context, include operations carried out for the Parent Company on the financial markets, the agreement related to the option to adhere to National Tax Consolidation for financial years 2013, 2014 and 2015 and the outsourcing of a series of activities and services which are noted later in this report.

In the context of the legal provisions. The Parent Company's Board of Statutory Auditors holds periodic meetings with the Boards of Auditors of the subsidiaries. During the year the meeting with this Board of Statutory Auditors was held on 20/11/2015.

1. SUPERVISION OF THE ORGANISATIONAL STRUCTURE, ADEQUACY OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Auditors supervised the operation of the Bank's organisational structure and the adequacy of the overall system of internal controls, ascertaining the efficacy of the structures and units involved, as well as the adequacy of the risk control and management system.
This was done through the auditing activity carried out collegially, obtaining information from the managers of the corporate units, examining the documents, analysing the results of the work done by the Auditing Firm on the various accounting items which occurred through several meetings during the year. In addition, monitoring was carried out on the activities of the second and third level control units, which are reported on in more detail in the paragraph devoted to this subject.

The Board of Auditors interacted constantly with the Internal Audit department, both to receive the necessary assistance to carry out the above referenced checks, and as the recipient of all the inspection reports containing the results of the assessments which the said Department made during the year.

In addition, the Board discussed frequently with the managers of the operational departments in order examine in depth the significant problems, in terms of control and risk of the main operating processes; this also in order to verify that the internal reorganisation process, currently being implemented in the context of the entire MPS Group and aimed at achieving significant improvements regarding process efficiency, did not give rise to problems worthy of note within the Company.

Monitoring of the control departments

The Board of Auditors received information and supervised, regarding its assigned tasks, the adequacy of the second and third level control departments and the efficacy of the activities carried out in relation to the Company's internal control and risk management system.
The Board notes that the Company updated the rules regulating who the Internal Audit and Compliance Departments report to in accordance with the provisions of Bank of Italy Circular No. 263, 15th update.

Internal Audit

The Board monitored the activity of the Internal Audit unit, examining the Activity Plan prepared for the year 2015, the reports on the work done during the year and verifying over time the qualitative and quantitative adequacy of the unit and the position of Independence it is considered to have within the context of the Company's organisational structure.

Particular attention was paid to the Annual Report for the year 2015 on the internal control system, submitted for examination by the Company's Board of Directors on 24 February 2016.

This report illustrates adequately the programme of activities carried out, the areas examined, the related results and the follow up activities envisaged for the aspects of improvement; the summary judgement expressed by the Internal Audit unit on the Bank's control system is "predominantly favourable". As regards this Report, the Board of Statutory Auditors has expressed its appreciation for the activity carried out, after highlighting that the main matters presented in the Report were the subject, during the year, of periodic meetings with the internal auditors tasked with the audits and, where necessary, also with the audited structures, in order to raise the awareness of their Managers and identify and assume initiatives aimed at overcoming the shortcomings that emerged with the due promptness.

Compliance

Analogous monitoring was carried out on the Compliance unit through discussions and direct contacts, in which the Internal Audit unit also always took part; the Board examined, as usual, the activity plan for the year 2015 drawn up by the unit and the reporting as per the Annual Compliance Report, the subject of a specific opinion on adequacy from this Board.

The Annual Compliance Report was illustrated by the manager of the unit to the Board of Directors at the meeting of 14 December 2015.
Together with the annual report the Compliance unit presented the activity plan for the year 2016, which was examined and assessed positively by this Board of Statutory Auditors.
The Company's Compliance unit, in the context of the project to implement the XV update of Bank of Italy Circular No. 263 and with the assistance of the Organisation Unit, completed the changes to the organisation and to the internal regulations already begun during the previous year, adopting a distributed Compliance model made up, besides the Compliance Unit, of five specialistic monitoring units for specific regulations of the Bank's total perimeter of pertinence.

The Compliance Unit also has the responsibility for the activity of countering money-laundering; to assess its adequate performance, the Board discussed directly with the Compliance Unit at several meetings, in which the Internal Audit unit always took part; the Board also examined the results of the two audits performed by the Internal Audit Unit on this question.

During 2016 the activity of profiling customers for anti-money laundering purposes is expected to be completed. This was launched with the support of an external software house (OASI) and is aimed at identifying the parameters related to medium and long-term loans but also at operations on financial instruments. This application represents an Innovation in the field of anti-money laundering for the banking market.

The Board notes that during 2015, six suspect transactions were identified by the department responsible, as well as one "reinforced check", pursuant to paragraphs 4 and 5 of Article 28 of Italian Legislative Decree 231/07.

Risk Management

The outsourcing of the Risk Control function to the Parent Company's Risk Management Department, already substantially implemented in previous years, was confirmed in the overall design of the Internal Control System, in accordance with the regulatory changes due to the XV update of Circular 263, envisaging for MPSCS a model focused on risk control.

The relevant resolution had already been approved on 6 August 2014 by the Board of Directors of MPSCS.

During 2015 the following were defined:
- Timing, methods and contents of the periodic reporting provided by the Parent Company to the subsidiary MPSCS on the subject of risk management; this information was illustrated by the manager of the Parent Company's Risk Management Unit to the Company's Board of Directors on 12 June 2015;
- The appointment, starting from 13 July 2015, of Mr Franco Rossi, manager of the Company's Compliance Unit, as local Contact Point for the Risk Management activity.

The Board of Statutory Auditors, pursuant to the regulatory provisions, proceeded to assess in depth the adequacy of this appointment and gave its grounded favourable opinion to the Company's Board of Directors.

The Board of Statutory Auditors interacted during the year with the local Contact Point for Risk to receive updates in the risk themes related to MPSCS, included in the implementation of the Parent Company's "Execution Masterplan Gap 263". In this regard, the quarterly reporting came into force; this reports the trend in the main risk categories in the exposure required by the supervisory authority, and includes also the assessment of the most important lending operations in the stage preceding disbursement.

The Risk Control Unit informed the Board that the Bank, together with the Parent Company, had finalised specific Service Level Agreements, which also defined the opportune metrics and reference values to enable pertinent oversight on the effectiveness of the monitoring of the risks to which the Bank is exposed.

Outsourcing of departments and activities

The Board of Statutory Auditors can remind you that the Company has outsourced to the Parent Company, or to third parties through the same, a series of services and activities.
During 2015, under the aegis of the Parent Company, MPS Capital Services entirely reviewed and updated the Group Product and Services Catalogue, for the parts with which it is involved.
Subsequently, again in agreement with the Parent Company, the Bank prepared an update plan on the basis of which new contracts were also formalised.

At the end of 2015, the situation of the outsourced functions and activities, within the Banking Group or to third parties, is the following:
- **Information System - ICT** : architecture, logic security, HW and SW development and maintenance, telecommunication and telephone services, workstations, disaster recovery, user support.
- **Credit Recovery (dispute handling)**: management of non-performing loans, management of legal disputes and bankruptcies.
- **Property Management**: logistics and property management;
- **Various services, such as**: advertising and public image, internal and external communications, knowledge management and training, ALM - medium/long-term funding, bank product management, monitoring of significant risks, counterparty rating, group costs and purchases, supervision and production of supervisory reports.
- **Risk Management**: Risk Control (Operational, Market, Liquidity, Credit Risks and risk integration), Risk Plan,

Reporting;
- **Internal Validation** : Validation of the SRI (AIRB-SRI) internal rating system and of the operational risk measurement (AMA) system, Validation Plan, Reporting;
- **Back Office Services**: collections and payments, network operations, finance, administrative and credit services, corporate and accounting services, auxiliary services, and help desks.
- **Implementation, maintenance and disbursement of the DDT market**, through proprietary List software infrastructure.

For some of the outsourced activities/functions the following improvement instruments of the performance control levels are being completed:

- the SLA/OLA specification aimed at defining the expected service levels;
- definition of the information flows exchanged between the parties (disburser/receiver);
- activation of specific governance tools.

The Organisation unit, which has the task of overseeing the adequate performance of the outsourced activities, illustrated to the Board of Directors, at its meeting on 24 February 2016, the supervision work carried out on the subject of outsourced activities, with an indication of the contractual forms completed and to be completed.
The Board of Auditors will work to verify that the implementation of the remaining actions, including the definition and contractual conclusion, happens according to the plan prepared by your Bank.

Organisation and Control Model pursuant to Italian Legislative Decree 231/01
Some time ago, the Company adopted the Organisation, Management and Control model, pursuant to Italian Legislative Decree 231/2001, prepared in accordance with the ABI guidelines and in accordance with the instructions provided by the Parent Company.

The current Oversight Committee pursuant to Italian Legislative Decree 231/2001 has been in office since 30 June 2014.

During 2015 the new version of the 231 Model was approved, at the meeting of the BoD of 27 February 2015, together with the new Regulation of the 231 Oversight Committee (4 March 2015).

The 231 Oversight Committee has regularly reported, every six months, to the Board of Directors on the activity carried out by the same.

Implementing the provisions of Art. 8.8 of the Regulation of the said 231 Oversight Committee, the Chairperson of the Board of Statutory Auditors and the Coordinator of the 231 Oversight Committee agreed meetings aimed at reciprocal exchange of all useful information on their respective activities and initiatives on matters of common interest. The provisions of Art. 8.10 of the Regulation of the 231 Oversight Committee were also observed. These regard the transmission to the Board of Auditors of the minutes of the Committee meetings, after they have been approved.
From the information acquired through communication with the Oversight Committee, no elements arose which the Board must communicate to the Shareholders’ Meeting.

2. MONITORING AND ADEQUACY OF THE REGULATORY CAPITAL

The Board of Statutory Auditors reminds you that the Company has adopted, to measure the economic capital absorbed, the models developed internally by the Parent Company based on the Value at Risk approach, described in the report on operations.

The Parent Company, to which the Bank has outsourced the validation activity, carries out periodic checks on the adequacy of the models used[2] and prepares on a quarterly basis the supervisory reports, including the statements of capital absorption and verification of the adequacy levels.

The Board of Statutory Auditors monitored the preparation of the Company's reporting on the capital, and verified that the Board of Directors had adopted the measures necessary to keep the regulatory capital in compliance with the capital ratios required.

Operations to strengthen the capital

As regards the regulatory capital we must remind you that, as a result of the loss for the year to 31 December 2014, the Bank had recorded a reduction in equity with significant effects also for the purposes of the regulatory requirements.
In order to provide the Bank with the resources necessary to reinstate the Regulatory Capital, the Shareholders' Meeting of 13 April 2015 resolved a capital increase of up to a maximum of € 900 million (including the share premium) for which the Parent Company assumed the commitment to subscribe the part it was responsible for and paid the Issuer € 899,281 thousand, as an advance contribution for the future capital increase.

Subsequently, and on the basis of further indications received from the Bank of Italy and the ECB, the Shareholders' Meeting of 16 September 2015 resolved to proceed with the share capital increase for a total maximum amount of € 1,200 million (including the share premium), in place of the one previously resolved. This new amount was considered capable of guaranteeing observance of the regulatory limits, also considering the growing impacts of the phase-in provided for by Basel 3, and of enabling the maintenance of an adequate buffer to cover potential adverse trends, at the moment unforeseeable, which might emerge in the coming years.

On 1 December 2015 the Parent Company proceeded to make the payment of its proportion (99.921%) of the further approximately € 300 million (€ 299,760 thousand) as an advance contribution for the future capital increase.

The capital increase process was then completed with full subscription in February 2016.

As illustrated in the report on operations, the Bank's share capital is held almost all by Banca Monte dei Paschi di Siena (99.921%) and, with insignificant stakes, by natural persons, other companies and public bodies. In the event of non-subscription of the capital increase by these categories of shareholders, the Parent Company guaranteed, and made, the subscription and payment of the amount unopted.

For situations of sale of MPS Capital Services shares under the terms of Italian Law No. 147 of 27 December 2013 (2014 Stability Law) by public bodies, the Bank arranged for valuation to be done of the sale price to be paid to the shareholders with the methods provided for in Art. 2437-ter of the Italian Civil Code referred to in the aforementioned stability law. The sale price (or liquidation value) was verified by the auditing firm and by this Board of Auditors.

3. SUPERVISION OF THE ADMINISTRATIVE ACCOUNTING SYSTEM AND THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

The Bank, in the preparation of the financial statements at 31 December 2015, applied the international IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the associated interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union and subject to obligatory application in the financial year.

The financial statements at 31 December 2015, and the associated attachments, were prepared on the basis of Bank of Italy Circular No. 262 of 22 December 2005, amended by the fourth update of 15 December 2015. As an annex to the Notes, the Annual Report at 31 December 2015 related to the MPS Capital Services Banca per le Imprese SPA Pension Fund is provided.

The financial statements were submitted for legal auditing by Reconta Ernst & Young S.p.A., which on 10 March 2016 issued its report; this and the work done by the auditing firm, as far as the Board of Statutory Auditors is responsible, is described below in the present report.

As regards the supervision of your Bank's administrative accounting system, the Board acted to determine its adequacy based on interventions of the Internal Audit unit, discussions and inspections carried out directly and through exchanges of information with the auditing firm.

The Board of Statutory Auditors also held frequent meetings with the Financial Reporting Manager. On these occasions, the said Manager did not report any shortcomings in the operating and control processes which, owing to their significance, could affect the judgement of effectiveness and efficiency of the administrative structures and of adequacy and effective application of the administrative and accounting procedures.

The organisational processes are therefore capable of ensuring the correct presentation of the Bank's economic and financial situation and capital and conformity with the IAS/IFRS international accounting standards and the reliability of the content of the Report on Operations.

Regarding Joint Document No. 2 of 6 February 2009 (and subsequent updates), issued by the Bank of Italy, Consob and IVASS regarding application of the IAS/IFRS, this Board notes that the Financial Statement, the Report on Operations and the Notes to the Statements were prepared with the assumption of the business being an "ongoing concern", in the light, also, of the capital strengthening process launched during 2015 and which was brought to completion on 16 February 2016.

Financial statements Auditing and Certification firm

The auditing firm Reconta Ernst & Young received the appointment to audit the accounts for the financial years from 2014 to 2022 from the Shareholders' Meeting of 28 April 2014, following the proposal formulated by this Board of Statutory Auditors under the terms of Italian Legislative Decree 39/2010.

The same firm sent its report certifying the Bank's financial statements at 31 December 2015, dated 10 March 2016, without any objections and judged the same to be prepared with clarity, and able to truly and correctly represent the equity, the financial situation, the economic result and the cash flows of MPS Capital Services S.p.A. at 31 December 2015.

This Board acknowledged that the auditing firm included in its certification, in paragraph 4, a reference to the

disclosure reported below:
"*Attention is called to what is described in the director's illustrative notes on the subject of the capital shortfall for regulatory purposes present at 31 December 2015 and already evident with the financial statements for the year ended 31 December 2014, and the status of the capital strengthening actions resolved. In particular on 16 February 2016 the capital increase, resolved by the Extraordinary Shareholders' Meeting of 16 September 2015, was completed. This will, according to the indications, make it possible to meet the capital requirements for regulatory purposes ensuring at the same time the maintenance of a capital buffer in the prospect of the growing impacts provided for in the supervisory regulations. Our judgement does not contain objections with reference to this aspect.*"

The Board also notes that the auditing firm included in its certification its judgement of coherence between the report on operations and the financial statements and carried out the procedures as indicated in auditing standard No. 001 as issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Accountants and Auditors Council), recommended by Consob.

During the year the Board of Statutory Auditors met several times with the auditing firm for the necessary exchange of information and in particular on the performance of the activity of legal auditing of the accounts.

No notifications were received from the auditing firm regarding facts considered worthy of objection identified during the execution of the activity of legal auditing of the accounts.
The Board of Statutory Auditors makes known that it has not encountered the presence of critical aspects in relation to possession of the independence requirements on the part of the auditing firm and that it has received confirmation in this sense from the same auditors under the terms of Art. 17, paragraph 9, letter a) of Italian Legislative Decree 39/10.

The auditing firm issued its "opinion on the liquidation value of the shares" pursuant to Art. 2743-ter of the Italian Civil Code, requested also from the Board of Statutory Auditors, as described above.

The fees paid to the auditing firm for performing the legal auditing of the accounts amounted to a total of € 197 thousand, of which € 15 thousand for the six-monthly certification necessary for presentation of the prospectus for the share capital increase. The firm then carried out further activity which entailed fees for € 95 thousand, of which € 55 thousand for audits related to the aforementioned prospectus and € 35 thousand for the issue of an opinion on the liquidation value of the shares as stated above.

This Board specifies that the company Ernst & Young Financial Business Advisors, associated with the auditing firm Reconta Ernst & Young, was given a consultancy appointment for the performance of which the Bank paid a fee, net of VAT, of € 34 thousand. This appointment, as declared by the said auditing firm, is not related to activities incompatible with the performance of independent auditing under the terms of the provisions of Art.17 of Italian Legislative Decree 39/2010.

4. OTHER AUDITING ACTIVITY AND CERTIFICATIONS

Members of the Board of Directors
The current Board of Directors, appointed by the Shareholders' Meeting of 28 April 2014, will remain in office until approval of the financial statements for the year to 31 December 2016. During the year the director Mr Giuseppe Menzi resigned and subsequently the Shareholders' Meeting of 16 September 2015 appointed the new director Mr

Arturo Betunio.
This Board acted to carry out an independent verification regarding the proper application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members.

Transactions with related parties, associated subjects, obligations of bank representatives

The Board of Directors of MPSCS with a resolution of 17 December 2014 set up within it the Related Parties Committee, made up of three Directors in possession of the requirements of independence referred to in Article 12 of the Articles of Association. Subsequently, on 27 February 2015 the Regulation of the Related Parties Committee was approved.

As on the occasion of the annual check on the requirements for financial year 2015, only two directors were found to be in possession of the requirements of independence pursuant to Article 12 of the Articles of Association, a number not sufficient for the establishment of a Committee, with a resolution of 14 October 2015 the Board of Directors entrusted jointly to the two Independent Directors of MPSCS, Rita Pelagotti and Paola Demartini, the tasks and functions already assigned to the Related Parties Committee.

The Independent Directors carried out the activity needed to verify the adequacy of the qualitative and quantitative composition with respect to the criteria for optimal composition previously set by the said Administrative Body.

Every quarter the Independent Directors informed the Board of Directors on the transactions with related parties and associated subjects carried out by the bank on the basis of the report sent by the Compliance Office and, most recently, by the Legal Office.

From the work done by the Independent Directors no situations and/or transactions have emerged that would be incompatible with the rules set on the matter by the Bank.

The Board of Auditors verified that the transactions completed with subjects that carry out administrative, management and control functions of the Bank were carried out in compliance with Art. 136 of the TUB and the Supervisory Instructions and are, in any case, the subject of a resolution approved unanimously by the administrative bodies and the Auditors, without prejudice to the obligations envisaged in Article 2391 of the Civil Code regarding the interests of the directors, which also were found to be regularly applied and observed.

Remuneration policy

The Board verified that the Board of Directors provided a report to the shareholders, at the Shareholders' Meeting held on 16 September 2015, regarding the remuneration policies adopted and their application for financial year 2014.

Self-assessment of the Board of Statutory Auditors

Bank of Italy Circular No. 285 of 17 December 2013, updated, on the subject of Corporate Governance, on 6 May 2014, indicates the "self-assessment process" of the strategic supervision, management and control bodies as an essential element of an effective governance system for the Bank. The Board of Auditors therefore adopted its own "Self-assessment Regulation" and performed the process, making use of the collaboration of an external consultant. On completion of the process the Board of Auditors therefore approved the "self-assessment report", sent to the Chairperson of the Board of Directors with a letter of 12 January 2016.

Self-assessment of the Board of Directors

The Board of Statutory Auditors acknowledged that the Board of Directors has also acted: *(i)* to approve the self-assessment regulation and *(ii)* to perform the related self-assessment process during the early months of 2016.

Opinions

The Board of Auditors periodically verified the opinions indicating congruence and compliance with the regulatory requirements for netting transactions of the exposure due to OTC derivatives operations. The collateral management agreements for derivatives operations are also presented to the Board periodically.

In addition, as mentioned above, during the year the Board of Auditors gave its opinions on the subject: *(i)* of adoption of the Policy on the subject of transactions with related parties, associated subjects, transactions with bank representatives; *(ii)* of the Annual Report on the status of Compliance for the year 2015 and of the Report on the activity carried out by the Unit responsible for Internal Auditing and assessment of the control system.

The Board of Auditors, as mentioned above, issued its opinion on the appointment of the local contact point at the Validation Unit and the Risk Management Unit, and also on the appointment of the new manager of the Internal Audit Unit, made on 24 February 2016.

Finally, the Board of Auditors was called upon to express itself on the subject of payment of a fee for members of the Related Parties Committee, maintained subsequently for the two Independent Directors.

Opinion on the liquidation of shares pursuant to Art. 2743-ter of the Italian Civil Code

As described above, the Board of Auditors issued a specific opinion on the value attributed to the shares to be liquidated to public body shareholders.

Other certifications

No complaints pursuant to Article 2408 of the Italian Civil Code, nor claims of any other kind, were made to the Board.

During all the activities performed and from the examination of the information obtained from the auditing firm, no omissions and/or irregularities or in any case significant facts, such as to require notification to the Oversight Committees or mention in this report, were found.

Conclusions

In conclusion, in view of what is described above and having no observations or proposals on the subject of the financial statements, the Board of Statutory Auditors has no objections to:

- the approval of the financial statements for the year to 31/12/2015, consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related changes in the reserves, the cash flow statement and the Notes to the Statements, as well as the associated annexes and the Report on Operations;
- the proposed allocation of the profits for the year as formulated by the Directors.

Finally, in consideration of the expiry of this corporate body, in inviting you to appoint a new Board of Statutory Auditors, the outgoing Auditors thank for the profitable collaboration the Chairperson of the Board of Directors, the Managing Director, the members of the Board of Directors, the General Manager, the managers of the Internal Audit, Compliance and Legal Units, particularly close to the function of the Board of Auditors, and all the Bank's management and structure.

Florence, 16 March 2016

THE BOARD OF AUDITORS

Mr Francesco Bonelli - Chairperson

Mr Federico Caputi - Regular auditor

Ms Daniela Moroni - Regular auditor

[2] The Models were updated to incorporate the Indications laid down in the new international Supervisory Regulations (the so-called "Basel 3").

SHAREHOLDERS' MEETING RESOLUTIONS

The ordinary shareholders' meeting, called and held on first convocation on 08 April 2016, has passed the following resolutions:

POINT 1 OF THE AGENDA
Approval of the 2015 Financial Statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the 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.

POINT 2 OF THE AGENDA
Allocation of the profit for the year as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2015

- to the legal reserve (5% of the total)	**Euro**	**305,010.10**
- to the statutory reserve required by art. 26 of the Articles of Association (5% of the total)	**Euro**	**305,010.10**
- to the extraordinary reserve	**Euro**	**5,490,181.88**
PROFIT FOR 2015	**Euro**	**6,100,202.08**

POINT 3 OF THE AGENDA
Provisions pursuant to articles 2359*bis* and 2357 of the Civil Code and article 132 of Italian Legislative Decree no. 58/98 and article 144*bis*, section 1, letters b) and c) of Consob regulation no. 11971/99 as amended; purchase of shares in the Parent Company Monte Dei Paschi di Siena S.p.A.

- to confer on the Board of Directors, for a maximum term of 18 months from the day following the Assembly, authorisation to purchase, exclusively on the market managed by Borsa Italiana S.p.A., up to a maximum number of 30,000,000 (thirty million) ordinary shares of Banca Monte dei Paschi di Siena S.p.A., in respect of the current brokerage procedures of the stock market.

POINT 4 OF THE AGENDA
Appointment of the Board of Auditors, due to termination of the mandate of the former members, composed of:

- GRAZIANO GALLO, Chairman
- WERTHER MONTANARI, Standing Auditor
- MARCO TURCHI, Standing Auditor (*)
- VITTORIO MARRONI, Alternate Auditor
- MARCO TANINI, Alternate Auditor

(*) Resignation as of 03 May 2016 with replacement by Alternative Auditor VITTORIO MARRONI

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