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

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2014

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2014

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Company Profile

Name	**MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A.** "Monte dei Paschi di Siena" banking Group
Year of incorporation	**1954** as Mediocredito Regionale della Toscana
Registered offices	**Florence** - Via Pancaldo 4 - 50127
General Management Offices	**Florence** - Via Panciatichi, 48 Telephone +39 055/2498.1 - Fax +39 055/240826 Website www.mpscapitalservices.it
Global Markets	**Siena** - Viale G. Mazzini 23 - 53100 Telephone +39 0577/294111 - Fax +39 0577/209100
Investment Banking Division	**Rome** - Via Salaria 231 (villino 2) - 00199 Telephone +39 06/42048325 - Fax +39 06/42016914
Market Coverage Units	**Milan** - Via Ippolito Rosellini 16 - 20124 Telephone +39 02/88891941-30 (e-channels, e-trade) Telephone +39 02/88891945/21/24 (Financial Institutions)
Representative offices	**Turin** - c/o Banca Monte dei Paschi di Siena - Via Mazzini 14/16 - 10123 Telephone +39 011/8155243 - Fax +39 055/240826 **Milan** - Via Santa Maria Segreta 5/b - 20123 Telephone +39 02/88233220 - Fax +39 02/88233233 **Padua** - c/o Banca Monte dei Paschi di Siena - Piazzetta Turati 17 - 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 +39 051-6486718 - Fax +39 051-2960284 **Perugia** - c/o Banca Monte dei Paschi di Siena Ponte San Giovanni (PG) - Via Manzoni - 06135 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 Telephone +39 06/67345313 - Fax +39 06/67345330 **Naples** - c/o Banca Monte dei Paschi di Siena - Via Cervantes de Savaedra 55 - 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 **Padua** - c/o Banca Monte dei Paschi di Siena - Piazzetta Turati 17

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairman	Mario SALVESTRONI
Vice-Chairman	Paola DEMARTINI
Managing Director	Sergio VICINANZA
Director	Angelo BARBARULO
Director	Gabriele BENI
Director	Valentini FANTI
Director	Angelo MARTINELLI
Director	Giuseppe MENZI
Director	Rita PELAGOTTI

BOARD OF AUDITORS

Chairman	Francesco BONELLI
Acting Auditor	Federico CAPUTI
Acting Auditor	Daniela MORONI
Substitute Auditor	Paolo BOCCI
Substitute Auditor	Vittorio MARRONI

MANAGEMENT

General Manager	Giorgio PERNICI
Assistant General Manager	Carmine MANCINI

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 Services Ltd.:

LONG-TERM DEBT RATING:	**B1**
SHORT-TERM DEBT RATING:	**Not Prime**
FINANCIAL STRENGTH RATING:	**E**

The MPSCS long-term debt rating level is linked to the rating assigned to the Parent Company Banca Monte dei Paschi di Siena and, more generally, has been affected by the difficult macro-economic situation in the Euro Zone. During 2014, the assessment of Moody's rating agency led to a further downgrade by a notch with respect to the previous year as a consequence of the results published by the ECB on the stress tests and on additional capital requirements highlighted at Group level. The rating is therefore to be considered constantly under observation.

Shareholding Structure

As of 31 December 2014, the Share Capital broke down as follows:

Shareholder	*Number of shares*	*Amount in Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	891,017,068	276,215,291	99.92%
I.N.A.I.L.	239,634	74,287	0.03%
Other shareholders	468,286	145,168	0.05%
Total	**891,724,988**	**276,434,746**	**100.00%**

REPORT ON OPERATIONS

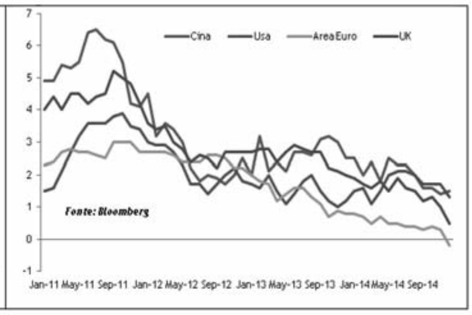
Reference Context

Once again in **2014**, the central banks' advocacy was the element which characterised the year. On the one hand the European Central Bank (ECB) and the Bank of Japan (BoJ) implemented more lenient monetary policies; on the other hand, the American Federal Reserve (Fed) terminated the QU plan (Quantitative Easing: plan for the purchase of assets by the central bank so as to create a monetary base and boost the economy).
The trend of the main assets was somewhat varied but the bond markets in Europe and the USA stand out due to the high performance (**Diagram 1**).

DIAGRAM 1: GERMANY AND USA 10-YEAR RATE

Germany USA
Source: Bloomberg

DIAGRAM 2: INFLATION



China USA Euro Zone UK
Source: Bloomberg

In the **USA**, the focus was on the start of tapering (gradual reduction in the asset purchase plan) which continued throughout the entire year, at a constant rate, and concluded in October. In the **Euro Zone**, the ECB - besides twice proceeding with a cut in the reference rate (from 0.5% to 0.05%) - also introduced a series of non-conventional measures aimed at tackling the risks of low inflation and boosting growth. Initially, during the June meeting, a series of long-term loan transactions was launched, entitled *Targeted Longer-Term Refinancing Operations* (TLTRO), with the purpose of inducing the banks to increase loans to the economy. In September, the Bank also launched a plan for the purchase of Asset Backed Securities (ABS) and covered bonds with the aim of increasing its financial statements, by the end of 2016, by €1,000 billion. The last meeting of the year saw an lengthy discussion within the board on the possible extension of the purchases also to other assets, including government securities.
In **Japan,** the BoJ also launched new relaxed policies, increasing the monetary base to Yen 80 billion, from the 60-70 billion established previously, mainly via an increase in the purchase of government securities. The move was probably dictated by the asset allocation change of the public employees' pension fund (GPIF, the largest in the world with the equivalent of around 1,200 billion dollars under management), with the choice of reducing to a significant extent the portion of assets invested in government securities in favour foreign assets and shares. The recessionary phase in which the country plunged led the government to postpone the VAT increase until 2016, having initially been envisaged for October 2015. The Prime Minister Abe, in conclusion, on 14 December called new elections which closed in favour of his party winning two third of the seats in the Lower House.

With regard to **macro-economic aspects**, 2014 should - according to the International Monetary Fund (IMF) - close with growth in GDP of 2.2% in the USA, in line with 2013, compared with 0.8% for the Euro Zone (from -0.4% in 2013). The best growth rate was in any event reported by Great Britain with GDP which, given the estimates of the IMF, rose 3.2% compared with 1.7% in 2013. With regard to inflation, the underlying trend was a slowdown in prices in all the main economies (**Diagram 2**), especially as from the second half of the year, in concurrence with the sharp drop in oil prices. At year end, for the first time in decades, the economic and political debate was focused on the risks associated with a possible deflationary scenario.

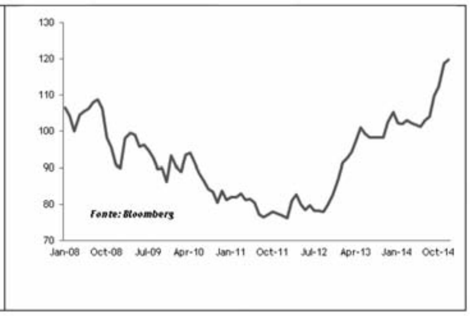
With **regard to interest rates** in the **Euro Zone**, the year was characterised by a more or less constant downwards trend in the rates which mainly affected the long-term section of the curve. The German 10-year rate fell abundantly under 1% (minimum at 0.53%), but new all-time lows were also reported by all the other 10-year rates in the area, with the exclusion of Greece. The manoeuvres of the ECB also permitted a marked reduction in the spreads which, subject to temporary periods of tension, were once again close to pre-crisis levels. In the **USA**, despite the tapering by the Fed, a drop was seen in the rates of the long-term section of the curve, essentially dictated by two factors: 1) somewhat weak inflation; 2) "pursuit" of returns by global investors in a context of low rates worldwide. The short-term part of the curve by contrast reported a marked rise, returning to 2011 levels, probably due to the wait for the first rise in the rates by the Fed. The result of this trend was an emphasised flattening of the curve with the 2-10 years rate spread down by around 100 bp when compared with the end of 2013.

With regard to **currency, 2014** saw a divergent trend between the first and second part of the year In the first six months, in fact, there was a tendentially weak trend for the **US dollar** vis-à-vis almost all the main currencies after the disappointing performance of the US economy in the first quarter of the year. The "emerging countries" share sector, in particular, benefited from a return in foreign investment flows. The **Euro/Dollar** exchange rate, in this context, pushed onwards to close to 1.40, while the sterling thrust forward to the highest since 2008 on the basis of growing expectations of a rise in the rates from as early as the first half of 2015. The second part of the year by contrast saw the Dollar in the limelight. The green bill started a period of marked appreciation vis-à-vis all the main global currencies which took the Dollar Index to the highest levels since 2009. With regard to the main cross rates, the reason underlying the appreciation of the dollar was without doubt the divergence in the monetary policy decisions among the central banks. The **Euro/Dollar** exchange rate (**Diagram 3**) in fact started it decline from 1.40 to 1.22 when the ECB indicated its intention to reduce the rates and launch new unconventional measures, while the Fed continued with the process for reducing QE. The **Yen** (**Diagram 4**) by contrast started its downwards slide towards the end of the Summer in concurrence with the governments' decision to change the investment policy of the state pension fund. The cross rate vis-à-vis the dollar was thus brought to over 120, the maximum level for more than 7 years. In this phase, the greatest weakness concerned the "emerging countries" share segment and that of commodity currencies, the latter penalised by the drop in oil.

DIAGRAM 3:
EURO/DOLLAR EXCHANGE RATE

Source : Bloomberg

DIAGRAM 4:
DOLLAR/YEN EXCHANGE RATE



Source: Bloomberg

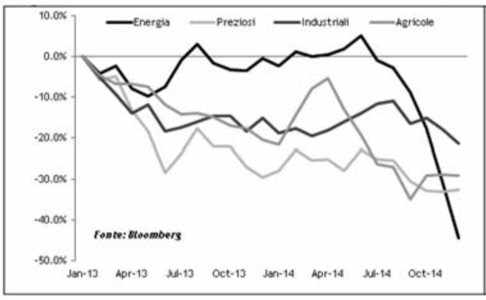
2014 for the **emerging countries area** was characterised by a period of slowdown in growth which mainly affected Russia (nil growth) and Brazil (in recession). The marked depreciation of the currencies also brought inflationary boosts, forcing certain central banks, in particular the Brazilian and Russian ones, to adopt restrictive monetary policies.

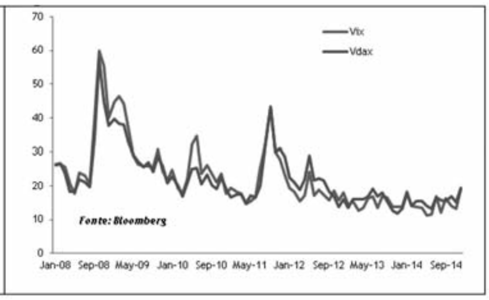
During 2014, a slowdown in the economy in **China** continued (according to the IMF, expected GDP growth stood at +7.4%, from 7.7% in 2013) mainly caused by a cooling down of the real estate market. The start of the year in particular was characterised by fears concerning the possible collapse in the prices of certain products attributable to so-called shadow banking, or rather that series of loan activities and/or investment products placed by non-banking vehicles. These fears ceased during the year partly thanks to the Central Bank which intervened with measures aimed at maintaining a suitable level of liquidity on the market, until the decision in November to cut the rates for the first time since 2012.

With regard to **raw materials,** the S&P GSCI Excess Return index closed 2014 with a loss of more than 30%, the worst since the crisis in 1998. All the sector related indexes reported a negative performance, but the drop was almost entirely attributable to the collapse in energy prices (**Diagram 5**). After an initial period of the year somewhat stable, despite the various geo-political tensions, the price of crude during the Summer started a period of sharp decline which took Brent prices from 115 dollars a barrel to under 60, with a loss of almost 50% in six months. The reasons underlying this change were both fundamental (global surplus and might of the dollar) and geopolitical with a genuine war on prices between OPEC and the Shale Oil industry, with repercussions on Russia which worsened the effects of the Western sanctions on the country.

DIAGRAM 5: S&P GSCI EXCESS RETURN INDEX (SECTORS)

DIAGRAM 6: VIX VS. VDAX





Energy
Valuables
Industrial
Agricultural
Source: Bloomberg

Source: Bloomberg

With regard to the **stock markets,** 2014 was a year characterised by a certain selectivity between the various geographic areas, but overall performances of a much more contained entity were registered when compared with 2013. At the top of the global share lists is the Chinese Shanghai Composite index, up by more than 40% in local currency, with a majority of the profits in the last two months of the year. The performance is attributable to an expansive policy of the Central Bank, but above all else to the launch of a trading platform between the Shanghai and Hong Kong markets which increases the possibility for foreign investors to access the Chinese market. Within the area of the emerging countries, a sharp rise was seen in the Indian and Turkish stock markets (in local currency, over 20%), while the Brazilian and Russian markets were down slightly (even if to a slight extent if compared to the depreciation of the respective currencies). In Europe, the year ended with fairly modest rises even if many of the main share lists in the first half of the year presented performance higher than 10%. In the Euro Zone, the Eurostoxx50 closed the year up slightly compared with a +0.23% in the FTSEMIB index and +3.6% in the Spanish IBEX35. In the USA, by contrast, the sixth consecutive positive year concluded for the main indexes supported by the positive quarterly accounts and the strong flow of buy-backs and dividends. The S&P500 index for example closed the year up by 11.4%.

In conclusion, with regard to the **volatility on the share indexes**, on average 2014 reported values more or less in line with 2013, both in Europe and the USA. The German VDAX volatility index reported an average value of 15.62% in 2014, compared with an average value of 15.3% in 2013. The US VIX index on average reported a value of 14.2%, from 14.3% in 2013. During 2014, the VIX index reached the highest point since 2011, with a maximum value of 31% in October. The VDAX index rose to the lowest point since 2012, reaching a maximum of 24% in June (**Diagram 6**).

Significant Aspects of Operations

The "Business Units" (hereafter BU), unchanged with respect to the previous year and on which the pursuit and operational monitoring of the processes fixed in the business plan are structured, include:

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

With regard to the "**Ordinary Finance**" BU, the stipulations were higher than envisaged in the budget (+10.9%), while the disbursements target was not achieved, disclosing -5.8% with respect to the budget.

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2014*	*Budget as at 31/12/2014*	*Percent deviation*
Stipulated transactions	117.6	106.0	10.9%
Issued loans	188.5	200.0	(5.8%)

With regard to the ***Low Interest Financing*** segment, the Bank continued to carry out its operations as "operator" on behalf of the Ministry for Economic Development (MiSE) and the Ministry for Education, Universities and Research (MIUR), relating to the main public incentives for research and industrialisation.

In this connection, mention is made in particular of the following during the year:
- the performance of the activities relating to the following MIUR Tenders, which overall involved more than 200 proponents from among private parties and Public Research Bodies (EPR):
  - National Smart Cities;
  - Start-up;
  - *PON new Districts;*
- the activities for the handling of research and development projects relating to the so-called FIT "negotiation procedure", intended for initiatives of a significant size (more than €250 million overall) as well as that relating to facilitated projects on PON and Reach tenders;
- the launch of the procedure for issuing the adjustment and balance settlement documents (ALSC) for the purpose of the final conclusion of the concession procedures pursuant to Italian Law No. 488/92.

During the last quarter, the service was also launched for handling the research aid for the Sustainable Growth Fund, pertaining to MiSE, entrusted under concession for 5 years to a Temporary Joint Venture with Banca del Mezzogiorno-MCC as Representative and, together with other, MPSCS as Principal; the preliminary activities are currently underway for 27 projects presented by Businesses and Public Research Bodies (EPR) availing of the Horizon 2020 Tender which expired on 27 October 2014.

In conclusion, activities continued in relation to the Guarantee Fund for SMEs, which mainly saw us involved in promotional and development activities for the low interest instrument.

The activities of the **"Corporate Finance"** BU were affected - as already happened in previous years - by the considerable difficulties in the macro-economic context, both Italian and continental, which led to the reduction of the investment capacities of the businesses, especially with regard to the initiatives involving considerable amounts.

The financial products of the Corporate Finance BU (Project Financing, Acquisition, Object Finance, etc), were those which felt the crisis the most, meaning that the disbursements during the year came to levels nearly 30% lower than the targets. It was a different matter, by contrast, to stipulations which exceeded the targets by more than 11% bearing further witness to the difficulty of the initiatives attributable to the structure finance to be completely achieved.

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2014*	*Budget as at 31/12/2014*	*Percent deviation*
Stipulated transactions	333.8	300.0	11.3%
Issued loans	210.4	300.0	(29.9%)

A summary of the activities carried out by the individual segments follows.

- **Project Financing** - During 2014, the focus of operations was maintained in the sectors of infrastructures, utilities and renewable energy with the acquisition of six new financial assistance mandates for the structuring / organisation of loan transactions, the financial close of four operations and the continuation of the activities for the asseveration of economic-financial plans of companies mainly operating in the infrastructures and renewable energies sectors.
  The main transactions finalised during the year, in relation to which MPSCS covered the role of Mandated Lead Arranger (MLA), include the following:
    - the loan transaction relating to the construction and future management under concession for 30 years of Line 4 of the Milan Underground using driverless technology, 15km long with 21 stations from Linate to San Cristoforo FS, involving a pool loan for a total of €516.5 million (our share €49.8 million) concluded, due to the importance of the project, between 6 leading Italian/international banks (with Unicredit, BNP, BancaIMi, Natixis and Credit Agricole) and CDP with partial intermediate funding from EIB and CDP;
    - the pool loan transaction, with Banca IMI and CDP (with funding for the two commercial banks issued in full by CDP), for a total of €166 million (our portion €38 million) intended to support the work for the construction of Lines 2 and 3 and the management of the entire new tram system (Lines 1, 2 and 3) on rails in Florence.

- **Real Estate** - The sector was characterised by a reduction in investments, also the consequence of the negative economic situation in Italy. The finalisation during 2014 of the following transactions also took place:
    - pool loan for a total of €163.5 million (our share €25.5 million) structured between five leading Italian banks (with BancaIMI, Unicredit, Ubibanca and BPM) to refinance the considerable real estate assets of the Intesa SanPaolo Group held by a closed-end real estate property fund and administered by an asset management company;
    - pool loans with BancaImi, UbiBanca, BNL, Banca Popolare di Milano and Banco Popolare for a total of €193.5 million (our share €18.8 million) to support the requalification of a part of the former FIAT - Alfa Romeo industrial area in Arese/Lainate (MI), involving the construction of a shopping centre, by a leading Italian group in the retail chain sector.

- **Structured & Shipping Finance -** During 2014, MPSCS continued with structuring and organisation activities for Structured Finance transactions, focusing on the renewable energy, utilities and infrastructure sectors. The main transactions finalised during the year included:
    - a pool transaction for a total of €48 million in favour of a water operator in Tuscany which saw the intervention of MPSCS in the capacity of arranger with BMPS and other lending banks;
    - a loan transaction for a total of €18 million in favour of a holding company operating in the energy from renewable sources sector to support the various projects the same is involved in;
    - two loan transactions for a total of €39 million to support a project in the biomass sector in Puglia in favour of leading operators.

With regard to Shipping Finance activities, in 2014 MPSCS took part in a cash pooling transaction in favour of a leading Italian shipping company. An endorsement pool transaction was also structured and organised in favour of a leading Italian shipyard and activities continued for the structuring of an endorsement pool transaction relating to a contract in the shipbuilding sector.

- **Syndication** - During 2014, two pool transactions were structured, one of which relates to an important requalification project in the hotel/tourism sector to be achieved in Sicily by a foreign investor. This loan, to be placed on the primary syndication market, represents the senior phase of a bridge transaction for €24 million disbursed by MPSCS in August 2014.
  With regard to arranging activities, carried out on behalf of the Parent Company, during 2014 a pool transaction was placed on the market in favour of Fileni SpA (third Italian player in the sector for the production, processing and transformation of poultry products) and a loan was structured (already resolved by the Parent Company for €50 million) to support a real estate project concerning the construction of a shopping mall just outside Verona. At present, negotiations are at an advanced stage with the customer for agreeing on the transactions and acquiring the syndication mandate.

- **Acquisition Financing -** During 2014, MPSCS confirmed its competitive positioning in acquisition/leveraged financing activities in the Mid Corporate segment for transactions distinguished by heavy industrial features, with important commercial repercussions for the MPS Group.
  MPSCS in fact continued the origination and structuring activities for acquisition transactions supporting counterparties of primary standing, focusing on industrial mergers realised by corporate operators and also maintaining a heavy coverage of the leverage market.
  The main transactions organised during the year covering the role of MLA include:
    - the acquisition of Forno d'Asolo - production and marketing of frozen baked pastry products - by the private equity operator 21 Investimenti (LBO);
    - the acquisition of Remazel Engineering - development, construction and marketing of equipment and components for the petrochemical industry (offshore) - by Alpha Private Equity (LBO);
    - acquisition of Officine Meccaniche Villa & Bonaldi by Brembana & Rolle - design and construction of large pressurised recipients, heat exchangers, reactors, units for heat recovery boilers for industry - company already in the portfolio of Xenon Private Equity (Corporate Acquisition).

- With regard to the **"Global Markets"** BU during 2014, specifically in the first part of the year, the trend of a reduction in the risk continued, having started back in 2013, containing the positions directed at improvement of the financial scenario at minimum levels (therefore increase in share prices and tightening of spreads). In certain periods, further to tactical decisions, some desks increased the risk undertakings such as for example in concurrence with auctions of Government securities or in the last quarter when a slight inversion in the trend was seen thanks to operations which favoured in particular the US markets; in that predicament, the tactical positioning focused on a deterioration in the risk appetite of the investors especially in October and December.
  The main revenue drivers were in any event linked to investment products sold on the web, in particular those linked to bankassurance, as well as structured securities or in US dollars which were particularly appreciated by the retail customer base. Mention is made of the continuation of the satisfactory trend of penetration of the "investment certificate" type structured products.
  During the year, a slight improvement was seen in the trend linked to hedges in derivatives for SMR customers above all else on exchange rates, interest rates and commodities thanks to the recovered volatility of the respective markets.
  During the first quarter of 2014, the agreements entered into towards the end of the previous year with Merrill Lynch International became operative, for the supply of clearing services for Exchange Traded Derivatives, replacing the

traditional partner Barclays.
In conclusion, mention should be made of the closure of the residual litigation with Lehman Brothers Special Financing Inc. for the derivatives outstanding at the time of the default in 2008 by means of legal mediation finalised in March 2014 (for additional information please see the note at the bottom of the table in Liability section 12, part B of the Explanatory Notes.

- With regard to the **Investment Banking** activities, it should be noted that within the sphere of the Capital Markets and Syndication, during 2014, MPSCS covered the role of Lead Manager in a Senior Unsecured 5-year issue and in two covered bond issues (7 and 10-year) of Banca MPS, which represented a return to the international markets by the Parent Company. It also acted as Dealer in relation to the placement of 6 Guaranteed Bank Bonds, for a total of €2.6 billion, issued by the Parent Company and aimed at the improvement of the Group's counterbalance capacity.

- Within the sphere of operations with the **Ministry of the Economy and Finance**, the first half was characterised by participation as Lead Manager in the 15-year syndicated BTP (long-term treasury bond) and as Co-Lead Manager on the 10-year syndicated BTP, while during the fourth quarter of 2014 the BU executed the mandate from the Treasury to operate as dealer in the seventh issue of the Italy BTP, which reached a total amount of more than €7.5 billion. The activities took on the form of support in the drafting of the documental apparatus, the general structuring of the deal and the definition of the overall execution of the transaction, with particular reference to the time-to-market and pricing of the new product.

- With regard to the **bond market,** mention is made in conclusion of the participation as Co-Lead Manager in the senior issues of Mediobanca and Unicredit, both with a 3-year maturity, and a covered bond issue by Crédit Agricole Home Loan SFH.
  During the first quarter of the year, the Investment Banking BU of MPSCS also acted in the capacity of Co-Bookrunner within the sphere of the placement of a convertible bond for €80 million by Maire Tecnimont, while in the last quarter it acted as Arranger for issues in minibonds for a total of €20 million by SME customers for the Montepaschi Group, subscribed by the Minibond PMI Italia Fund.

- On the **share** front, MPSCS took part:
  - as guarantor of the IPO of Cerved, Fineco and Rai Way, also acting as placer via the Parent Company;
  - as Joint Lead Manager for the institutional placement of the Fincantieri IPO and as Co-Lead Manager for the Anima Holding IPO, taking part in both the transactions also in the placement of the related public offerings via the Parent Company.

  In 2014, MPSCS continued its activities as Nominated Advisor on the Borsa Italiana AIM Italia - MAC market, also acquiring a new mandate from Società Poligrafici Printing.

- With reference to ***advisory*** activities, during 2014 MPSCS continued with the mandates as Financial Advisor (i) of the Parent Company MPS in the transaction for the disposal of the portfolio of private equity funds and (ii) International Investment Trust with regard to investments relating to the Minibond PMI Italia Fund. Furthermore, it acted in the capacity of Financial Advisor of the Board of Directors of Meridiana SpA for the drafting of the Fairness Opinion regarding the suitability of the amounts for the total voluntary offering on ordinary Meridiana SpA shares, furthered by Arly Holding SA. In conclusion, during the second quarter of the year a financial assistance and advisory appointment was granted to MPSCS by a leading Italian player active in the Oil&Gas and Energy sectors, concerning the sale of the equity investment held in a company active in the generation of energy from renewable sources.

In conclusion, activities continued and were completed as envisaged in the capacity of Party Responsible for Placement of the Socrate Real Estate Fund, in relation to the re-opening of the sixth and last subscription and reimbursement window.

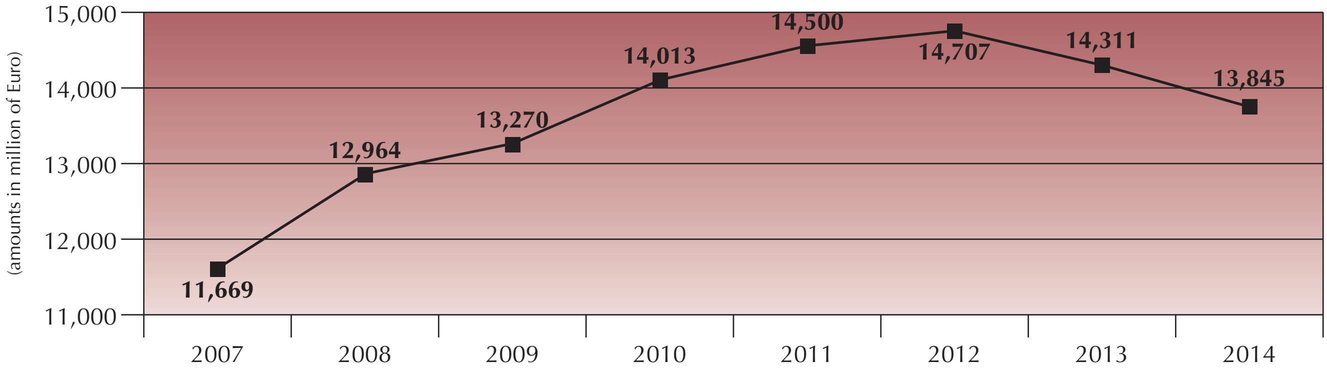
- From a **commercial** standpoint, during 2014 MPSCS supported its customers, represented by Italian medium-to-small sized banks, in the analysis of the opportunities offered by the TLTRO transactions announced last July by the ECB; furthermore, it worked together with the Strategic marketing and corporate products division of the Parent Company for the creation of a campaign care of the Regional Investment Trusts for the optimum use of the regional resources dedicated to SME.

Credit Aggregates

LOANS TO CUSTOMERS

Loans to customers, calculated according to management criteria, as at 31 December 2014 amounted to € 13,845 million, versus € 14,311 million in the previous year (-3.26% on an annual basis).

EVOLUTION OF OVERALL LOANS
("Management view")



Below is the reconciliation of the management data as at 31 December 2014 with the balance of the asset item 70 "Loans to customers". The reconciliation amounts, expressed in € millions, derive from a different classification of the financial statement data with respect to the management disclosure:

BALANCING BETWEEN "MANAGEMENT" VIEW AND FINANCIAL STATEMENT FIGURES

(amounts in millions of Euro)

Management amount	**13,845**
Differentials on derivatives (1)	(19)
Operating receivables (2)	24
Prepayments, accruals and deferrals (3)	25
Collateral credits (4)	335
Valuation reserve on receivables (5)	(3,101)
Financial statement amount	**11,109**

(1) Receivables for differentials on derivatives past due and unpaid in the accounts reclassified under "Assets held for trading";
(2) Receivables deriving from "low interest" activities excluded operationally from "loans";
(3) Items operationally attributable to "non-interest bearing receivables and payables";
(4) Deposits for CASH collateral paid in, not linked to loan activities and operationally attributable to "global market" activities;
(5) Provisions adjusting receivables operationally reclassified under "other liabilities".

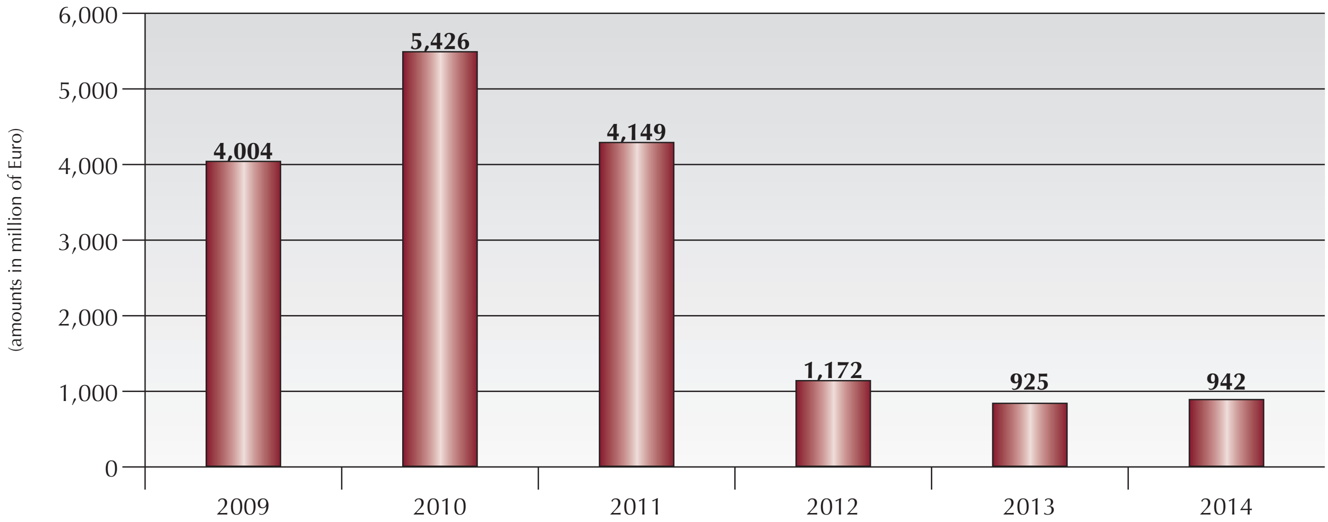
The table below analyzes commercial flows for 2014.

APPLICATIONS FOR FINANCING SUBMITTED

(amounts in millions of Euro)

	2014	*2013*	*Changes*	
			Absolute	*%*
Number	213	234	(21)	(9.0)
Amount	942	925	17	1.8

VOLUME OF APPLICATION FILED



Once again in relation to 2014, a macro-economic scenario persisted which not only failed to show the hoped for turnaround in the trend but rather started to disclose deflationary signs which without doubt do not depict positive prospects over the short-term.

The entire Euro Zone seems what is more to be incapable of expressing appreciable growth and also the German driving force instead of performing a driving function on the other nations in the Union, appears to have slowed down in turn forcing the analysts to review the growth estimates downwards for the coming months.

This scenario has given rise to essential immobility of the economy which has in fact blocked both demand for investment assets and that for consumables, pushing down to some of the lowest levels for many years.

These trends are unfortunately summarised in essential stability of the "submissions", which in any event stood as somewhat contained levels, along with "stipulations" which had difficulty in exceeding €450 million.

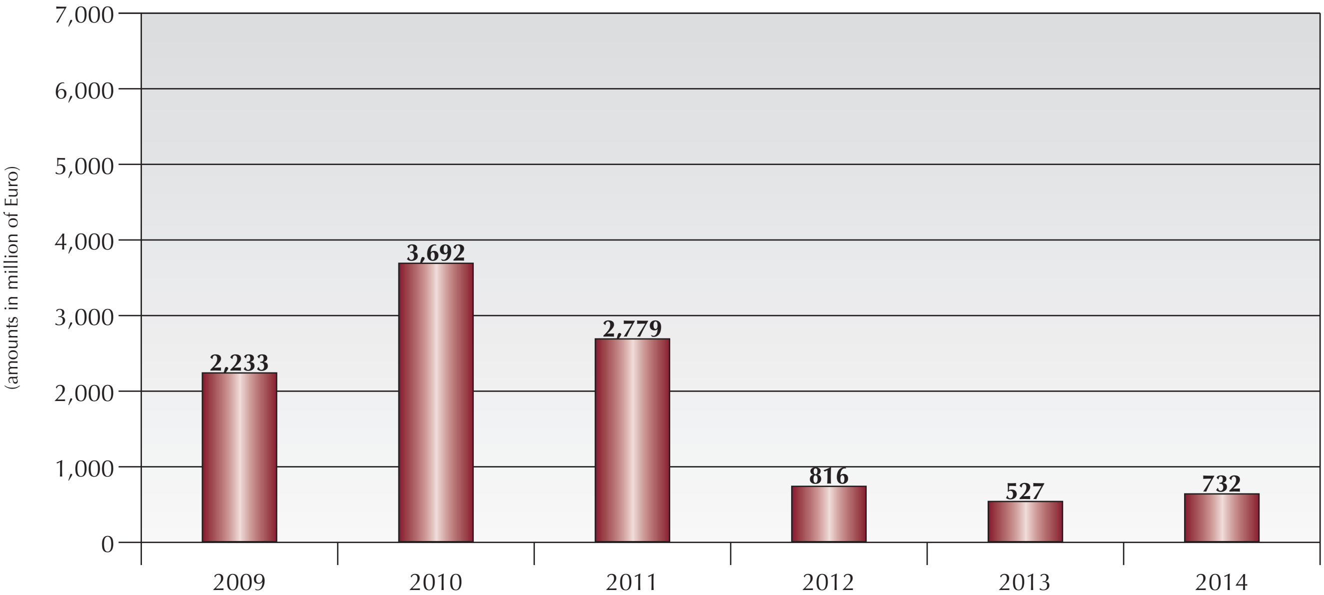
With regard to loans disbursed, by contrast, there was a somewhat marked drop in volumes which came to around €400 million, compared with around €700 in 2013, leading to a decrease which goes well beyond 40% (-42.3%).

LOANS GRANTED

(amounts in millions of Euro)

	2014	*2013*	*Changes*	
			Absolute	*%*
Number	185	187	(2)	(1.1)
Amount	732	527	205	38.9

TRANSACTIONS



RATIO OF LOANS GRANTED TO APPLICATIONS FILED

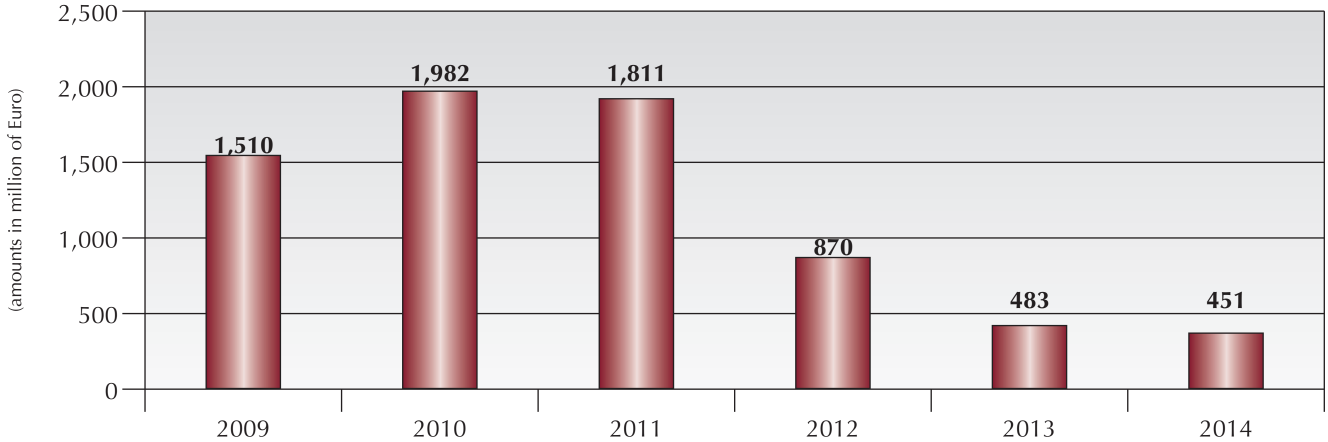
	2014	*2013*	*2012*	*2011*	*2010*
Number	86.9%	79.9%	82.2%	73.8%	69.1%
Amount	77.7%	57.0%	69.6%	67.0%	68.0%

AGREEMENTS ENTERED INTO

(amounts in millions of Euro)

	2014	*2013*	*Change*	
			Absolute	*%*
Number	188	202	(14)	(6.9)
Amount	451	483	(32)	(6.6)

TRANSACTIONS



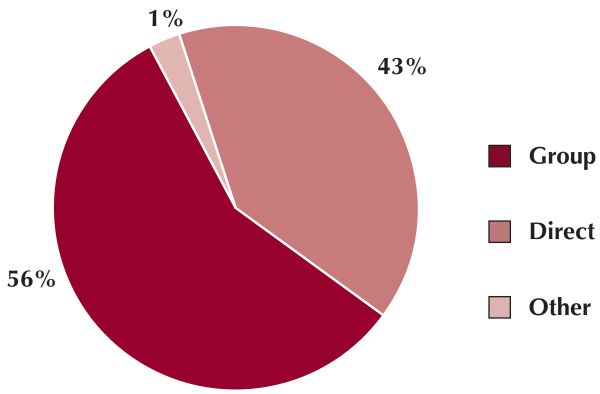
FINANCING DISBURSED

(amounts in millions of Euro)

	2014	*2013*	*Change*	
			Absolute	*%*
Number	426	602	(176)	(29.2)
Amount	399	691	(292)	(42.3)

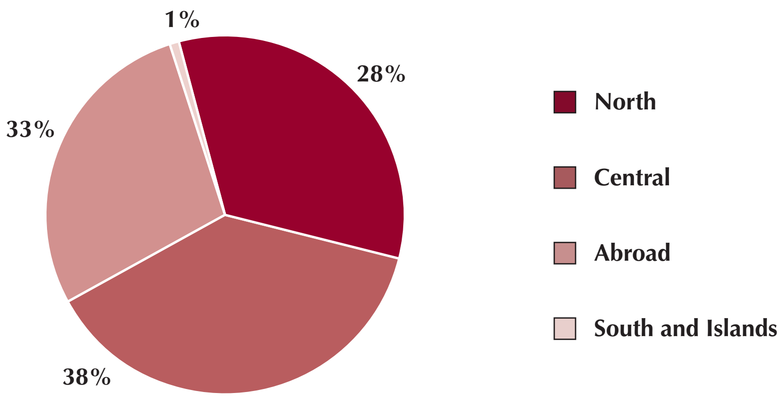
During the year, the Bank disbursed a total of €399 billion. In this connection, it is hereby revealed how the number of disbursements carried out still remained high, as a result of the by now traditional company policy, tending to favour financing in any event linked to future investments to be achieved, in compliance with precise implementation deadlines in turn established in production development plans. In such cases, therefore, financing is disbursed in several tranches, on the basis of the state of progress of the works being financed.

FINANCING DISBURSED 2014 - Breakdown by channel



With regard to the geographic distribution of the commercial flows, note how Central Italy has been the beneficiary of the majority of the sums disbursed with more than 38% of the total (compared with 27% last year) and how by contrast the portion for North Italy fluctuates, standing at 28% compared with 51% in 2013.
The percentage also rose to the prerogative of the South and the Islands (33% compared with 21% in 2013, in any event within the scenario of total diversification of the portfolio with a view-objective of maximum containment of the risks.

GEOGRAPHIC BREAKDOWN OF DISBURSEMENTS 2014



IMPAIRED ASSETS

In Autumn 2014, the ECB, undertaking the new supervisory role over the main European banks, requested that the accounting standards for the purpose of drafting the 2014 financial statements should take the impacts of the AQR attributable to the Credit File Review and the Collective Provisioning into due account.
The adjustments and reclassifications triggered by the process for up-dating the methods and parameters used in the classification and valuation of the receivables consequent to the AQR led to a review of the entire loan portfolio already in the 2014 financial statements.
These adjustments and reclassifications, which are non-recurrent in nature, qualify - as per IAS 8 (section 5) - as "estimation changes" since the basis for the measurement of said receivables has not changed: for additional information in this connection, please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

The tables below show the distribution of impaired assets as at 31 December 2014 by portfolio (amounts in thousands of Euro):

Cash exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	292			292
Due from banks				0
Loans to customers	7,715,443	(2,781,258)	(201,080)	4,733,105
Total	**7,715,735**	**(2,781,258)**	**(201,080)**	**4,733,397**

(*) These are mainly repurchases of bonds issued by the Lehman Group and securities issued by the Argentine Government

Off-balance sheet exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading	69,531	(69,531)		0
Guarantees given (*)	129,343	(14,040)	(820)	114,483
Commitments to disburse funds and other commitments	208,734			208,734
Total	**407,608**	**(83,571)**	**(820)**	**323,217**

(*) Performing exposures are subject to collective adjustments for a total of € 2,090 thousand.

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

Type of impaired assets - cash	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Flat-rate adjustments*	*Net exposure*
Non-performing	4,194,449	(1,878,882)	(210,664)		2,104,903
Watch-list	2,816,363	(524,855)	(68,269)	(144,330)	2,078,909
Restructured exposures	440,660	(81,072)	(16,754)	(20,700)	322,134
Exposures past due by over 90 days	264,263	(762)		(36,050)	227,451
Total (*)	**7,715,735**	**(2,485,571)**	**(295,687)**	**(201,080)**	**4,733,397**

(*) Performing loans are subject to analytical adjustments for default interest of € 404 thousand and flat-rate adjustment for € 96,144 thousand. Analytical write-downs amounted to € 2,781,662 thousand, while collective write-downs totalled € 297,224 thousand.

The balance of impaired cash assets, net of value adjustments and discounting, stands at €4,733 million; the increase compared to the amount as of 31 December 2013 (€4,324 million) is €409 million (+9.47%).
Non-performing exposures deriving from loans to customers and financial assets held for trading increased from €2,092 million as of 31 December 2013 to €2,105 million as of 31 December 2014, with an increase of €13 million (+0.62%). The average write-down of non-performing exposures came to 49.82% (41.94% as of 31 December 2013); the Bank's portfolio is mainly made up of mortgage-type exposures and the increase in the value adjustments is attributable to a policy aimed at increasing the coverage percentages and the desire to further strengthen the risk safeguards, given the non-encouraging current and future economic-financial scenario. Gross and net non-performing exposures represent 29.56% and 18.94%, respectively, of gross and net loans to customers (24.13% and 16.01% in 2013).

Watch-list loans increased from €1,052 million as of 31 December 2013 to €2,079 million as of 31 December 2014, disclosing an increase of €1,027 million (+97.59%).
The average write-down of watch-list loans came to 26.18% (15.70% as of 31 December 2013). Gross and net watch-list loans represent 19.85% and 18.71%, respectively, of gross and net loans to customers (8.36% and 8.05% in 2013).

Past due loans reported a decrease of €868 million as of 31 December 2013 to €227 million as of 31 December 2014, with a drop of €641 million (-73.78%). The reduction mainly depends on the classification of these loans as watch-list or non-performing. The average write-down of past due loans came to 13.93% (7.22% as of 31 December 2013). Gross and net past due loans represent 1.86% and 2.05%, respectively, of gross and net loans to customers (6.26% and 6.64% in 2013).

Restructured loans remained essentially stable passing from €312 million as of 31 December 2013 to €322 million as of 31 December 2014, with an increase of €10 million (+3.12%). The average write-down of restructured loans came to 26.90% (5.96% as of 31 December 2013). Gross and net restructured loans represent 3.11% and 2.90%, respectively, of gross and net loans to customers (2.23% and 2.39% in 2012).

In the presence of continual signs of deterioration in the related economic context and the increase reported in 2014 in past due and unpaid differentials, exposures which present elements of criticality with regard to recoverability, the bank adjusted the OTC derivatives with corporate customers (classified in Asset item 20 "Financial assets held for trading" for a total amount of €69.5 million compared with €41.3 million at the end of 2013).

With regard to the income statement, during the year, analytical value adjustments were recorded for €931 million; write-backs due to valuation amounted to €18.5 million, while those due to collection totalled €7.9 million. Discounting led to adjustments for €201.0 million, while the related write-backs totalled €31.7 million and the interest €87.3 million. Total collective write-downs increased by a total of €112.5 million (net of €10.1 million of utilisations), amounting to €298.0 million (of which: €144.3 million to cover watch-list loans without doubtful outcome; €36.1 million for exposures past due by over 90 days, €20.7 million in relation to restructured loans; €96.1 million to cover performing loans to customers and €0.8 million to cover performing loans to banks).
In percentage terms, flat-rate write-downs cover 2.09% of loans to customers (1.24% as of 31 December 2013). The losses ascertained with an impact on the income statement for the year amounted to €0.5 million; losses were also reported on the disposal of receivables for €2.8 million and gains from the disposal of receivables for €0.5 million, which were classified in the income statement item 100 "Gains/losses on the disposal or repurchase of: a) receivables".
For guarantees issued and commitments, a write-down of €16.9 million (€14.0 million of analytical adjustments and €2.9 million of portfolio adjustments) was recorded under "other liabilities"; in the current year, analytical value adjustments were recorded for €12.5 million along with write-backs pre-collective adjustments for €2.8 million.
Management and control activities for impaired loans (with the exception of non-performing positions) are disciplined

by the document 56 “Administration of positions under doubtful loan risk” and by the Parent Bank's directives which discipline the more extensive category of “doubtful loans”. The internal document also disciplines the methods for assessing and handling arrears associated with financial derivatives existing with corporate customers.
All the positions which are classified as “past due” (positions in arrears by more than 90 days, exceeding 5% of the total exposure), “watch-list” (positions meeting objective and subjective “watch-list” requirements) or “restructured loans” are handled by the Bank’s Credit Management and Credit Quality Division, while recovery activities for positions classified as “non-performing” are entrusted to the Debt Collection Unit of the Parent Company which, in April 2013, incorporated Gestione Crediti Banca previously tasked with these activities.
The Credit Management and Loan Quality Division, which manages all impaired, not yet non-performing positions, has the objective of i) recovering past due amounts and ii) returning the position to a performing status. On the basis of the analysis of each individual position and joining up with the other Group banks, it makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position.
The return of “impaired loans” to performing status takes place in various ways according to the classification category: with regard to “past due” the mere payment of the arrears present beyond 90 days is sufficient, while for “watch-list” positions not only must payment take place but also the disappearance of any subjective hypothesis which could have led to this classification must be verified. With regard to “restructured positions”, the instructions of the Supervisory Body must be followed. In relation to “non-performing positions”, their return to performing status is possible if, besides the payment of the amount in arrears (and any instalments due over the short-term) the following conditions apply: i) the absence of enforcement procedures and reports of dispute to the Risk Authority; ii) the overcoming of the economic-financial difficulties which led to the classification. Since non-performing positions, as already previously mentioned, are handled by the Parent Company’s Debt Collection Unit, returns to performing status must be analyzed and proposed to the Bank by the assignee.
Every “doubtful loan” position is adequately analysed, including those deriving from exposures in unpaid derivatives. In particular, the valuation concerns both positions due to be included in the category “past due”, and those already present in this category (so as to assess any requisites for changeover to “watch-list” or “non-performing” status), as well as those present in the watch-list category (since the time factor affects the valuation of the reversibility of the debtor’s state of difficulty). The analysis and the handling of the position obviously also involves the estimation of the write-downs of the par values of the loans (doubtful outcomes and discounting back in accordance with the criteria identified as per the IAS). These decisions, which exclusively concern “restructured loan”, “watch-list” or “non-performing” positions, take into account the loan recovery prospects, usually basing themselves on the value of the guarantees acquired to cover said transactions and on the performance of the property market. With regard to the valuation of “non-performing” loans, the proposal to update the assessment comes from the Parent Company’s Debt Collection Unit with reference to the events, such as up-dated appraisals, court-appointed expert appraisals, auctions, etc, which lead to the change.

Deposits

The drop in lending activities, already registered in the previous year, continued in 2014, with the effect of leading to an overall reduction in funding.
The recourse to medium and long term loans with the Parent Company, amounting to €1,750 million, therefore had a mainly "replacement" nature with regard to deposits maturing or discharged in advance with the aim of keeping the mismatch of structural liquidity between loans and deposits balanced.
Direct funding was also contracted with Cassa Depositi e Prestiti for € 3.9 million within the sphere of project financing transactions.
During 2014, two TIER II subordinated bonds were issued for a total of €400 million for the purpose of strengthening the Regulatory Capital. These issues were subscribed in full by the Parent Company.
The aggregate "Loans from the Parent Company and its subsidiaries - on demand and short term" shown in the table below, includes a restricted deposit for €4,147 million established by the Parent Company to guarantee its customers lending securities. Net of this item, the aggregate reported a decrease of €1,051 million, passing from €4,694 million at the end of 2013 to €3,643 million at the end of 2014.
The overall exposure vis-à-vis the Parent Company (and with reference to 31 December 2013, its non-banking foreign subsidiary, MPS Ireland[1]), totalled €18,360 million (€15,261 million at 31 December 2013), broken down as follows: €329 on demand (€410 at 31 December 2013), €7,461 short-term (€4,284 at 31 December 2013) and €10,570 medium - long term (€10,567 at 31 December 2013).

The table below shows the breakdown of deposits by type as of 31 December 2014, compared with the situation at the end of the previous year:

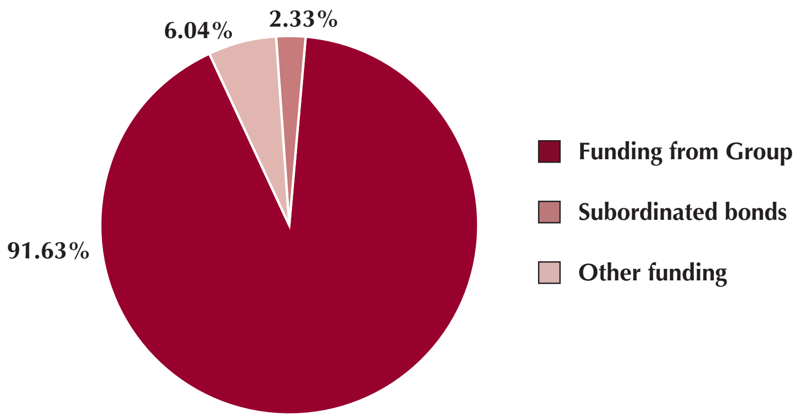
(amounts in millions of Euro)

	31/12/2014	*31/12/2013*
Loans of the Parent Company and its subsidiaries:		
- on demand and short term	7,790	4,694
- medium and long term	10,570	10,567
Bonds:		
- non-subordinate	-	0
- subordinate	467	71
Other payables to Banks and Customers	1,210	1,360
TOTAL	**20,037**	**16,692**

The item "Loans from the Parent Company and its subsidiaries - on demand and short term" conventionally includes (for accurate matching with the financial statement items) also short-term deposits for €1,650 million (€1,750 million as at 31 December 2013), as supplementary deposits in addition to the typical assets of the Global Markets BU (see following paragraph "The finance aggregates").

[1] *MPS Ireland was absorbed in Banca Monte dei Paschi di Siena with effect as from 11 February 2014 and starting from 1 January 2014.*

BREAKDOWN OF FUNDING AS OF 31 DECEMBER 2014



Main financial aggregates

With regard to the activity of the Global Markets BU, the main dynamics that characterised the commercial volumes of 2014 are analysed in detail in the table that follows:

- the volumes deriving from hedging of the rate risk with Corporate customers (Customer Desks) were €822 billion versus €871 billion in 2013, down 6%;
- the positive performance of the volumes of the institutional rate derivatives, +52% with respect to last year, is mainly linked to unwinding operations;
- the volumes deriving from exchange rate hedges with Corporate customers amounted to €1,521 billion, down 19% on 2013. The reduction is mainly linked to the lack of extraordinary transactions with significant volumes, closed in 2013;
- the volumes of commodity hedging with Corporate customers amounted to €815 million, up 19% with respect to 2013. The growth is linked to the excellent performance with the target customers;
- the volumes traded on the secondary market of Bank, Corporate, Emerging, Supranational and ABS (Secondary Credit) securities, show an increase of 11% with respect to 2013; the change is due to an increase in activities on the electronic platform;
- the volumes deriving from brokerage activities on the secondary market for government activities and on auctions saw an increase with respect to the previous year of around 35%, thanks to the progressive reduction in the spreads, which encouraged the turnover of the portfolios. Mention should be made of the outstanding participation of institutional customers in auctions.
- volumes deriving from placement with institutional investors and corporate customers of primary market securities amounted to about €5,147 billion, with a considerable increase with respect to 2013 (+913%), attributable to the presence of the Bank in important syndicated transactions.

Product	2014 Volumes	2013 Volumes	Percent. change
Customer desk rate hedging	822	871	-5.63%
Institutional rate hedging	635	417	52.28%
Exchange rate hedging	1,521	1,881	-19.14%
Commodity hedging	815	683	19.33%
Equity hedging	0	10	-100.00%
Secondary credit	6,307	5,686	10.92%
Secondary government and auctions	31,517	23,423	34.56%
Primary	5,147	508	913.19%
TOTAL	**46,764**	**33,479**	39.68%

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

With regard to the balance sheet aggregates, with respect to 2013 the asset balances in securities held for trading reported a decrease especially with reference to the segment of Italian government securities (owned securities for a nominal €4,534,468 thousand as of 31 December 2014, compared with €5,575,094 thousand as of 31 December 2013). Indication is also made of the persistence of carry trade transactions, despite the tightening of the spreads for government issuers (see figures indicated in the item: Securities short positions - Securities issued by Governments and public bodies).

Trading portfolio	*31/12/2014*	*30/12/2013*	*Changes*	
Securities - long position			*Absolute*	*%*
Securities issued by Governments and public bodies	5,142,465	5,930,577	(788,112)	(13.29)
Bonds and other debt securities	2,673,971	2,045,967	628,004	30.69
Equity securities - stocks	57,568	96,427	(38,859)	(40.30)
Equity securities - UCITS	2,923	19,263	(16,340)	(84.83)
Total securities	**7,876,927**	**8,092,234**	(215,307)	(2.66)

Trading portfolio	*31/12/2014*	*30/12/2013*	*Changes*	
Securities - short position			*Absolute*	*%*
Securities issued by Governments and public bodies	3,260,828	2,847,016	413,812	14.53
Bonds and other debt securities	69,281	79,151	(9,870)	(12.47)
Equity securities - stocks	13,511	655	12,856	1962.75
Equity securities - UCITS	177,578	248,471	(70,893)	(28.53)
Total securities	**3,521,198**	**3,175,293**	345,905	10.89
Trading portfolio Net securities position	**4,355,729**	**4,916,941**	**(561,212)**	**(11.41)**

With regard to repurchase transactions, there was a reduction in the net position outstanding as of 31 December 2014 when compared with the end of the previous year:

Trading portfolio	*31/12/2014*	*30/12/2013*	*Changes*	
Loans receivable			*Absolute*	*%*
Repurchase agreements	6,297,678	5,960,141	337,537	5.66
Total loans receivable	**6,297,678**	**5,960,141**	**337,537**	**5.66**

Trading portfolio	*31/12/2013*	*30/12/2012*	*Changes*	
Loans payable			*Absolute*	*%*
Repurchase agreements	13,289,141	14,368,338	(1,079,197)	(7.51)
Total loans payable	**13,289,141**	**14,368,338**	**(1,079,197)**	**(7.51)**
Total net loans (receivable-payable)	**(6,991,463)**	**(8,408,197)**	**1,416,734**	**(16.85)**

For an overall analysis of the so-called "Sovereign Risk", reference is made to Part E, section A "Credit risk" further on in the explanatory notes.

Longer-term investments made are classified under:

- receivables (*loans & receivables*), as unlisted bonds, issued by corporate companies, remained unchanged in the composition with respect to the previous year; however, further to the change in the criteria for estimating the recovery, value adjustments were ascertained for €540 thousand which led to a net value of the exposure of €2,114 thousand, of which €634 thousand watch-list and €1,480 thousand performing;
- available for sale financial assets such as : i) unlisted debt securities for a value of €70 million and ii) stocks and UCITS units for a total amount of about €19 million. With regard to the debt securities, there was a significant reduction in the portfolio for €105.2 million mainly consequent to the release for €130 million of the BMPS 08/18 issue. To protect part of the portfolio against interest rate fluctuations, the Bank designated a hedging interest rate swap agreement on a nominal €37.5 million, according to the hedge accounting rules defined by IAS 39.

Passing on to examine the transactions on derivative instruments, specifically the credit derivatives, from a comparison between the nominal as of 31 December 2014 and those present in the previous year, a significant decrease emerges both in terms of purchases and sales. This decrease is attributable to the compression activities of the portfolios carries out in 2014. These activities involved the consensual extinction of contracts with an opposing sign with the same counterparty without changing the overall risk profile and without any impact on the income statement but with benefits in terms of a reduction in the operating and administrative management risks as well as a cut in the absorptions for Add Ons.

Single name derivatives mainly refer to governments, banks and insurance companies. The transactions are mainly with banking counterparts (56.15% purchases and 52.36% sales).

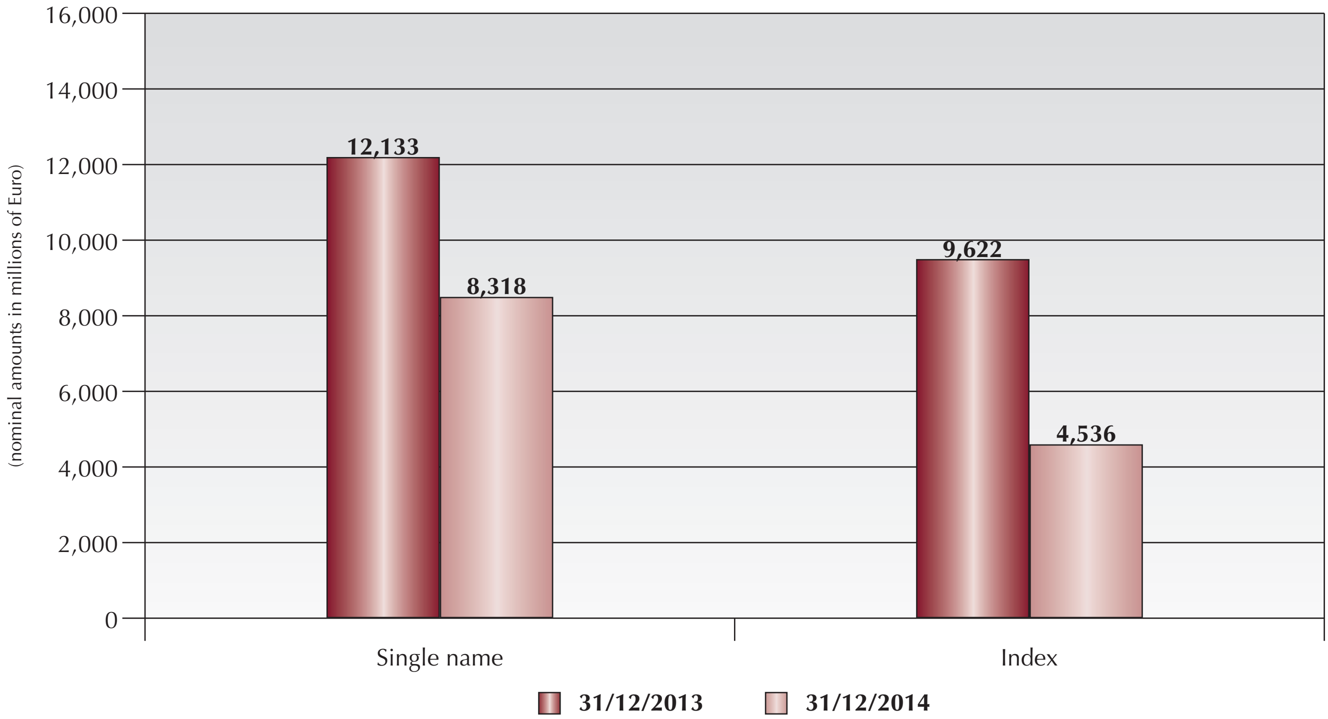
(nominal amounts in € thousands)

Credit derivatives	*31/12/2014*	*31/12/2013*	*Changes from 12/2013*	
			Absolute	*%*
Protection purchases	12,853,796	21,754,958	(8,901,162)	(40.92)
Protection sales	13,587,996	22,501,527	(8,913,531)	(39.61)

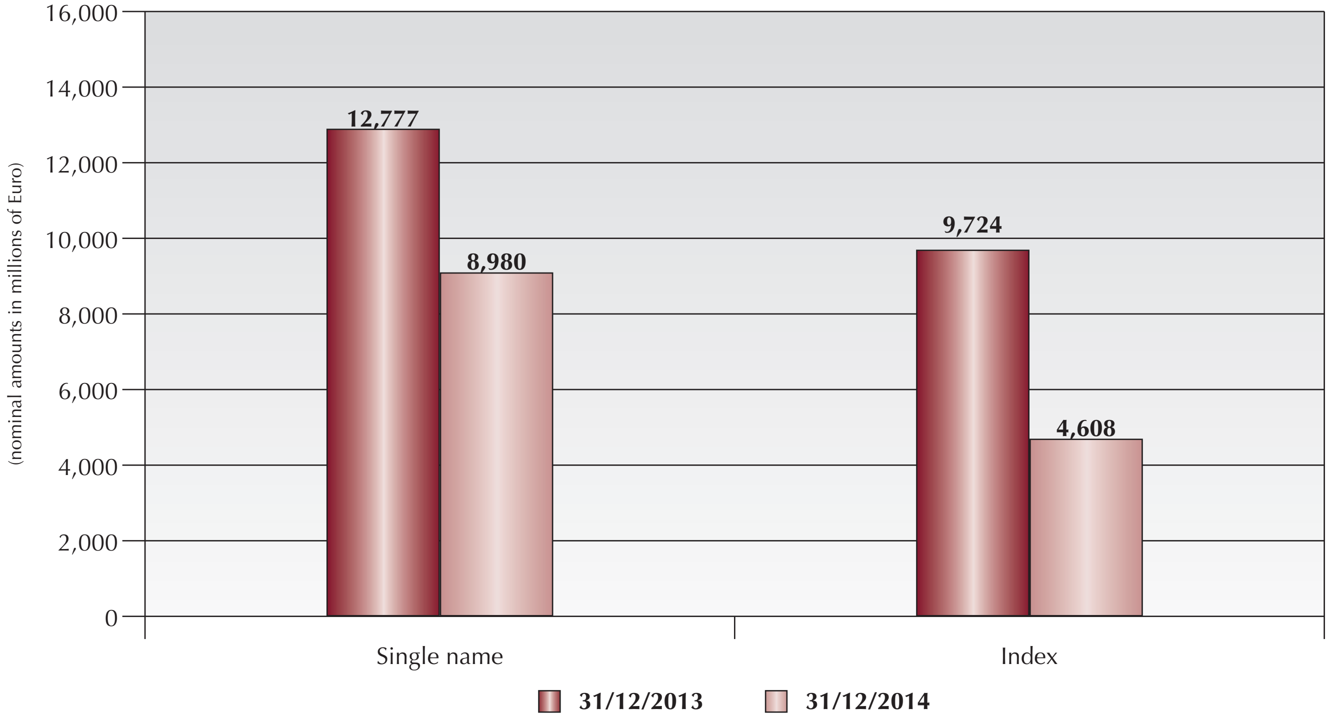
Credit derivatives underlying single name	*Protection purchases %*	*Protection sales %*
Corporate	9	8
Sovereign	69	73
Banking Insurance	22	19

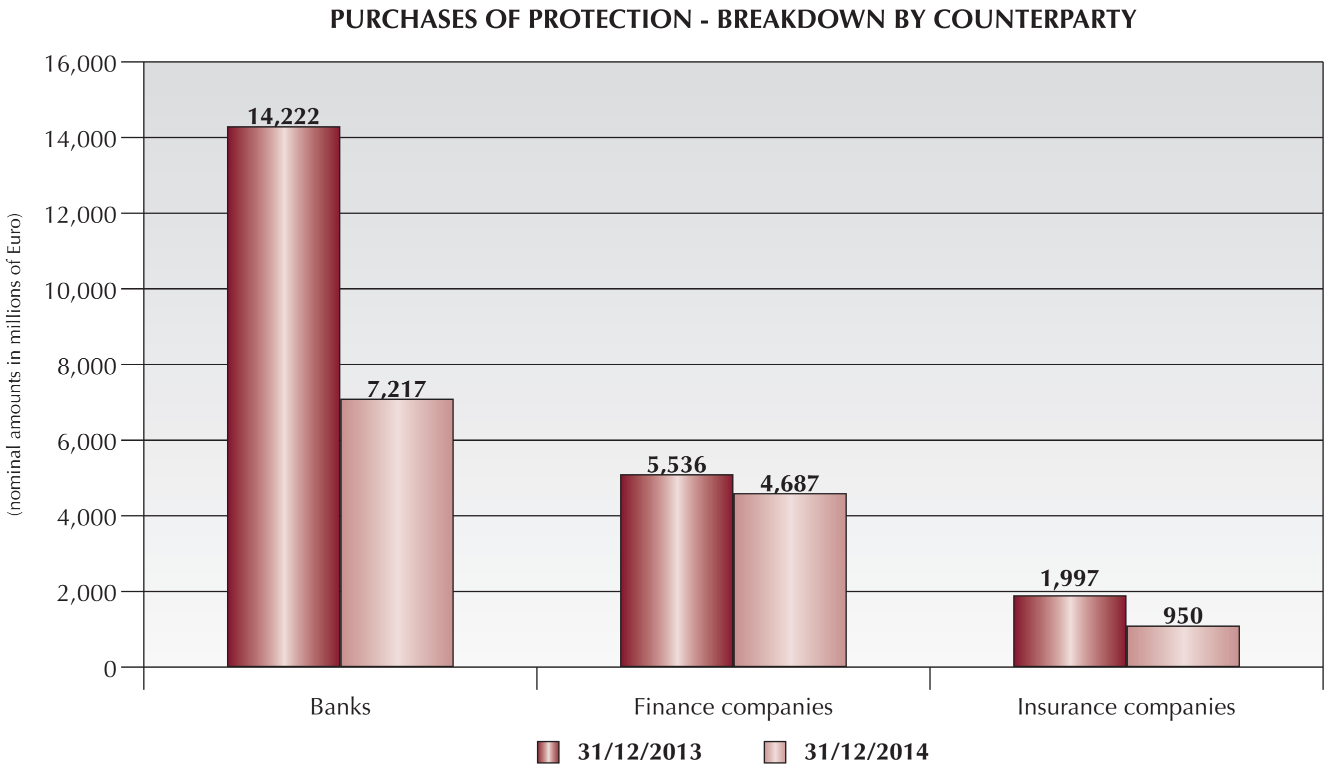
Credit derivatives Counterparty type	*Protection purchases %*	*Protection sales %*
Banks	56.15	52.36
Finance companies	36.46	36.93
Insurance companies	7.39	10.71

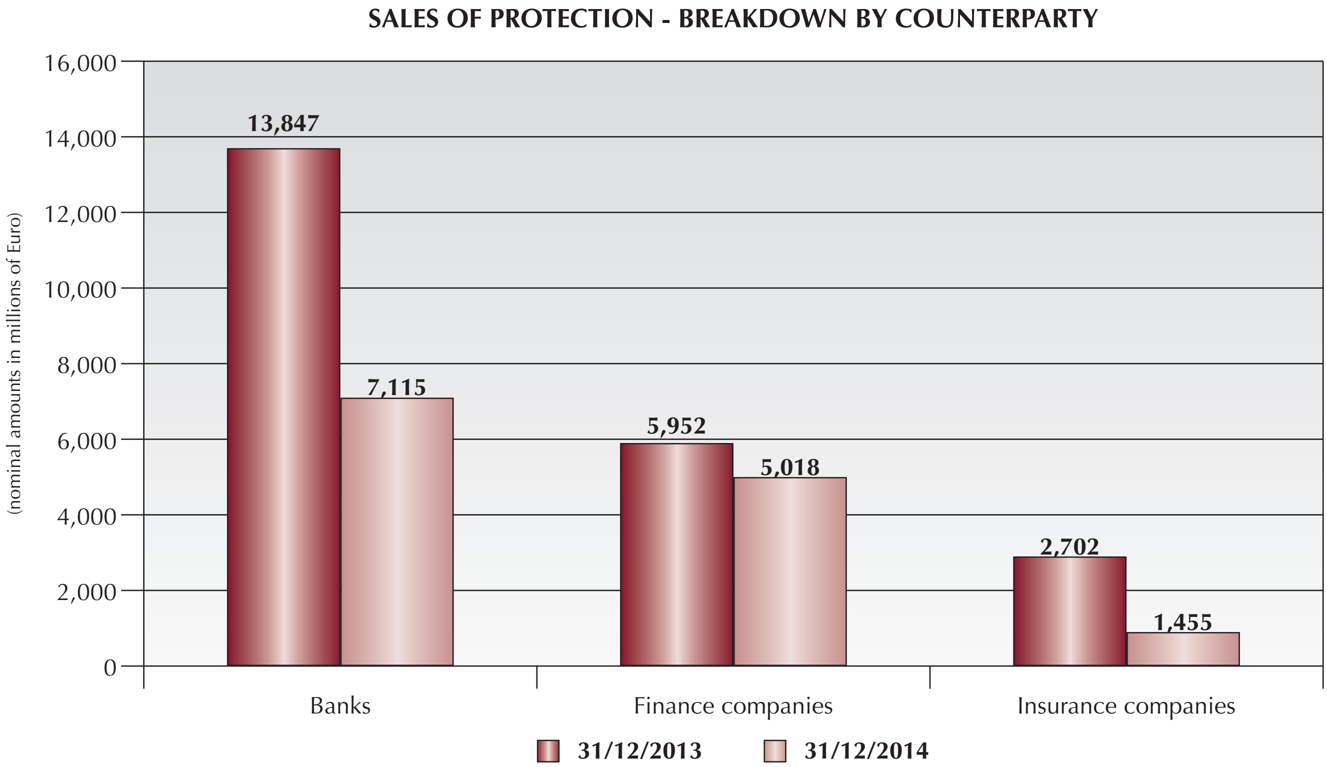
PURCHASE OF PROTECTION - BREAKDOWN BY UNDERLYING ELEMENT



SALES OF PROTECTION - BREAKDOWN BY UNDERLYING ELEMENT







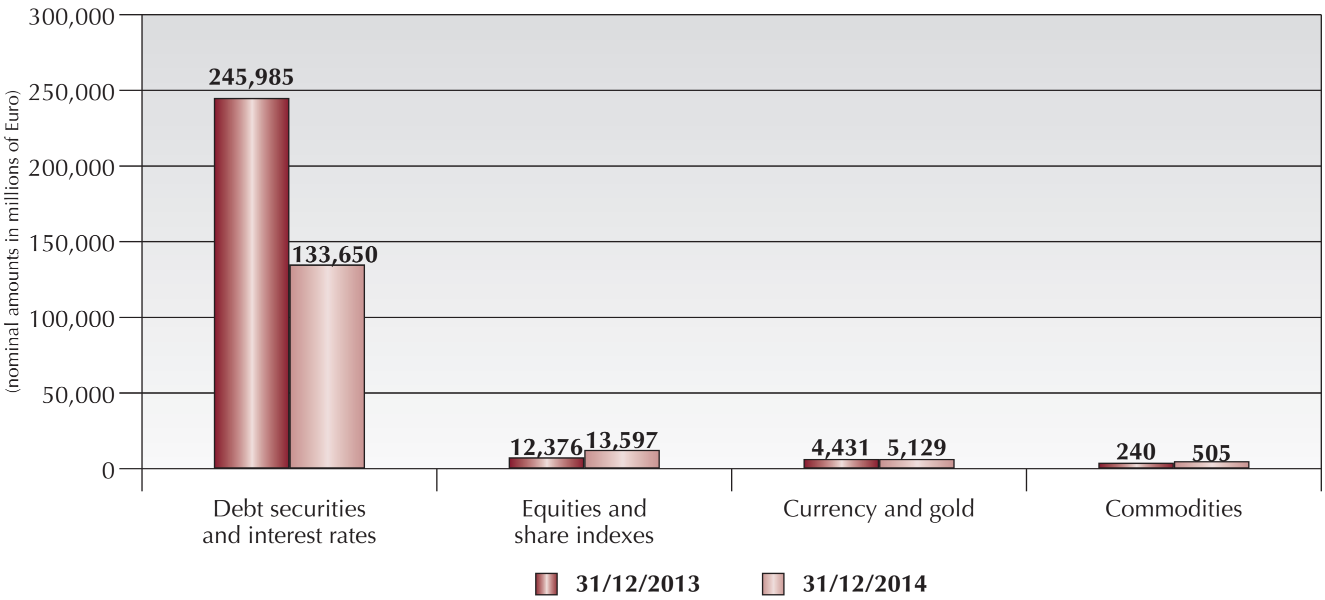
For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

Also with regard to the financial derivatives class, there was an overall reduction in nominal terms with respect to the previous year (-46.42%). Within the aggregate, there was a significant drop in the OTC notionals (attributable mainly to the decrease in market making activities in swaps and rate derivatives).

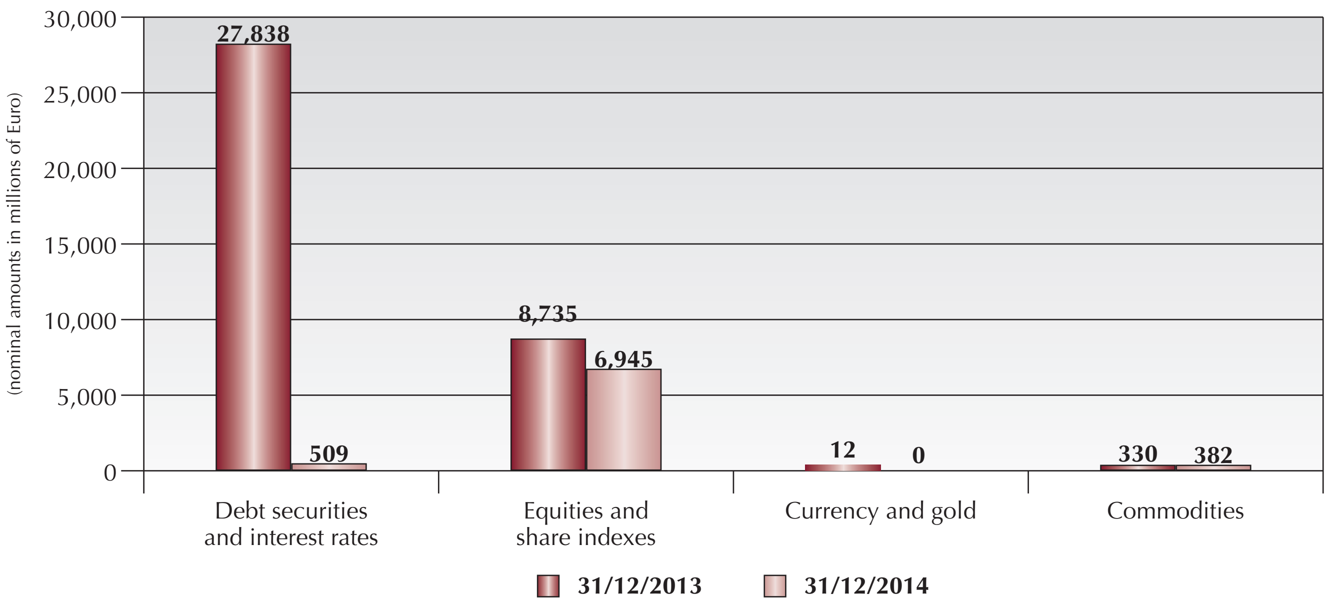
(nominal amounts in € thousands)

Financial derivatives	*31/12/2014*	*31/12/2013*	*Change from 12/2013*	
			Absolute	*%*
Over the counter	152,880,457	263,032,605	(110,152,148)	(41.88)
Central counterparties	7,835,934	36,914,736	(29,078,802)	(78.77)
Total	**160,716,391**	**299,947,341**	**(139,230,950)**	**(46.42)**

OTC DERIVATIVE NOTIONALS - BREAKDOWN BY UNDERLYING ELEMENT



DERIVATIVE NOTIONALS WITH CENTRAL COUNTERPARTIES BREAKDOWN BY UNDERLYING ASSET

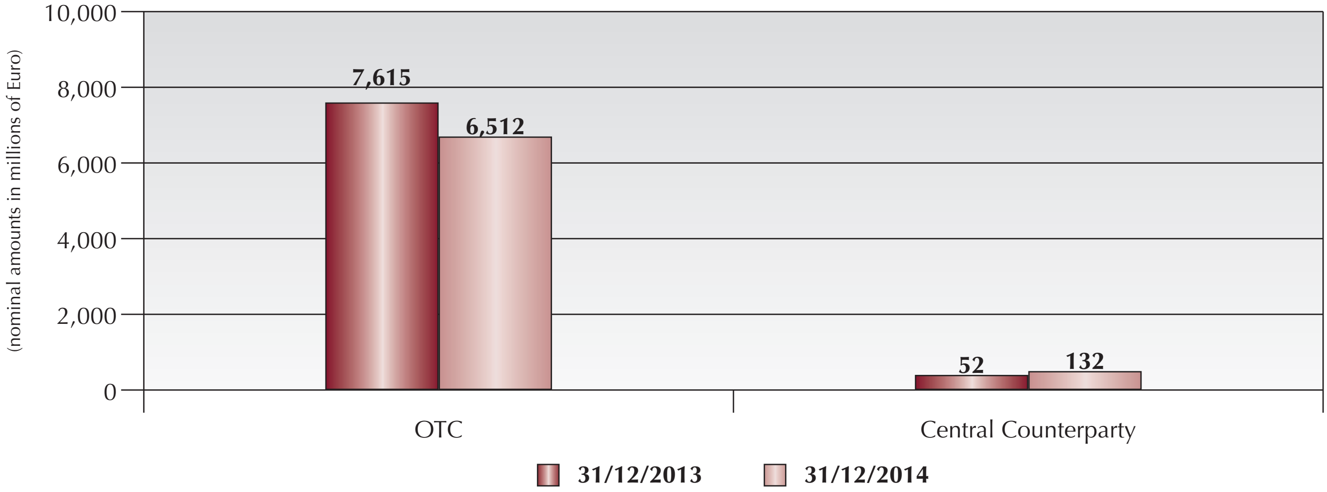


The overall evaluations as at 31 December 2014, compared with the values of the previous year, are shown below. Naturally, listed future style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

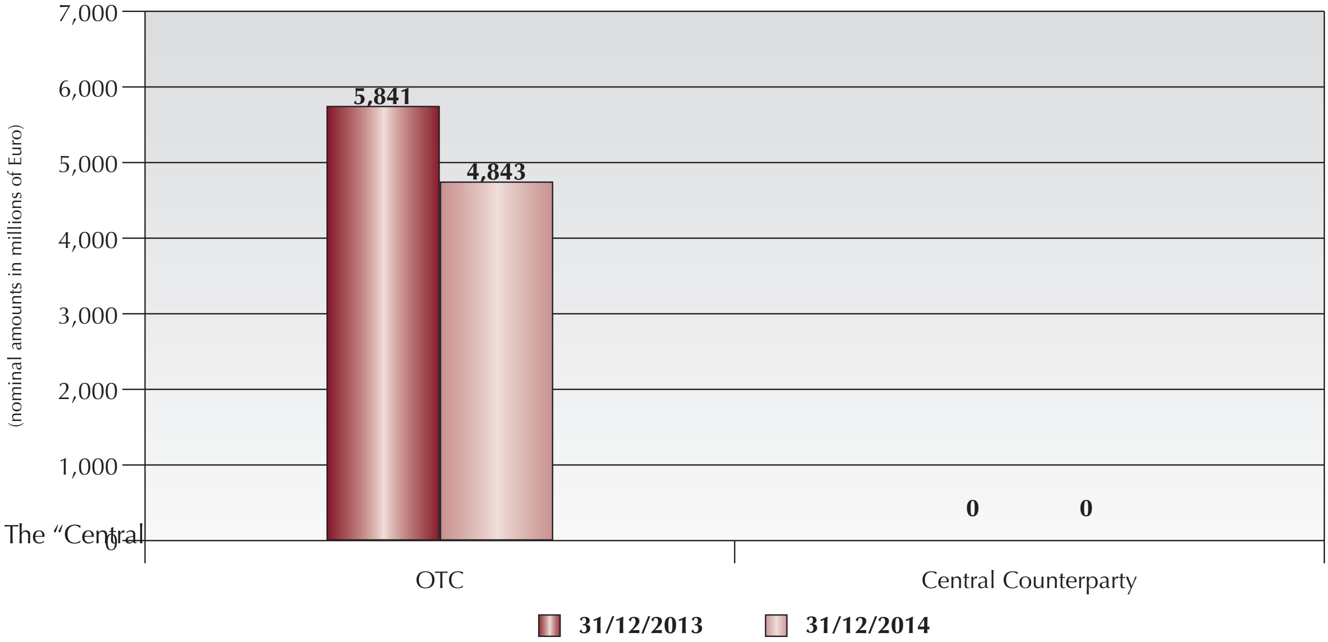
(amounts in thousands of Euro)

Financial derivatives	*31/12/2014*	*31/12/2013*	*Change from 12/2013*	
Valuation (fair value)			*Absolute*	*%*
Positive (of which Asset item 20)	8,294,723	10,957,747	(1,021,887)	(13.33)
Negative (of which Liability item 40)	(6,460,403)	(9,784,225)	(997,331)	(17.08)

POSITIV FAIR VALUE



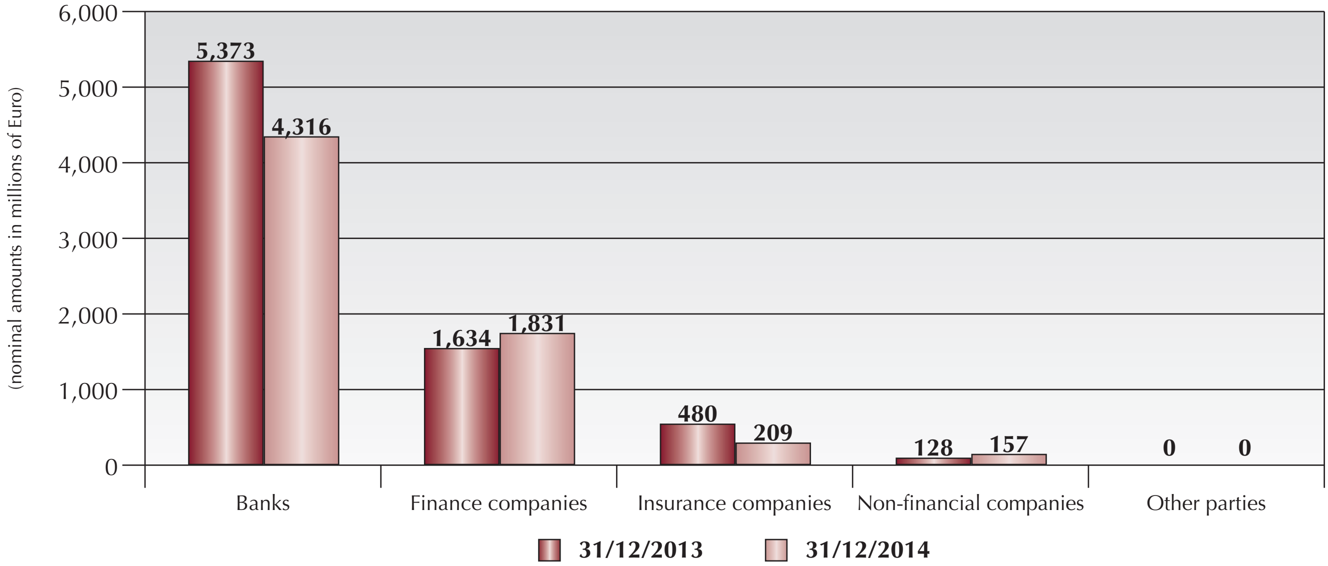
NEGATIV FAIR VALUE

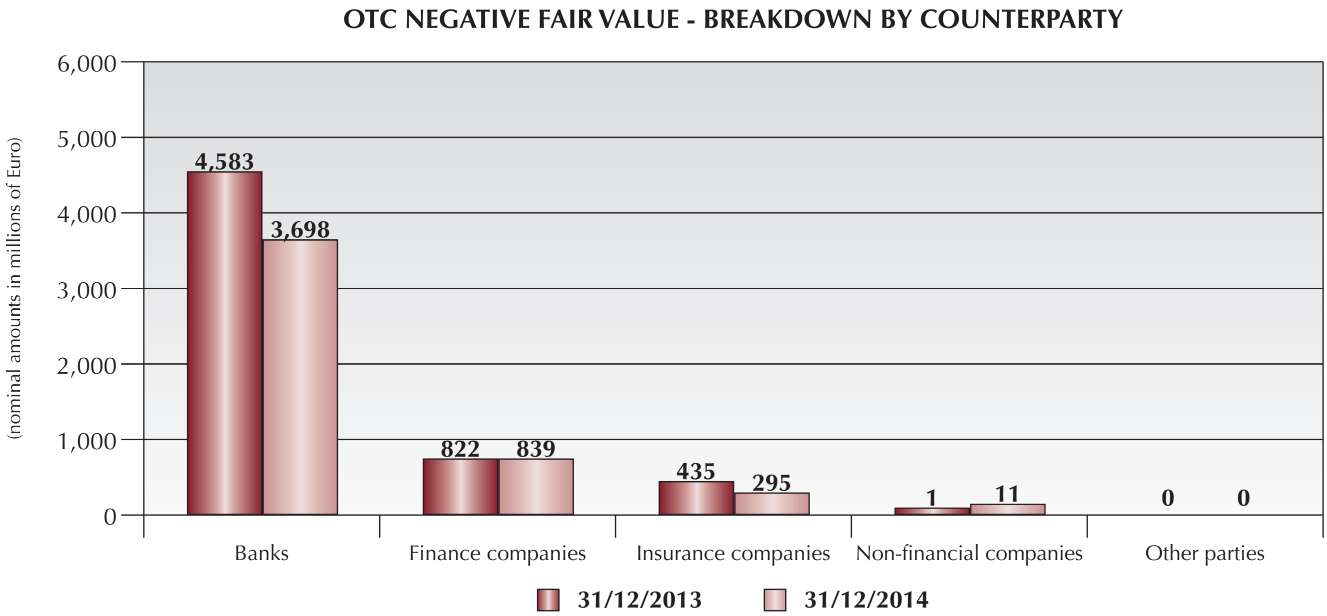


The section "Central Counterparty" includes the exposures in terms of fair value of the derivatives listed on organised markets. In accordance with the application of IAS 32, section 42, the exposures are netted and expressed in overall terms in the section of the positive Fair Value. The same treatment has been reserved for the exposures in OTC derivatives concentrated care of LCH - London Clearing House. For additional information, please see Section 2.1 of Part B of the explanatory notes.

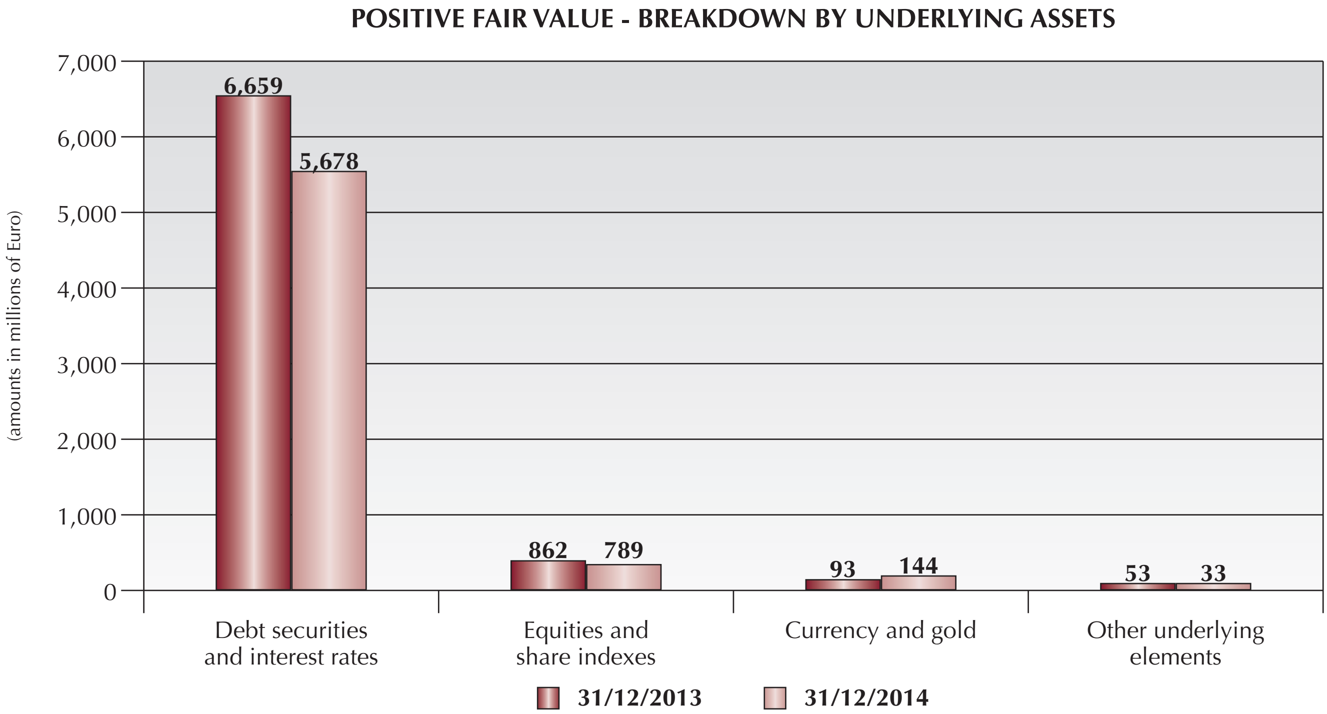
The decrease which can be seen in the comparison of the same with the equivalent values as of 31 December 2013 is justified by the portfolio compression activities (see the comment on credit derivatives above) repeated to a good extent also in 2014.

OTC POSITIVE FAIR VALUE - BREAKDOWN BY COUNTERPARTY

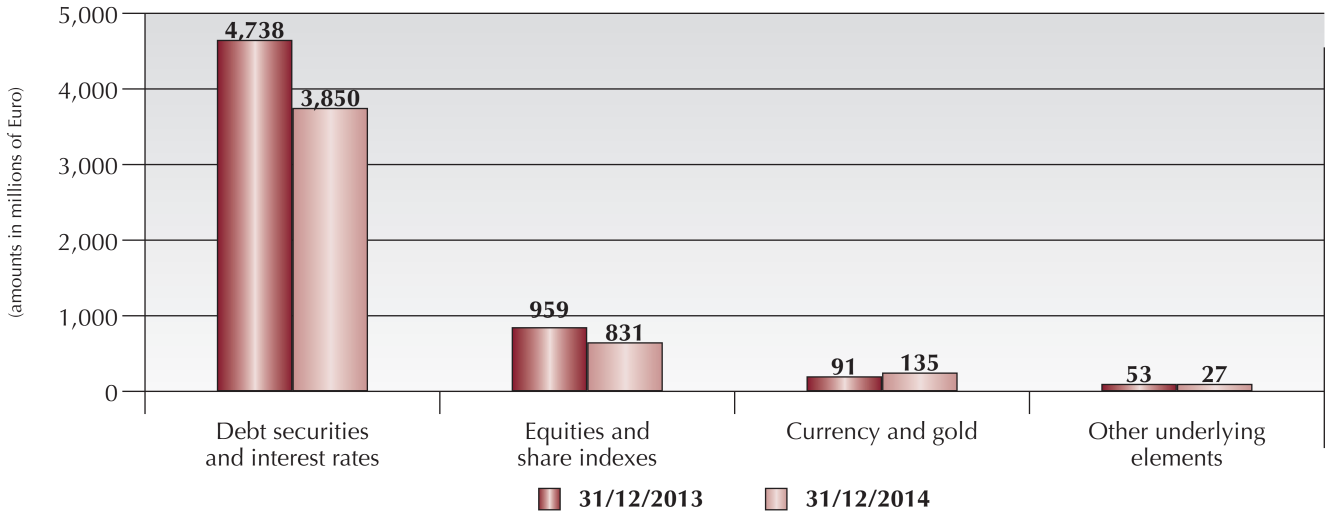




The breakdown by "underlying" type of asset exposures (as positive fair value) and of liability exposures (as negative fair value) reported in the balance sheet in millions of Euro is provided below.



NEGATIVE FAIR VALUE - BREAKDOWN BY UNDERLYING ASSETS



For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes. In detail, the section referred to contains an illustration of the assets and the type of OTC derivative contracts falling or otherwise under netting agreements. Whereas almost all the counterparties of the Bank in fact operate with netting agreements (the total of the positive fair value not netted came to €245 million, and represents 3.61% of the total), agreements which in the majority of cases envisage the reciprocal payment of guarantees to mitigate the risk deriving from the net exposure, a quantitative summary is presented below in valuational terms of the exposures falling or otherwise under netting agreements.

OTC DERIVATIVE CONTRACTS - NETTING AGREEMENTS

(amounts in millions of Euro)

Positive measurement of	*31/12/2014*	*No netting*	*Netting*
Derivatives on debt securities and interest rates	5,678	190	5,488
Derivatives in equities and indexes	658	55	603
Derivatives in currency and gold	144	-	144
Credit derivatives	526	-	526
Derivatives on commodities	32	-	32
Total	**7,038**	**245**	**6,793**

(amounts in millions of Euro)

Negative measurement of	*31/12/2014*	*No netting*	*Netting*
Derivatives on debt securities and interest rates	3.851	12	3.839
Derivatives in equities and indexes	831	-	831
Derivatives in currency and gold	135	-	135
Credit derivatives	487	-	487
Derivatives on commodities	27	-	27
Total	**5.331**	**12**	**5.319**

Equity Investments

The total amount is €20.3 million, versus €37.6 million as at 31 December 2013. The reduction in the balance of the portfolio is mainly attributable to the value adjustments for impairment made during the year (for a total of €21.4 million). Investments were also made for €9.8 million, along with divestments for an overall equivalent value of €0.6 million and reclassifications for €5 million to the "non-current assets held for sale and discontinued operations" portfolio (IFRS 5).
Divestments were also made for an overall equivalent value of €2.7 million relating to the equity investments classified, as of 31 December 2013, under "non-current assets held for sale and discontinued operations" on the basis of IFRS 5 (48% of MPVenture SGR S.p.A. and 14% of Sviluppo Imprese Centro Italia S.G.R. S.p.A.) with recognition of a gain from disposal of around €1 million.

Equity investments are classified in the following financial statements asset items: Item 40 "Financial assets available for sale ", Item 100 "Equity investments" and Item 140 "Non-current assets held for sale and discontinued operations".

The main equity investments for each category are indicated as follows:

(amounts in thousands of Euro)

Company	*% Stake*	*Carrying amount*
La Gardenia Beauty S.p.A. - Participating Financial Instruments		4,000
Panini S.p.A. - Participating Financial Instruments		2,830
Marina di Stabia S.p.A.	15.37%	2,779
Other (*)		7,721
40. Financial assets available for sale		**17,330**
Terme di Chianciano S.p.A.	28.99%	1,325
Interporto Toscano Amerigo Vespucci S.p.A.	20.00%	901
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	15.00%	779
100. Equity investments		**3,005**
Agricola Merse S.r.l.	20.00%	5,000
140. Current assets held for sale and discontinued operations		**5,000**
TOTAL EQUITY INVESTMENTS		**25,335**

(*) of which €2,328 thousand for associations in investment as per It. Law No. 244 sections 325 and 327 dated 24 Dec. 2007 - cinema credit.

The investments made in the year, for a total of €9,810 thousand (of which €2,010 thousand classified in the item 100 "equity investments"), are mainly attributable to the acquisition of shares or participating financial instruments associated with the restructuring of loans granted in favour of the issuing companies.

The value adjustments for impairment made during the year, for a total of €21,391 thousand, of which €4,056 thousand relating to the equity investments classified in item 100 "equity investments", includes €13,044 thousand for the investee Fenice Holding S.p.A. which was written down in full.

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

La Gardenia Beauty S.p.A. - Participating Financial Instruments. These are participating financial instruments assigned consequent to the debt restructuring plan as per Article 67.3, letter d) of the Italian Bankruptcy Law defined by the financing banks with the company. The restructuring agreement was finalised in the first quarter of 2014.

Panini S.p.A. - Participating Financial Instruments. These are participating financial instruments assigned consequent to the debt restructuring plan as per Article 67.3, letter d) of the Italian Bankruptcy Law defined by the financing banks with the company. The restructuring agreement was finalised in August 2014.

Marina di Stabia S.p.A. - Castellammare di Stabia (NA). This company holds the concession (with a duration until 31 December 2080) for the construction and management of a tourist marina in Castellammare di Stabia, deriving from the conversion of an inactive industrial complex. The majority of the company's capital is held by a group of entrepreneurs and professionals from Castellammare di Stabia. The Bank holds around 15.4% of the share capital.

Terme di Chianciano S.p.A. - Chianciano (SI). This is the management company of the thermal spa in Chianciano Terme as per a long-term management agreement entered into with Terme di Chianciano Immobiliare S.p.A. (owner of the spa) further to the awarding, by the company, of the public privatisation call for tenders for the purpose of separating the ownership of the spa complex and the management of the same. The investment in the company, representing around 29% of the share capital of the same, was acquired in 2014 within the sphere of a reorganisation agreement pursuant to Article 67.3, letter d) of the Italian Bankruptcy Law. Banca Monte dei Paschi di Siena S.p.A. holds an investment in the company of 20.35% acquired prior to the afore-mentioned agreement.

Interporto Toscano Amerigo Vespucci S.p.A. - Livorno. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plains, in the municipality of Collesalvetti (Livorno). The majority of share capital is held by public entities and administrations (Tuscany Regional Authorities, Provincial Authorities and local municipalities, Livorno and Pisa Chambers of Commerce (CCIAA)). The Bank holds around 19% of the share capital and Banca Monte dei Paschi di Siena S.p.A. holds around 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. During 2014, 14% of the asset management company (already reclassified under "non-current assets held for sale" as of 31 December 2013) was sold off to Gepafin S.p.A. (PG), therefore the interest held fell from 29% to 15%. 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%).

Main economic aggregates and management indicators

ECONOMIC AGGREGATES

MPSCS closed its financial statements as of 31 December 2014 with a net loss of €587.5 million, recognised according to the International Financial Reporting Accounting Standards (IAS-IFRS). This result was significantly affected by the outcome of the AQR process in relation to which in-depth disclosure is provided in the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors) in the Explanatory Notes.

The following table has been drawn up adopting "operating" criteria, which led - for some items - to reclassification measures with respect to that stated in the financial statements formats. Specifically:

- the reclassified income statement item "Interest margin" emerges from the imbalance between item 10 "Interest income and similar income" and item 20 "Interest expense and similar charges". The aggregate was operationally cleared, for a total amount of €1.19 million, of the movements relating to interest, both receivable and payable, attributable to positions disbursed in previous years and deriving from the review/reformulation of the contractual conditions or transfer to dispute status, in relation to which reclassification in the item "other operating income/charges" was opted for.
- the reclassified income statement item "Total net fees from customers" emerges from the imbalance between items 40 "Fee income" and 50 "Fee expense". The aggregate was cleared of the fee-related economic effect equal to a total net amount of €0.15 million (as out-of-period amounts referring to previous years), an amount likewise reclassified for operating purposes in the item "Other operating income/charges".
- the reclassified income statement item "Other revenues from financial management" includes the values of the financial statement items 70 "Dividends and similar income", 80 "Net income from trading activities", 90 "Net income from hedging activities" and 100 "Profits/losses from the sale or repurchase of financial assets available for sale", which are also joined by the profits and losses deriving from the equity investments which are by contrast represented in the accounts in item 210 "Profits/losses from equity investments" (quantifiable as €3.09 in losses). The operating aggregate essentially coincides with the accounting aggregate.
- the operating aggregate "Net value adjustments for impairment" coincides with the financial statement view.
- the reclassified income statement item "Operating costs" includes the balances of the financial statement item 150 "Administrative expenses" which comprises the personnel costs (item 150-a) and Other administrative expenses (item 150-b), plus the amortisation/depreciation included in item 170. With regard to Personnel costs, the balance shown in the financial statements is essentially in line with the operating figure. By contrast, with regard to the sub-item "Other administrative expenses", the differences between the accounting figure and the operating figure are attributable to the operational sterilisation of the costs relating to the recovery of receivables under dispute charged to the customers for €3.72 million, €0.21 million as minor costs relating to expense recoveries reclassified in the accounts under item 190 "Other operating income/charges" and €0.3 million which operationally is classified in the aggregate of the Other charges and Other Income. In conclusion, the overall difference between the aggregate "Operating costs" and "Administrative expenses" amounts to around €4.22 million in minor operating costs.
- the aggregate "Net provisions for risks and charges" corresponds and coincides with the values stated in the financial statements item 160 "Net provisions for risks and charges".
- the reclassified income statement item "Other operating income/charges" includes the financial statement item 190 "Other operating income/charges", which presents a positive balance of €3.74 million and an overall positive operating value of €1.64 million. The difference is attributable to the combined effect of the reclassifications described in the previous sections.
- the reclassified income statement item "Income taxes for the year on profit from current operations" corresponds to financial statements item 260.

(values in millions of Euro)

Income Statement	31/12/2014	31/12/2013	Changes in % terms
Interest margin	169.28	231.00	(26.72)
Total fees	32.13	46.78	(31.31)
Other revenues from financial management	123.52	149.86	(17.57)
Financial management margin	**324.93**	**427.64**	**(24.02)**
Net value adjustments for impairment	(1,136.98)	(293.66)	287.17%
Result of financial operations	**(812.05)**	**133.98**	**(706.11)**
Operating costs	(68.51)	(69.31)	(1.14)
Net operating profit	**(880.56)**	**64.67**	**(1,461.58)**
Net provisions for risks and charges	9.01	22.79	(60.45)
Other operating income/charges	(1.64)	0.88	(286.36)
Profit (loss) before taxes	**(873.19)**	**88.34**	**(1,088.48)**
Income taxes for the year	285.69	(39.69)	(819.82)
Tax rate	*32.7%*	*44.9%*	
Profit (loss) for the period	**(587.50)**	**48.65**	**(1,307.66)**

In short, the *"***Interest Margin***"* reported a drop of €62 million, equal to 26.72%, when compared with 2013, while **"Total Fees"** disclosed a reduction of around €14 million or 31.31%, when compared with the same period last year; the item **"Other revenues from financial management"** disclosed a drop of €26 million (-17.57%) when compared with the previous year.

The reduction in the item "**Interest Margin**" is essentially attributable to four factors:

a) the issue of two subordinated loans whose cost considerably affected the MPSCS income statement in terms of interest expense;
b) the flows to dispute status which decreased the interest-bearing loans to the advantage of non-interest bearing loans from the standpoint of financial coverage;
c) the very contained amount of new disbursements which was not sufficient to cover the outgoings made up of normal amortisation/depreciation as well as early repayments;
d) the rebalance in the gaps of structural liquidity carried out during the year, which led to the establishment of medium and long term deposits payable with higher spreads.

The fee-related margin disclosed a sharp decrease mainly linked to the contained level of the new credit transaction carried out, evidently associated with the difficulty of the market in requesting and absorbing credit for investment transactions.

With regard to **"Other revenues from financial management"** the following is disclosed with respect to the previous year: a drop in the trading result (income statement item 80) by around €21 million, attributable to the emphasised volatility of the markets and the consistent net adjustments of impaired derivatives with corporate customers (€20.2 million in 2014 compared with €7.6 in 2013); an increase of around €2 million in net losses booked to the item Profit (loss) from equity investments (income statement item 210) for the impairments made during the year on certain shareholdings; growth of around €2.6 million, in conclusion, in the net loss on the disposal of assets available for sale (income statement item 100 b)).

Consequently, the "**Margin from Financial and Insurance Management**", at €324.93 million, is 24.02%, or €-102.71 million, lower than the 2013 result.

Clearly, the most critical and most significant aspect during the year just ended was that represented by the trend of the **Net value adjustments for impairment** which came to €1,136.98 million, almost 4 times the amount recorded in 2013 (€293.66 million). It is hereby emphasised, referring for greater details to the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors) in the explanatory notes, that €957 million relates to non-recurrent adjustments deriving from the up-date of the methods and the parameters used in the classification and valuation of the loans carried out further to the results of the AQR process.

With regard to "**Operating costs"**, there was a decrease of 1.14% when compared with 2013, as the direct consequence of constant action aimed at containing costs and implemented by the bank on the basis of the policies issued by the Parent Company. Pushing the analysis to a greater level of detail, it can be noted that the 2014 Personnel costs were essentially in line with those for 2013, due to the joint effect of the additional costs quantifiable as around €3.4 million deriving from the early laying off of staff at the end of 2014 and, by contrast, the positive impacts deriving from the reduction in the salary dynamics as well as an increase in active secondments of MPSCS staff care of other Group companies.
With regard to the Other administrative expenses (ASA), it can be noted how with respect to the previous year further economies were achieved for almost €0.9 million bearing further proof of how the cost containment policy continues obtaining absolutely appreciable results.

The item "**Net provisions for risks and charges"** disclosed a positive balance of €9.01 million, mainly attributable to the portion of allowance to the Provision for risks and charges in excess (amounting to €6.9 million) compared with the amount defined in the settlement agreement with Lehman Brothers Special Financing Inc. signed in March 2014.

The "**Loss before Taxes**" amounted to €873.19 million, versus a profit of €88.34 million in 2013, with a negative difference of €961.52 million (-1,088.48%).

The item **"Income taxes"** presented a positive balance of €285.68 million mainly due to the recognition of the prepaid IRES and IRAP tax on value adjustments on receivables. The tax rate came to +32.7% (-44.9% in 2013).

The "**Loss for the Period"**, net of taxes, was €587.50 million, versus net profit of €48.65 million reported at the end of the previous year.

MAIN MANAGEMENT INDICATORS

	31/12/2014	31/12/2013	Changes in % terms
Credit quality indices (%)			
Net non performing loans / Loans to customers	18.95	16.00	18.44
Net watch-list loans / Loans to customers	18.71	8.05	132.42
Profitability indices (%)			
R.O.E. on Shareholders' Equity [(1)]	(66.33)	4.24	(1,664.39)
R.O.E. on capital book balance [(2)]	(50.29)	4.32	(1,264.12)
R.O.A. on total assets [(3)]	(1.37)	0.11	(1,300.94)
Interest margin / Operating revenues [(4)]	(20.85)	172.41	(112.09)
Net fees/ Operating revenues [(4)]	(3.96)	34.92	(111.34)
Operating costs / Operating revenues [(4)]	(8.44)	51.72	(116.32)
Net adjustments on on-time receivables / loans	8.21	2.05	300.49
Capital ratios (%)			
Tier 1 capital ratio [(5)]	3.83	6.93	(44.73)
Tier 1 capital ratio [(5)]	3.83	6.93	(44.73)
Total capital ratio [(5)]	6.75	7.22	(6.51)

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

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

[(3)] ***R.O.A.:***
the ratio between the net profit for the period and total Assets.

[(4)] ***Operating revenues:***
they are the "result of Financial and Insurance Management

[(5)] ***Capital ratios:***
calculated for 2013 before the 25% reduction prescribed for banks belonging to banking groups (for more details, see Section 2 - Part F of the Explanatory Notes)

Integrated Management of Risks and Capital

Consistent with the historical strategy implemented and in line with the mission assigned it, the Bank attributes a crucial role to risk management and identifies it as a critical factor for success. The measurement and management monitoring of the risks assumed, which therefore play a central role within the value-creation process at Group level, are centralised with the Parent Company's Risk Management Area.
Due to the transactions carried out, as more fully illustrated further on, the Bank is exposed to various types of risk which can be connected to the following: credit risk, market risk relating to the trading portfolio, interest rate and price risks of the banking book (Asset & Liability Management), liquidity risk, equity investment portfolio risk, counterparty and issuer risk, operational risks, business risk (meaning the risk of loss deriving from the volatility of the cost and revenue structure).

GOVERNANCE SYSTEM
The Montepaschi Group pays the utmost attention to the process for identifying, monitoring, measuring, controlling and mitigating risks.
The risk governance strategies are defined on a consistent basis with the Group business model, with the medium-term objectives of the Business Plan and with the external legislative and regulatory restrictions.
The policies relating to the undertaking, handling, coverage, monitoring and control of the risks are defined by the Parent Company's Board of Directors. In detail, the BoD periodically defines and approves the strategic guidelines regarding the governance of the risks and quantitatively expresses the overall level of propensity to risk of the entire Group, on a consistent basis with the annual Budget.
The Montepaschi Group has internally defined a new overall reference framework for the determination of its propensity to risk: the Risk Appetite Framework (RAF). The aim of the RAF is to ensure consistence on an on-going basis between the Group's effective risk profile and the propensity to risk resolved before by the BoD (risk appetite), having taken into account the pre-established tolerance thresholds in the event of stress (risk tolerance) and in any event within the maximum limits admissible (risk capacity) which derive from regulatory requirements or other restrictions imposed by the Supervisory Authorities.
The RAF includes all the main strategic spheres of the Group:
- Capital Adequacy and Pillar I and II and coherence with the ICAAP process;
- Short and long term Liquidity Profile and level of financial leverage;
- Reputation, Positioning and external Context;
- Risk-Adjusted Performance.

The overall set-up of the RAF is arranged in terms of operating limits on the various business segments and completed by the definition and formalisation of suitable governance policies, as well as steadfast management processes for the various business risks.

The total overhaul of the RAF was made possible by seizing the legislative review opportunities introduced by the 15th update dated 2 July 2013 of the Bank of Italy Circular No. 263/06 regarding the Internal Audit System. The in-depth project activities achieved during 2014, which also led to the up-date or issue of numerous policies and internal regulations, moves in the direction of furthering and guaranteeing an increasingly greater and more wide-spread disclosure of the culture of the risk as well, at all levels of the organisational structure. The awareness of the risks and the correct knowledge and application of the internal models overseeing these risks - especially for those validated for regulatory purposes - represent the fundamental requirement for effective, sound and prudent business management.
Furthermore, the incorporation in the staff incentive and remuneration policies of risk and risk-adjusted performance macro-indicators represent an additional lever for furthering awareness of the conduct adopted by all the resources and increasing a sound risk culture.

During 2014, the Group was also involved in the progressive adaptation to the new Basel 3 legislative framework, with the consequent method-related and applications changes to the risk management, reporting and information disclosure systems.
The Montepaschi Group is included in the Italian banks which have been subject to the ECB's Single Supervisory Mechanism. During 2014, besides finalising the work required within the sphere of the ECB's Comprehensive Assessment, the Group formally launched contact and discussion with the ECB-Bankit Joint Supervisory Team (JST).

ACTIVITIES ASSOCIATED WITH INTERNATIONAL SUPERVISORY LEGISLATION

- Pillar I: since 2008, the Group uses internal models validated by the Bank of Italy for measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, together with the Supervisory Authority, these models have been further developed and on a parallel the activities continued for the improvement of the internal management models for market and counterparty risk.
- Pillar II: during the year, the internal management models were developed and certain action was undertaken to further improve the process for the internal assessment of the Group's capital adequacy (the so-called ICAAP - Internal Capital Adequacy Assessment Process) in relation to which mandatory disclosure has been made to the Bank of Italy.
- Pillar III: the related Public Disclosure is divulged quarterly by means of the Group website at the following address www.mps.it/Investor+Relations and is continually updated in observance of the related legislative developments.

During 2014, the method-related and applications analysis required by the new international supervisory regulations continued (so-called "Basel 3"), with particular reference to the handling of liquidity, counterpart and market risks and to associated adaptation of the reporting databases.

The Group was also involved in the internal assessment (Gap Analysis) with reference to the 15th update of the Bank of Italy Circular No. 263/06 dated 2 July 2013 regarding the internal control system, IT system and operating continuity.

ECONOMIC CAPITAL ANALYSIS

The Total Economic Capital (or Total Absorbed Internal Capital) is the minimum operational amount of capital required to cover economic losses due to unexpected events generated by the simultaneous exposure to various types of risk.
In its normal operations on the markets, the Group is subject to various types of risk which may be broken down into the following:

- credit risk (including concentration risk);
- counterparty risk;
- issuer risk;
- market risk of the trading book;
- interest rate risk of the banking book (Asset & Liability Management - ALM);
- liquidity risk;
- equity investment portfolio risk;
- UCITS risk;
- operational risk;
- business risk;
- property risk;
- reputational risk.

The risks inherent to investment products/services intended for Group customers are also overseen, with a view to both customer protection and prevention of potential impacts of a reputational nature.

The Total Economic Capital is quantified based on all the afore-mentioned types of risks, with the exception of the liquidity risk and the reputational risk, which instead are mitigated through policies and organisational processes.

Assessment models

The Risk Management Unit regularly quantifies the Economic Capital relating to each type of risk and periodically reports this to the Risks Committee and the Senior Bodies within the sphere of the flow arranged by the Risks Division. Above all else, internally developed measurement models are used, based on a Value-at-Risk (VaR) type approach.

For the purposes of calculating the Total Economic Capital, the measurements relating to each type of risk are standardized over both the chosen time frame (holding period of one year) and confidence interval, in line with the target rating level of the Group and are subject to "intra-risk" and "inter-risk" diversification.

The following table summarises the salient characteristics of the individual internal management models adopted for the main types of risk and in the last column their handling with regard to integration of risks for the purpose of determining the total Economic Capital.

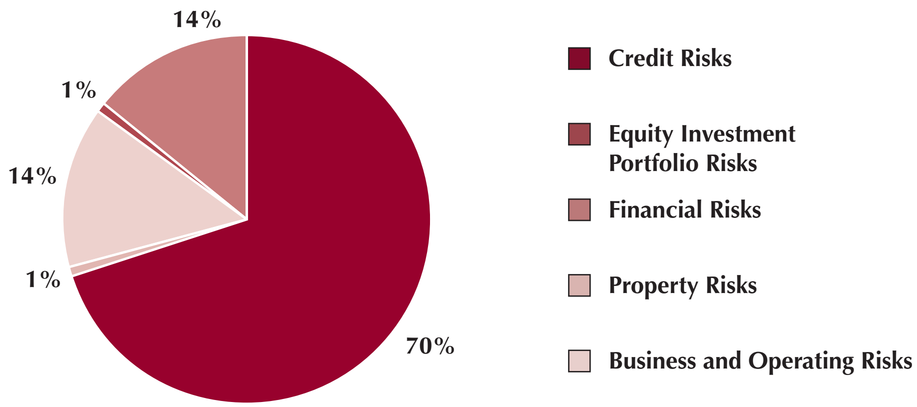
RISK MEASUREMENT MODELS - MAIN CHARACTERISTICS

Ris type	Extent	Model	Risk factors	Correlations	Treatment for Economic capita
Performing loans	1Y	Credit Internal	PD and LGD differentiated by type of counterparty, differentiated by	Correlations based multi-variant analysis between internal default and macroeconomic	Copul t-Student
Equity investments	3M VaR, 99%	Montecarlo	Volatility of the share and	Correlation between share Correlation *Proxy*	1Y, Copul t-Student
Market (Banking	1Y, shift sensitivity per	Maturity Gap	*Bucketin* On parallel shifts &*twists* of the interest		1Y, Copul t-Student
Markets (Trading	1day 99%	Historical VaR simulation – full revaluation	All the factors of Market (IR, EQ, FX,	Implicit in the full revaluation historical simulation	1Y, Copul t-Student
Operative	1Y 99.9%	LDA with integration ext. data, plus Self on quality	Frequency *severit* per *typ*	Copula t-Student between different event	99.93% Copul t-Student
Business	1Y 99%	Parametric	Volatility of costs and	Correlations costs and	99.93% Copul t-Student
Real estate	1Y 99%	Parametric	Volatility of property indexe	Correlation prox	99.93% Copul t-Student

The other significant risk factors which can be measured (e.g. Issuer Risk, UCITs risk) are considered in the Economic Capital in an additional and non-diversified manner. Their quantification for the purposes of the Economic Capital takes place on the basis of methods changed by the Supervisory regulatory approaches.

As of 31 December 2014, the Total Diversified Economic Capital (determined by taking into account the diversification effect, or the factors of correlation between the various risk drivers), with the exclusion of intra-group operations, was 70% attributable to credit risk (including counterparty and issuer risk) and 14% attributable to operational and business risks. Risk management capital covering financial risks (comprising the typical risks of the trading portfolio and the ALM-Banking Book) amounted to approximately 14% of the Total Economic Capital, whilst capital covering the equity investment portfolio and property risks is residual and equal to 1%.

DIVERSIFIED ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31.12.2014



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

Human Resources

STAFF TREND

The bank workforce as of 31 December 2014 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	8	5	**21**
Managers	296	121	39	**214**
Professionals	216	105	19	**130**
Total	**536**	**234**	**63**	**365**

The comparison of the workforce figures with the previous year is presented below:

	31/12/2014	*31/12/2013*	*Changes*	
			Absolute	*%*
Executives	21	27	(6)	(22.22)
Managers	214	228	(14)	(6.14)
Professionals	130	129	(-1)	(-0.78)
Total	**365**	**384**	**(19)**	**(4.95)**

Activation of the "Solidarity Fund" took place during the year, concerning 13 resources. In order to cover the redundancy incentive charges and to access the solidarity fund, costs were recognised in these financial statements for €3.5 million. The workforce trend registered during the year is presented below:

Workforce - Trend	*31/12/2014*	*31/12/2013*
Opening balance	**384**	**426**
Increases	**43**	**10**
for temporary recruitment	12	7
for ceased secondments to Group	16	2
for secondments from Group	15	1
Decreases	**62**	**52**
for resignations	7	8
for access to the Solidarity Fund	5	9
for secondments - Group and Fuendo (*)	50	35
Opening balance	**365**	**384**

(*) of which: 9 ceased secondments from BMPS, 31 new secondments care of BMPS for activities of the Global Markets and Investment Banking Divisions (middle office/securitisations), 10 secondments care of Fruendo (back office activities).

DISTRIBUTION BY AGE

The following information pertains to the "workforce" situation as at 31 December 2014:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	*age*
Women	10	31	68	31	140	43.5
Men	13	50	105	57	225	44.5
Total 2014	**23**	**81**	**173**	**88**	**365**	**44.0**
Incidence	6.30%	22.19%	47.40%	24.11%	100.0%	

TRAINING OF PERSONNEL

Training activities carried out in 2014 were characterised by specialist and/or mandatory measures aimed at all the categories of employees, in particular:
- vis-à-vis management and executive staff, to further develop the managerial qualities and support the operational action in the particular and difficult economic period;
- vis-à-vis the rest of the staff, so as to increase the knowledge of technical-legal matters with a specific impact on the activities of the Bank (anti-money laundering, market abuse, Mifid, health & safety).

Various forms of participation in outside specialist courses were also authorised, held by consultants of proven professional qualification. The overall provision of training was 5,273 hours, of which 3,354 classroom-based and 1,919 on-line (in 2013, the hours were 5,182, 4,191 classroom-based and 991 on-line).
The reference subjects of the measures provided were:
- finance; 710 hours;
- legal and accounting: 2,496 hours;
- managerial ability development: 338 hours;
- production systems, organisation and processes: 12 hours;
- other aspects: 1,717 hours.

EMPLOYMENT AND TRADE UNION RELATIONS

In-house trade unions meetings continued in a positive frame, relating to the implementation of objectives and the guidelines of the Plan.

Organisational and technological dynamics

The financial-economic context once again in 2014 imposed an important series of legislative, organisational and technological measures aimed at maintaining the compliance, efficiency and streamlining of the processes and the adaptation to the market needs.

Main activities established during 2014:

1) *Main projects linked to the maintenance of Compliance*

1.1) 15th update of the prudent supervisory instructions for banks - Bank of Italy Circular No. 263/2006;
1.2) EMIR Regulations and Dodd Frank Act (European Market Infrastructure regulation);
1.3) FATCA (Foreign Account Tax Compliance Act);
1.4) Volker Rule;
1.5) Basel III Capital Requirements - CVA (Credit Valuation Adjustment).

2) *Organisational Efficiency and Governance*

2.1) Assignment of the Corporate Report of MPSCS to the new Corporate & Investment Banking Division of BMPS, further to the organisational developments of the Parent Company;
2.2) Placement of the Staff Quants reporting to the General Manager;
2.3) Concentration care of the banking Parent Company of the Middle Office department;
2.4) Concentration care of the banking Parent Company of the handling of the equity investments and part of the activities carried out previously by the FIG Origination & Structured Credit Unit;
2.5) Assignment of the Structuring & Product Engineering Unit to the Global Markets Division;
2.6) Assignment to the Corporate Finance Division of the commercial responsibilities for lending operations (Commercial Planning department and Area Centres).

3) *Adaptation of the Internal Regulations and Compliance aspects*

Within the sphere of the monitoring of in-house regulations, a series of Group policies and documents have been issued/up-dated, among which it is important to indicate:

3.1) Adaptation of the in-house regulations to the requirements envisaged in the XVth update of the Prudent Supervision;
3.2) Compliance Directive;
3.3) Group accounting policy;
3.4) Risk Management - Assignment and monitoring of the operating limits (relating to liquidity);
3.5) Analysis and monitoring of the risk and production of the reporting (relating to liquidity);
3.6) Handling of prescriptive fulfilments regarding money lending;
3.7) Discipline of conflicts of interest;
3.8) Internal Transfer Rate Management Model (TIT);
3.9) Purchasing cycle: Supplier management and management of Costs;
3.10) OTC derivative distribution policy;
3.11) Policy concerning personal transactions in the provision of investment services,
3.12) Reporting Suspect Transactions for Anti-money Laundering and the Fight against International Terrorism;
3.13) Securities and derivatives - administrative and accounting management of the positions;
3.14) Proprietary finance processes of the Global Markets Division;
3.15) Operational document regarding financial instruments valuation;
3.16) Administration of positions subject to Anomalous Risk;

3.17) Specialised Lending operating process;
3.18) Management of anti-money laundering and terrorism contrast fulfilments;
3.19) Discipline of Market Abuse;
3.20) Process for the monitoring of the value of properties for Credit Risk Mitigation purposes;
3.21) Pricing of the Financial Instruments for Customers;
3.22) MPSponsor Minibond - Minibond issues (debt securities of the unlisted joint-stock companies).

4) Main projects linked to the business

4.1) Asset Quality Review - legislative, organisational and technological adaptations are underway further to the review of the loan assets by the ECB during 2014;
4.2) Murex 3.1 - During 2014, one of the main technological evolution projects of the Montepaschi Group commenced, the migration to release 3.1 of Murex, a core finance application. The go-live is envisaged during the second half of 2015.

Internal Audit

The Internal Audit Unit has the task of independently checking the due nature of the operations and the trend of the risks and to assess the functional nature of the entire Internal Audit System (I.A.S.). These tasks are acquitted under the co-ordination of the corresponding Parent Company Units, in collaboration with the other control Units of the Bank, and above all else, in observance of the objectives defined in the specific annual audit plan approved by the Board of Directors, the Body responsible for strategic supervision to which the Unit reports directly.

The optimisation of the I.A.S. is an essential condition for the pursuit of the business and Group objectives, including therein the compliance with the provisions laid down on the subject by the Supervisory Bodies. In this latter connection, it is hereby revealed that in the second half of the year analysis was carried out, at Group and company level, preparatory for the adaptation of the structure to the innovations which will be introduced as from July 2014, according to a structured programme of deadlines, due to the 15th update of the Bank of Italy Circular No. 263/2006 "New prudent supervisory instructions for banks". By means of this up-date, 3 new sections have been envisaged ("Section 7 - The internal audit system", "Section 8 - The information system" and "Section 9 - Operating continuity"), the first of which is of particular importance both with regard to the control environment in Banking Groups and in the individual legal entities. The implementation of the Audit System will be standardised, as usual, via the up-dating of the Group Directives and the specific dedicated internal documents.

Taking into account the need to submit all the significant components in the sphere of the operations and business structures to audit, with a view to the long-term, as well as the need to carry out mandatory reviews, or rather those envisaged by specific external and/or internal regulations, the annual audit plan envisages on a cyclical basis measures and checks on the operating processes deemed as exposed to greater risk or potential problematic issues (Finance and Credit), identified by means of the combination of the relevance factors of the areas of investigation and the risk level associated with the same, also further to the results of the periodic Risk Assessment activities.

The audit plan is also supplemented by targeted measures on aspects of transversal interest, others relating to aspects inherent to the compliance with the internal and external standards, others addressing assurance of the Senior and Audit Bodies. Lastly, the tutoring/validation activities also undertake importance, in particular within the sphere of the checking of the consistency of the checks indicated in the process regulations with respect to the overall I.A.S., along with follow up activities, or rather the monitoring of the stage of completion of the solution of the problematic issues emerging within the sphere of the measures carried out.

The audits performed during 2014 by the Internal Audit Unit, reported on every six months to the Board of Directors, contributed towards confirming the essential suitability of the Bank's Internal Audit System. Contributing to this assessment what is more are the opinions on the matters which have over time been formed by the business units (those responsible for the controls within the related processes) and the other In-house Audit Units (responsible for overseeing specific risk spheres), envisaged by the "Governance Model of the Internal Audit System" defined in the related Directive issued by the Parent Company BMPS. The Compliance Unit stands out among these latter structures, tasked with the management of the risk of non-compliance with the standards, along with the Risk Control Unit, outsourced care of the Parent Company Risk Management Division, which has the task of monitoring and overseeing the credit, market and operational risks, guaranteeing the performance of specialist checks and the measuring of the various risk components.

The Internal Audit Division accomplished its audit activities in observance of the measures envisaged by the 2014 Audit Plan, also carrying out certain activities not estimated upon the request of the Board of Auditors and General Management. The audits carried out during the year as usual transversally concerned the various businesses of the Bank, having also taken into account aspects in relation to which, within the legislative sphere and in the regulations and provisions of the Supervisory Bodies, specific control provisions are in force. With the purpose of checking the effective execution of the first level checks and therefore indirectly the soundness of the Audit System adopted, a number of measures were carried out, with an essentially favourable outcome, on the correct performance of the operations and/or on the correct implementation of the line controls by certain structures, both of the credit and finance areas.

Internal Audit's attention on the process for the selection and disbursement of credit, was then implemented, in continuity with previous years, by means of checking the methods adopted in the connection phase for positioned classified as subject to anomalous risk. Checks were also put together on the uses of the override faculty during the stage for determining the rating of the counterparties granted credit and on the consistency of the related reasons.
With regard to the finance sector, besides the checks on the first level controls carried out by certain structures, checks were carried out on the OTC derivative trading process with Corporate customers of the bank, placing under observation - with regard to this subject - the handling of the contracts and the controls care of an Area Centre, the observance of the hedging purposes, the profiles of compliance with the MiFID provisions, and, finally, the handling of OTC derivative transactions which present unpaid differentials. Specific measures were also carried out with regard to the correctness of the trading activities of the "DDT" Systematic Internaliser and on the market making activities on bonds and hybrid capitalisation instruments (financial instruments not deducted from the regulatory capital). The essentially positive results of this latter measure, significant for the purposes of the prudent supervisory instructions, have been brought to the attention of the Board of Auditors and the Board of Directors.
With regard to audits on regulated and compliance processes, specific checks were made with regard to the observance of the standards as per Italian Law No. 108/96 on money lending, the standards for the Transparency of the Operations and Banking Services (TUB and Bank of Italy Supervisory Instructions), on the application of Italian Law No. 262/2005 concerning general accounts. As is usual, the annual audit of the functioning of the governance and Operational Risk management system was carried out, envisaged for the conservation of the acknowledgement of the Supervisory Authority of the Group internal model for the purposes of the AMA approach ("advanced" method for determining the capital absorptions in the presence of operating risks). The checks for the purpose of anti-money laundering also continued, an aspect in relation to which a specific long-term audit plan exists so as to subject all the associated components to control.

Compliance

The activities of the Compliance Unit carried out during 2014 concern the aspects described in the planning included in the 2014 Compliance Plan; in detail, the conformation activities concerned the assimilation within the regulations and the company processes of the main legislative innovations as well as of the measures identified as necessary within the Compliance Plan drawn up for 2014, with particular focus in the second half of the year on the assimilation of the indications contained in the 15th update of the Bank of Italy Circular No. 263/2006 ("Circular 263"), in terms of organisational structure but also structuring of the safeguards.
The analysis carried out and summed up in the report which follows, revealed essential compliance for the aspects with a significant impact; compliance which emerges also from the results of the assessment model adopted, with some areas for improvement with regard to that which concerns investment services and anti-money laundering fulfilments.
In relation to the compliance of the **investment services,** regarding the trading of OTC (over the counter - traded outside organised markets) derivative instruments with corporate customers, completing the internal legislative set up and the supervision of the activities in question, internal regulation documents have been issued which acknowledge the European provisions regarding EMIR.
With regard to the trade execution agreement, aimed at disciplining securities transactions using the DDT Systematic Internaliser and other trading venues used for these activities by MPSCS vis-à-vis the network banks, the draft of this agreement was reworded and is awaiting finalisation by virtue of the role which has been assigned by the Parent Company to MPSCS as sole intermediary for the transmitting the orders on both bonds and shares involving Group customers. The review of the trade execution agreement - as mentioned above - also led to the reprocessing and updating of the bank's Execution Policy so as to render it consistent with the extensive modification made to the type of instruments which can now be traded by MPSCS and the internal regulation document which disciplines best execution was further reviewed.
In observance of legislative provisions contained in Italian Law No. 62/2005 on Market Abuse and described in the internal regulation document, which also acknowledged the additional indications collated in the Group regulations in this connection, the Compliance Unit monitored the trades made, both on behalf of the Bank and, if performed, on behalf of the customers, on listed financial instruments included in the Watch List (and on those associated with the same) for the entire period of permanence on said list. The analysis of the checks carried out both in the first and second half of the year, disclosed the observance of the rules that prohibit the improper use of privileged information, pertaining to the financial instruments of the issuers enrolled in the Register.
With regard to the so-called personal transactions as per Article 18 of the joint Bank of Italy/Consob Regulations, and in particular the procedures which the intermediary must adopt so as to avoid the occurrence of situations disciplined by said rule, as recalled above, two new versions were issued respectively of the policy on personal transactions and the process document for the purpose of more fully acknowledging the Group process for the monitoring of said transactions. The controls carried out in this connection, for the period covered by this report, did not reveal the accomplishment of transactions on financial instruments issued by companies on the insider lists by the employees of the bank enrolled therein, in violation of the provisions in force.
By contrast, with regard to the compliance of the **banking services,** and in particular anti-money lending, from a legislative standpoint, you are hereby informed that on 6 May the internal regulation document which disciplined the related subject was re-issued. This re-issue is consequent to the publication by the Parent Company of the new provisions inherent to the handling of the prescriptive fulfilments concerning money lending which introduced a number of changes to the mechanism for the calculation of the threshold rate especially for review operations. The measure became necessary further to an interpretation provided by the Bank of Italy in this connection.
On 1 July 2014, the US legislation FATCA came into force, which lays down the due diligence of customers and counterparties aimed at identifying any US taxpayers. For this purpose, an application is being released by the Group Operational Consortium (COG), which partly uses the information present in the record file and in part that deriving from a questionnaire specifically drawn up for this purpose. This application automatically handles the relations block function

on other procedures as well. In order to follow these aspects, an interfunctional work group (WG) was set up in June 2014 co-ordinated by the head of the Compliance Unit, who also covers the role of "Point of Contact" for FATCA purposes. In an initial stage, and in any event until the application is operative and populated by the necessary information and the operations are therefore fully up and running, the WG will handle the request for an acquisition of information by means of the use of a site team which permits the input of the information and its consultation by the commercial and front office structures.
On the subject of privacy, in October the up-date of the internal regulation document was issued; in detail, the new provisions regarding traceability of the consultation activities carried out by employees on the economic data of the customers were acknowledged.
With regard to the 231 model, as already indicated in the 2013 compliance report, towards the end of the second half of the year a special WG was established (November 2013) which during the year carried out and completed the production of the self assessment for the 231 Supervisory Body (SB), the preparation of the specific control protocols for each structure of the bank as envisaged in the Parent Company's model and in conclusion the drafting of the Organisation, Management and Control Mode established, specifically the special section inherent to the protocols. All the documentation was forwarded to the 231 SB for the performance of the activities it is directly responsible for.
The activities carried out in relation to the 15th up-date of the 263 Circular were also important and relevant in terms of absorption of resources, with regard to the aspects of specific pertinence to compliance; the activities carried out via the WG specifically formed led, in accordance with the guidelines outlined by the Parent Company's Compliance Unit, to the restructuring of the compliance activities according to a so-called widespread compliance model, which in other words consists of a centralised compliance structure and five specialist units which have been subject to identification and will be disciplined by means of specific legislation subject to self assessment activities carried out on the existing structures so as to assess their adequacy according to a risk-based approach.
With regard to compliance of anti-money laundering and terrorism fighting activities, the related supervision activities continued during 2014. Especially, with regard to the streamlining of the Centralised Computer Archive (AUI), the activities put together made it possible to further develop the process already implemented for the clearance of incomplete registrations which daily flow into the temporary AUI (in particular linked to the lack of a valid identification document), and therefore into the final AUI, supplemented by all the necessary data, by the deadlines envisaged by internal regulations (25 days). On average, the indications of incomplete operations are now just a few on a daily basis, and are handled in observance of the timescales indicated by the regulations. Therefore, no problematic aspects emerged in relation to the correct keeping of the AUI.

During the year, on the subject of investment services, two complaints were presented; one relating to hedging derivatives, rejected, and the other relating to the trading of a subordinate issued by BMPS, upheld. By contrast, 70 complaints were presented with regard to banking services (56 for presumed usury), of which just one upheld.

Environmental Issues

There are two types of impacts of our activities on the environment: direct and indirect. Direct impacts are linked to operations, consumption of paper, water and energy, and production of waste and greenhouse gas, while indirect impacts are attributable to activities of suppliers and customers, in relation to the environmental risk of activities financed, the improvement in ecological efficiency incentivised through customised financing and for polluting activities of suppliers or the products purchased.
Activities continued during the year relating to the maintenance of the environmental management system. In particular, during April/May the internal audits were carried out preparatory to the audit by the external Body, at the offices in: Florence - Via Panciatichi 48, Siena - Viale Mazzini; Rome - Via Piemonte.
In May 2014, 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 “Credit disbursement; Corporate Finance services; Advice and services for the Public Administration authorities for the granting of public subsidies”, and structured finance, investment services and activities on the capital markets.
The audit concluded positively with the reporting of 1 case of non-compliance and 4 recommendations for improvement. The 5 reports were analysed and are being dealt with.

Relations with Group companies

Transactions carried out with the Parent Company Banca Monte dei Paschi di Siena and with the other MPS Group Companies were numerous and significant during the entire year 2014. Referring to Part H "Transactions with Related Parties" - in the Explanatory Notes - for a breakdown of the existing balance sheet and income statement dealings with Group companies as of 31 December 2014, the main aspects of importance are commented below.
Given that the guidance, control and support provided by the Parent Company over MPSCS' operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constructive cooperation, with the Parent Company issuing specific guidelines (instructions, policy, process regulations) which were fully brought to the attention of the MPSCS Board of Directors.
The outsourcing of activities to other MPS Group organisations and companies has enabled MPSCS to maximise synergies and economies. Both outsourced services and the financial transactions carried out with counterparties of the MPS Group, summarised below, are usually regulated on an arm's length basis and disciplined by specific agreements between the Parties (known as Service Level Agreements - SLA). As regards relations with the Parent Company and its subsidiaries, the following is specifically noted[2]:

- operations on the market carried out as part of the strategic mission of MPSCS detailed in the following sections;
- the agreement originally entered into by the split-off MPS Finance Banca Mobiliare S.p.A. (January 2003) concerning the relations with Group companies and regarding the methods for the Bank to reacquire the innovative financial products, created by the Bank and placed by the Group's commercial networks;
- the granting of temporary loans and medium/long-term loans by Banca MPS and its subsidiary MPS Ireland[3], for the purpose of funding the Bank's normal operations; all the above was carried out in accordance with the indications of the Parent Company's ALM Business Unit, as a consequence of the centralised management of the process pertaining to medium/long term interest rate and liquidity risks by the Parent Company;
- the activities for the recovery of anomalous receivables and the related management under authorisation of the expense items, entrusted to the Parent Company's Debt Collection Unit and disciplined by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to MPSCS;
- the presence of employees of MPSCS seconded to the Parent Company and some of its subsidiaries, including the Consorzio Operativo Gruppo MPS - COG (MPS Group Operational Consortium);
- centralised supervision of the risk management activities care of the Parent Company's Risk Division;
- activities for supervising advertising, communications and image care of the Banca MPS Communications Unit;
- technological supervision, maintenance and development of the IT system assigned to the Consorzio Operativo Gruppo MPS, with which a specific SLA has been defined;
- administrative activities typical of the Back Office (BO) of the finance unit centralised within the Specialist Services for the Business Unit (ASSB) of the Parent Company (activities for the finalisation of the SLAs are underway);
- the purchases of goods and services in amount exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Purchasing and Cost Optimisation Service (SAGOC);
- the conferral to MPS Immobiliare of the activities associated with the disposal/sale of the properties still owned by the Bank;
- the conferral of the management under authorisation of the expense items relating to the property segment to the Parent Company Property Asset Management Unit structures;
- the support provided by the Parent Company's Prevention, Protection and Environment Service in terms of health and safety in the workplace, as well as sustainable development of the activities carried out by the bank with reference to possible consequent impacts with regard to the environment;
- the lease of premises owned by the Group.

[2] *With regard to quantitative figures, please see the matters illustrated in section H of the Explanatory Notes.*
[3] *MPS Ireland was absorbed within the Parent Company. The transaction took place in February 2014, with effective as from 1 January 2014.*

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

There were no significant changes in the Bank's operations during 2014, and even in the first few months of 2014 activities continued in continuity with the past and in line with the lines of the Group business plan currently in force.

As of 31 December 2014, the bank presented a primary capital deficit of €331 million. This result derives from the significant loss reported in the year, amounting to €587.5 million, in turn generated by the adjustments and the reclassification made in the 2014 financial statements on conclusion of the process for the up-dating of the methods and the parameters used in the classification and measurement of the receivables consequent to the new accounting policy adopted by the Group on conclusion of the process relating to the Asset Quality Review.
In order to restore the minimum capital levels required by prudent legislation, a share capital increase will be carried out with a contribution of equity amounting to €900 million which the Parent Company, by means of resolution adopted during the Board Meeting held on 11 February 2015, has undertaken to subscribe also for any portion unopted. The increase will be implemented within the technical timescales necessary for obtaining the due authorisations from the Supervisory Bodies and for accomplishing the formalities envisaged by the law. The entity of the increase ensures an additional buffer capable of covering potential and unforeseeable adverse dynamics in the current year as well as the rising absorptions of the phase-in envisaged by Basel 3.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2014 Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Explanatory Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to cover the loss registered during the year as follows:

PROPOSAL FOR THE COVERAGE OF THE 2014 LOSS

- use of the reserves established at the time of initial application of the IAS accounting standards	Euro	42,766,572.59
- use of the extraordinary reserve	Euro	367,768,195.50
- use of the merger surplus reserve	Euro	176,968,378.78
2014 LOSS	Euro	**587,503,146.87**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2014*	*31/12/2013*	*Change*	
				Absolute	*%*
10.	Cash and cash equivalents	100	72	28	38.89%
20.	Financial assets held for trading	21,345,813,527	22,953,129,685	(1,607,316,158)	(7.00%)
40.	Financial assets available for sale	88,937,105	204,350,467	(115,413,362)	(56.48%)
60.	Due from banks	9,843,127,880	6,185,759,103	3,657,368,777	59.13%
70.	Loans to customers	11,109,185,194	13,069,982,546	(1,960,797,352)	(15.00%)
100.	Equity investments	3,005,545	10,051,207	(7,045,662)	(70.10%)
110.	Property, plant and equipment	13,974,881	14,398,089	(423,208)	(2.94%)
130.	Tax assets	491,780,357	220,127,075	271,653,282	123.41%
	a) current	*16,266,124*	*13,149,778*	*3,116,346*	*23.70%*
	b) prepaid	*475,514,233*	*206,977,297*	*268,536,936*	*129.74%*
	of which It. law No. 214/2011	*465,634,003*	*185,062,210*	*280,571,793*	*151.61%*
140.	Non-current assets held for sale and discontinued operations	5,000,000	1,699,513	3,300,487	*194.20%*
150.	Other assets	29,682,378	32,086,315	(2,403,937)	(7.49%)
	Total Assets	42,930,506,967	42,691,584,072	238,922,895	0.56%

Note:
the balances relating to 2013, presented for comparative purposes, have been reclassified to reflect the effects of the retrospective application of the new version of IAS 32, section 42 as illustrated in the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

Balance Sheet

Liabilities and Shareholders' Equity	*31/12/2014*	*31/12/2013*	*Change*	
			Absolute	*%*
10. Due to banks	19,329,300,546	8,016,938,430	11,312,362,116	141.11%
20. Due to customers:	240,019,923	8,604,045,963	(8,364,026,040)	(97.21%)
30. Outstanding securities	467,300,665	70,551,678	396,748,987	562.35%
40. Financial liabilities held for trading	22,141,067,641	24,644,428,190	(2,503,360,549)	(10.16%)
60. Hedging derivatives		1,368,987	(1,368,987)	(100.00%)
80. Tax liabilities		4,279,844	(4,279,844)	(100.00%)
a) current		*4,279,844*	*(4,279,844)*	*(100.00%)*
b) deferred				
100. Other liabilities	111,544,683	128,997,898	(17,453,215)	(13.53%)
110. Employee severance indemnities	3,219,214	2,850,888	368,326	12.92%
120. Provisions for risks and charges:	34,729,256	49,971,875	(15,242,619)	(30.50%)
a) pensions and similar obligations	*5,902,070*	*5,795,539*	*106,531*	*1.84%*
b) other provisions	*28,827,186*	*44,176,336*	*(15,349,150)*	*(34.75%)*
130. Valuation reserves	(2,764,146)	(25,442,013)	22,677,867	(89.14%)
160. Reserves	689,068,355	640,420,356	48,647,999	7.60%
170. Share premium reserve	228,089,231	228,089,231	-	-
180. Share capital	276,434,746	276,434,746	-	-
200. Profit for the period	(587,503,147)	48,647,999	(636,151,146)	(1307.66%)
Total Liabilities and Shareholders' Equity	42,930,506,967	42,691,584,072	238,922,895	0.56%

Note:
the balances relating to 2013, presented for comparative purposes, have been reclassified to reflect the effects of the retrospective application of the new version of IAS 32, section 42 as illustrated in the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

Income Statement

	Items	*31/12/2014*	*31/12/2013*	*Change*	
				Absolute	*%*
10.	Interest income and similar income	489,736,382	517,509,116	(27,772,734)	(5.37%)
20.	Interest expense and similar charges	(321,652,448)	(287,462,051)	(34,190,397)	11.89%
30.	**Interest margin**	**168,083,934**	**230,047,065**	**(61,963,131)**	**(26.93%)**
40.	Fee income	87,181,311	150,163,145	(62,981,834)	(41.94%)
50.	Fee expense	(55,003,935)	(103,647,748)	48,643,813	(46.93%)
60.	**Net fees**	**32,177,376**	**46,515,397**	**(14,338,021)**	**(30.82%)**
70.	Dividends and similar income	5,151,226	4,512,978	638,248	14.14%
80.	Net income from trading activities	132,824,318	153,341,607	(20,517,289)	(13.4%)
90.	Net income from hedging activities	(15,897)	43,979	(59,876)	(136.15%)
100.	Profit (loss) from sale or repurchase of:	(11,358,652)	(6,945,129)	(4,413,523)	63.55%
	a) loans	*(2,305,694)*	*(488,485)*	*(1,817,209)*	372.01%
	b) financial assets available for sale	*(9,052,958)*	*(6,456,644)*	*(2,596,314)*	*40.21%*
	c) financial assets held to maturity				
	d) financial liabilities				
120.	**Operating income**	**326,862,305**	**427,515,897**	**(100,653,592)**	**(23.54%)**
130.	Net value adjustments/write-backs				
	due to impairment of:	(1,136,976,888)	(293,661,085)	(843,315,803)	287.17%
	a) loans	*(1,109,891,753)*	*(257,465,148)*	*(852,426,605)*	*331.08%*
	b) financial assets available for sale	*(17,335,135)*	*(36,905,937)*	*19,570,802*	*(53.03%)*
	c) financial assets held to maturity				
	d) other financial transactions	*(9,750,000)*	*710,000*	*(10,460,000)*	*(1,473.24%)*
140.	**Net income from financial management**	**(810,114,583)**	**133,854,812**	**(943,969,395)**	**(705.22%)**
150.	Administrative expenses	(72,312,422)	(73,786,173)	1,473,751	(2.00%)
	a) personnel expenses	*(32,952,787)*	*(32,259,901)*	*(692,886)*	*2.15%*
	b) other administrative expenses	*(39,359,635)*	*(41,526,272)*	*2,166,637*	*(5.22%)*
160.	Net provisions for risks and charges	9,012,068	22,789,121	(13,777,053)	(60.45%)
170.	Net value adjustments/write-backs				
	on property, plant and equipment	(428,065)	(439,829)	11,764	2.67%
190.	Other operating income/charges	3,740,428	7,064,192	(3,323,764)	(47.05%)
200.	**Operating costs**	**(59,987,991)**	**(44,372,689)**	**(15,615,302)**	**35.19%**
210.	Profit (loss) from equity investments	(3,085,280)	(1,145,785)	(1,939,495)	169.27%
250.	**Profit (loss) from current operations**				
	before taxes	**(873,187,854)**	**88,336,338**	**(961,524,192)**	**(1,088.5%)**
260.	Income taxes for the year from current operations	285,684,707	(39,688,339)	325,373,046	(819.82%)
290.	**Profit (loss) for the period**	**(587,503,147)**	**48,647,999**	**(636,151,146)**	**(1,307.7%)**

Basic and Diluted Earnings per Share

	31/12/2014	*31/12/2013*
Basic earnings per share		
- from current operations	(0.65884)	0.05455
- on discontinued operations		
Diluted earnings per share		
- from current operations	(0.65884)	0.05455
- on discontinued operations		

Statement of Comprehensive Income

	Items	*31/12/2014*	*31/12/2013*
10.	**Profit (loss) for the period**	**(587,503,147)**	**48,647,999**
	Other income components net of taxes		
	without transfer to income statement		
20.	Property, plant and equipment:		
30.	Intangible assets		
40.	Defined-benefit plans	(779,719)	(461,197)
50.	Non-current assets held for sale		
60.	Portion of revaluation reserves of equity investments		
	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	23,457,586	(6,821,877)
110.	Non-current assets held for sale		
120.	Portion of revaluation reserves of equity investments		
	booked to shareholders' equity		
130.	**Total other income components net of taxes**	**22,677,867**	**(7,283,074)**
140.	**Comprehensive income (Item 10+130)**	**(564,825,280)**	**41,364,925**

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

				Allocation of previous year's results		Period changes								
							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 premium reserve	**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)**
Shareholders’ equity	**1,168,150,317**		**1,168,150,317**	**0**									**(564,825,280)**	**603,325,037**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2012 - 31/12/2013

				Allocation of previous year's results			*Period changes*							
							Shareholders' Equity transactions							
	Balances as at 31/12/2012	*Changes in initial balances*	*Balances as at 01/01/2013*	*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 31/12/2013*	*Shareholders' equity as at 31/12/2013*
Capital:	**276,434,746**		**276,434,746**											**276,434,746**
a) ordinary shares	***276,434,746***		***276,434,746***											**276,434,746**
b) other shares														
Share premium reserve	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**639,100,361**		**639,100,361**	**1,319,994**										**640,420,355**
a) profit	***392,770,117***		***392,770,117***	***1,319,994***										***394,090,111***
b) other	***246,330,244***		***246,330,244***											***246,330,244***
Valuation reserves	**(18,158,940)**		**(18,158,940)**										**(7,283,074)**	**(25,442,014)**
Equity instruments														
Treasury shares														
Profit (loss) for the period	**1,319,994**		**1,319,994**	**(1,319,994)**									**48,647,999**	**48,647,999**
Shareholders' equity	**1,126,785,392**		**1,126,785,392**	**0**									**41,364,925**	**1,168,150,317**

Note:
the items "valuation reserves" and "profit for the period" as per the column "balances as of 31/12/2012" are inclusive of the effects deriving from the retrospective application of the new version of IAS 19, in compliance with the IAS 8 international accounting standard (respectively for positive amounts of € 68,066 and € 43,590).

Statement of Cash Flows (indirect method)

(amounts in Euro)

		31/12/2014	31/12/2013
A.	**OPERATING ACTIVITIES**		
1.	**Management**	**(421,934,649)**	**(618,157,430)**
	- profit (loss) for the period (+/-)	(587,503,147)	48,647,999
	- gains/losses on financial assets held for trading and on financial assets/liabilities at fair value	(859,685,582)	(875,275,861)
	- net value adjustments/write-backs due to impairment	1,144,845,939	256,052,148
	- net value adjustments/write-backs to property, plant and equipment and intangible assets	428,065	439,829
	- net provisions to risks and charges and other costs/revenues	(9,012,068)	(22,789,121)
	- taxes not paid	(281,068,488)	6,544,193
	- other adjustments	170,060,632	(31,776,617)
2.	**Cash flows absorbed by financial activities:**	**(453,491,954)**	**5,085,350,185**
	- financial assets held for trading	2,492,570,496	3,184,819,567
	- financial assets available for sale	134,756,439	(4,296,679)
	- due from banks	(3,653,868,100)	1,025,521,704
	- loans to customers	843,591,570	888,864,313
	- other assets	(270,542,359)	(9,558,720)
3.	**Cash flows generated by financial liabilities:**	**873,160,485**	**(4,474,109,862)**
	- due to banks	11,300,636,336	159,372,800
	- due to customers	(8,350,049,576)	(1,987,749,962)
	- outstanding securities	390,000,000	(36,615,808)
	- financial liabilities held for trading	(2,699,544,399)	(2,265,338,506)
	- Other liabilities	232,118,124	(343,778,386)
	Net cash flows absorbed/generated by operating activities	**(2,266,118)**	**(6,917,107)**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**4,281,193**	**6,915,871**
	- sale of equity investments	2,670,085	6,195,871
	- dividends from equity investments	1,611,108	720,000
	- sale of property, plant and equipment		
	- sale of intangible assets		
2.	**Cash flows absorbed by:**	**(2,015,047)**	**0**
	- purchase of equity investments	(2,010,190)	
	- purchase of property, plant and equipment	(4,857)	
	- purchase of intangible assets		
	Net cash flows absorbed by investing activities	**2,266,146**	**6,915,871**
C.	**FUNDING ACTIVITIES**		
	- issue/purchase of treasury shares		-
	- issue/purchase of equity instruments		-
	- distribution of dividends and other purposes		
	Net cash flows absorbed by funding activities	**0**	**0**
D	**(A+B+C) NET CASH FLOWS ABSORBED/GENERATED DURING THE PERIOD**	**28**	**(1,236)**

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

Reconciliation

Items	*31/12/2014*	*31/12/2013*
Cash and cash equivalents at the beginning of the period	72	1,308
Total net cash flows absorbed/generated during the period	28	(1,236)
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at the end of the period	100	72

Note:
The aggregate "Cash and cash equivalents" corresponds to balance sheet asset item 10. As from 31 December 2013, cash and cash equivalents also included on demand payables and receivables and deposits with banks, posted under asset item 60 "Due from banks" and liability item 10 "Due to banks"; the comparative figures were amended to take into account this change.

EXPLANATORY NOTES

Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provision of IAS 8 (Accounting standards, changes in accounting estimates and errors)

1) Changes in accounting standards

During 2014, the amendment to **IAS 32 "Netting of financial assets and liabilities"** was applied for the first time, introducing a number of sections in the applicative guide of the same standard which clarify the methods for application of the rules (section 42 of IAS 32) which discipline the netting of the financial assets and liabilities in the balance sheet. For detailed disclosure on the content of the same, please see Part A "Accounting standards" in the Explanatory Notes while, in compliance with the matters envisaged by the international accounting standard IAS 1 "Presentation of Financial Statements", the quantification of the effects on the balance sheet balances at the start and end of the previous annual period is presented below. These effects did not have any impact on the shareholders' equity.

RETROSPECTIVE APPLICATION OF IAS 32, SECTION 42
SUMMARY (2012-2013) ITEMS AND AMOUNTS RECALCULATED

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012			
Items	*Book balance*	*Adjustments*	*Adjusted balance*
ASSETS			
20. Financial assets held for trading	25,675,969,947	(1,470,782,503)	24,205,187,444
Total Assets	**47,251,618,764**	**(1,470,782,503)**	**45,780,836,261**
LIABILITIES AND SHAREHOLDERS' EQUITY			
40. Financial liabilities held for trading	27,387,672,319	(1,470,782,503)	25,916,889,816
Total Liabilities and Shareholders' Equity	**47,251,618,764**	**(1,470,782,503)**	**45,780,836,261**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013			
Items	*Book balance*	*Adjustments*	*Adjusted balance*
ASSETS			
20. Financial assets held for trading	23,581,324,960	(628,195,275)	22,953,129,685
Total Assets	**43,319,779,347**	**(628,195,275)**	**42,691,584,072**
LIABILITIES AND SHAREHOLDERS' EQUITY			
40. Financial liabilities held for trading	25,272,623,465	(628,195,275)	24,644,428,190
Total Liabilities and Shareholders' Equity	**43,319,779,347**	**(628,195,275)**	**42,691,584,072**

You are hereby informed that the characteristics referred to by the amendment to IAS 32 for the netting of financial assets and liabilities, or in other words:

A. the existence of an actual, unconditional right which can be exercised during the normal course of business and also in the event of default, insolvency or bankruptcy of the counterparty, to offset the financial assets and liabilities (IAS 32 §AG38B);
B. and, at the same time the intention to settle the net amounts, or realise the asset and at the same time discharge the liability (IAS 32 §AG38E),

have been found in the transactions referring to **derivatives listed on organised markets** and in those relating to **OTC financial derivatives settled care of the central Counterpart LCH**.

With regard to the latter case, it is hereby specified that the relationship between the Bank and the Clearing Members (via which the Bank "indirectly" accesses LCH) is disciplined by an ISDA MNA contract and CSA, in which - in contrast to that which takes place within the sphere of the agreements envisaged with other counterparties - the application of the «Multiple Transaction Payment Netting» is envisaged as defined by Article 2(c) of ISDA MNA dated 2002. The activation of the «Multiple Transaction Payment Netting» option involves:

C. the net settlement on a daily or intraday basis;
D. a single transfer of funds for each settlement currency inclusive of the trades of the contractual flows, any amounts to be paid in the event of early termination and the payments/collections relating to the initial margins and variation margins (collateral).

In the event of the default of a Clearing Member, the rules envisaged by the ISDA MNA apply. In detail, the Bank can choose whether to transfer the position to another Clearing Member or arrange for the settlement of the outstanding positions.

2) Disclosure regarding the changes in accounting estimates

During 2014, the European Central Bank carried out a Comprehensive Assessment to check the quality of the assets (via the AQR - Asset Quality Review) and the suitability of the equity position of the leading 131 European banking groups and, among these, the top 15 Italian banks (via Stress Tests). The assessment evaluated the current and foreseeable conditions of the banks in view of the undertaking by the European Central Bank of the role of Supervisor over the entire European banking system. This was carried out with the collaboration of the national central banks on the basis of the criteria provided by the European Banking Authority (EBA).

The adjustments and the reclassifications made in the 2014 financial statements on conclusion of the process for the updating of the methods and the parameters used in the classification and measurement of the receivables consequent to the new accounting policy adopted by the Group further to the Comprehensive Assessment, and the consequent review of the entire loan portfolio, qualify - as per IAS 8 (section 5) - as "estimation changes" since the basis for the measuring of the same receivables/loans has not changed. They in fact derive from the adoption, in the current greatly deteriorated economic context, of new, more conservative recognition and measurement criteria, which take into account the experience gained in the Comprehensive Assessment as well as more up-to-date information.

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Looking closely at the impact deriving from the AQR, with reference to the outcomes of the sample analysis of the credit positions (Credit File Review, CFR), it is indicated that the amounts of the related value adjustment of receivables recorded in 2014 amounted to €233 million.

It is emphasised that the bank recorded additional adjustments, with respect to those emerging at the time of the CFR, due to the natural evolution of the exposures with respect to the reference date of the assessment (31 December 2013), taken into account during the business audit activities, as well as of the availability of more up-to-date information on the situation of the debtors and on the value of the guarantees.

With reference to the outcomes of the statistical projection of the results of the CFR, the bank - as took place at Group level - took into account the adjustments indicated by the ECB intervening on the methods and the parameters used for the purposes of the recognition and measurement of the receivables, with the adoption of the new accounting policy "Loans, guarantees given and commitments to provide funds":

In detail, the deterioration in the general economic context during 2014 and its current persistence led the MPS Group and, likewise, the bank, in observance of the principle of sound and prudent management, to up-date the applicative parameters and processes for the recognition and measurement of the receivables. For greater clarity, it is hereby revealed that the statistical projections are not contemplated by the applicable accounting standards and that, therefore (as confirmed by the same European Central Bank in the AQR Manual), the acknowledgement of the same in the accounting data as at 31 December 2014 is not envisaged.
The update of the accounting policy aims to reflect a deterioration of the conditions of the current economic context in the procedures for the measurements of the receivables and accordingly reference has been made to the experience gained during the Comprehensive Assessment and in particular to the methods used for the purpose of carrying out the AQR. These methods, despite being regulatory in nature for prudent purposes, and as such not automatically determining accounting repercussions, have proposed a raising of the quality standards for the measurements of the assets from an more conservative standpoint, without prejudice to the needs for compliance with the criteria established by the international accounting standards.
In conclusion, the new accounting policy sets down the bases for an alignment of the company and Group accounting practices with recently approved supervisory regulations (e.g. International Technical Standards issued by the EBA) and the observations made by the Supervisory Authority on this matter.
The main up-dates of the methods and parameters used in the recognition and measures of the receivables, also due to the adoption of the new accounting policy, are presented below.

- **Identification of non-performing exposures:** for the purpose of increasing the ability to promptly intercept the impaired exposures, the new accounting policy identifies a number of impairment triggers for the automatic recognition of the exposures from performing to non-performing which, with a view to greater prudence associated with the afore-mentioned and progressive deterioration of the general economic scenario, are additional with respect to those previously envisaged and compliant with the IFRS accounting standards. The new requisites disciplined by the ITS EBA for the handling of the exposures subject to forbearance measures have been considered among these impairment triggers. Furthermore, other indicators have been identified, mostly changed by the Asset Quality Review, which are required to be checked in the process for the measurement of the exposures.
- **Measurement of the non-performing positions - application of haircuts on real estate guarantees**: the accounting policy envisaged the systematic application of 2 haircuts to the market values of the real estate guarantees, determined in relation to the type of assets and the seniority of the opinion/court appointed expert. These correctives have the purpose of rendering the value of the opinion more aligned with the estimated realisable value within a market context characterised by expectations of further negative changes in property prices.
- **Collective measurement of the past due/overrun exposures and the objective watch-list positions:** with reference to the measurements of receivables in default on a collective basis (past due and objective watch-list positions), the write-down percentages have been calculated according to the matters envisaged by the provisions of the new accounting policy. In detail, in replacement of the forfeit write-down percentages previously adopted, the application of a specific loss rate is now envisaged, to be updated periodically and distinguished between guaranteed and unguaranteed positions.
- **Unsecured non-performing positions:** the Bank has adopted minimum thresholds for the determination of the write-downs on unsecured non-performing positions subject to bankruptcy proceedings which, due to the continuation of the economic crisis, disclose increasingly emphatic signs in terms of a deterioration in the recovery performances.

The afore-mentioned up-dates of the methods and parameters used in the recognition and measurement of the receivables led to adjustments for €695 million.

Furthermore, it is hereby stated that the amount of the adjustment on these positions was greater in entity with respect to that emerging at the time of the AQR due to the statistical projection of the results of the CFR since the Bank has taken steps to apply the new methods and the up-dated parameters within the scope of the loan exposures and not just to the

portfolios subject to measurement during the AQR (Large SME, Large Corporate, Real Estate related).
With reference to the results of the analysis on the "portfolio" adjustments, it is hereby revealed that the policy adopted at Group level has taken into account the adjustments indicated by the ECB, by means of the gauging and review of its models and collective measurement parameters for performing receivables, taking into account the context of general economic deterioration. In detail, also in light of the recommendations of the ECB, the method-based review of the calculation of the collective write-down has been carried out:
(i) eliminating the correct algorithms on the transactions with a duration of less than 1 year;
(ii) reducing the observation period to 5 years for all the portfolios, with regard to the Probabilities of Default (PD), for the purpose of rendering them more representative of the more recent records.
The impact of these measures on the financial statements as at 31 December 2014 was lower with respect to the results of the analysis of the "portfolio" adjustment highlighted by the AQR due to the significant reduction in the stock of performing exposures outstanding as of 31 December 2013 as a consequence of the reclassifications from performing to non-performing status mentioned above. The collective adjustments on performing receivables attributable to the effects of the AQR amount to €29 million.
Finally, further to the updates of the methods and parameters used in the recognition and measurements of the receivables, during 2014 non-current adjustments were recorded for a total of €957 million both on loan portfolios assessed at the time of the AQR and on the remaining portfolios.
Also considering the ordinary adjustments, amounting to €165 million, the overall amount of the adjustments made to the income statement items 100 a), 130 a) and 130 d) amounts to €1,122 million.

Part A
Accounting standards

A.1 - GENERAL INFORMATION

Section 1 - STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These Financial Statements, in application of Legislative Decree No. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations of 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 as of 31 December 2014.
The International Accounting Standards were also applied with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework").
In the absence of an accounting standard or interpretation specifically applicable to a transaction, other event or circumstance, the Company Management used its own judgement in developing and applying an accounting standard, in order to provide disclosure that is:
• significant for the purposes of financial decisions made by users of the financial statements;
• reliable, so that the financial statements:
  - provide a true representation of the equity-financial position, income statement and cash flows of the Bank;
  - reflect the economic substance of the transactions, other events and circumstances, and not merely their legal form;
  - are neutral, i.e. unbiased;
  - are prudent;
  - are complete, with reference to all significant aspects.

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

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

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

Section 2 - GENERAL PRINCIPLES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and subject to mandatory enforcement in 2014. Additionally, the

provisions of Bank of Italy Circular No. 262, governing the format and rules for the preparation of bank financial statements, amended by the third up-date dated 22 December 2014, were applied.
The financial statements comprise:
• the balance sheet
• the income statement
• the statement of comprehensive income
• the statement of changes in consolidated shareholders' equity
• the cash-flow statement
• the Explanatory Notes
and are accompanied by the directors' report on Bank operations.
The Bank, controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements.
The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. - with registered office in Piazza Salimbeni no. 3 - Siena, enrolled in the Banking Register and the Banking Groups Register with No. 5274 - and are made available to the public at said registered office.
The financial statements have been prepared with clarity, and provide a true and accurate representation of the equity, financial and income situation for the year.
The Explanatory Notes provide all the information required by the international accounting standards and the provisions contained in Bank of Italy Circular No. 262, in additional to other information which is not mandatory but deemed necessary for providing a true, accurate, meaningful, reliable, comparable and understandable 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 Explanatory Notes.
The offsetting of assets and liabilities and of costs and revenues is not permitted, except where allowed or required by the International Accounting Standards or the provisions of the Bank of Italy Circular No. 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 explanatory notes provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary for the purpose of understanding of the financial statements.
Revenues are reported in the income statement and the related section of the Explanatory Notes without a +/- sign, while costs are indicated in parentheses. In the statement of comprehensive income, negative amounts are indicated in parentheses.
In compliance with Article 5 of Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in units of Euro, whilst the Explanatory Notes are in thousands of Euro. Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. Tables that do not contain any values are omitted in the Explanatory Notes.
The financial statements have been drawn up with the view of the company as a going concern, in accordance with the matching principle, the principle of the importance and significance of information, and the principle of the prevalence of substance over form, as well as in order to favour consistency with future presentations. If necessary, the amounts recorded in the financial statements are adjusted to reflect events subsequent to year end which, pursuant to IAS 10,

require adjustment (adjusting events). Subsequent events not requiring adjustments and, thus, reflecting circumstances occurring after the balance sheet date (non-adjusting event) are disclosed in section 3 when significant and when they are capable of influencing the financial decisions of users of the financial statements.

Section 3 - EVENTS AFTER THE REPORTING PERIOD

IAS 10, "Events after the Reporting Period" expressly governs the treatment to be applied to favourable or unfavourable events occurring between the balance sheet date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to Financial Statement data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important.
There were no events after the balance sheet date pursuant to the international accounting standard IAS 10 "Events after the balance sheet date".
These financial statements have been drawn up deeming use of the assumption that the business is going-concern to be appropriate. With reference to the indications provided within the scope of Document No. 4 of 3 March 2010 issued jointly by Bank of Italy, Consob and Isvap and subsequent updates, 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 consequent to the current economic context do not generates doubts with regard to the ability of the company to continue operating as a going-concern. In this connection, specific mention is made of the commitment undertaken by the Parent Company Banca Monte dei Paschi di Siena with regard to the recapitalisation of MPSCS so as to ensure the same the necessary equity endowment for the correct performance of its activities and the observance of the statutory and supervisory obligations.
The measurement criteria adopted are consistent with this assumption and comply with the principles of pertinence, importance and significance of the accounting information and prevalence of the economic substance over the legal form. These criteria have not undergone any changes with respect to last year.

Section 4 - OTHER INFORMATION

List of the IAS/IFRS international accounting standards and of the related SIC/IFRIC interpretations whose application is mandatory as from the 2014 financial statements

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2014, the following is illustrated. These amendments have not had significant impacts on the preparation of these financial statements.
The new accounting standards **IFRS 10 "Consolidated financial statements"**, **IFRS 11 "Joint arrangements"** and **IFRS 12 "Disclosure of interests in other entities"** have been applied for the first time. The issuance of IFRS 10 has made it possible to recapitulate - in a single standard - the consolidation criteria previously contained in IAS 27 and, for Special Purpose Entities, in SIC 12; the rules contained in IFRS 10 now apply to all entities. IFRS 10 introduces a new concept of control: an investor controls an entity when they are exposed to or benefit from the fluctuations in the results of said entity and have the ability to make an impact on the amounts of these results exercising power over this entity. The issuance of IFRS 10 has led to the review of IAS 27 "Consolidated and separate financial statements, which, renamed "Separate financial statements", now contains the accounting criteria and the disclosure requirements relating to the separate financial statements of the investments in subsidiaries, associated companies and jointly-controlled entities. IFRS 11 "Joint arrangements" has replaced IAS 31 "Interests in joint ventures"; the standard requires an entity to determine

the type of joint arrangement in which it is involved, checking the rights and the obligations deriving from the agreement; if the entity is involved in a joint venture, the investment must be recorded in the financial statements using the equity method in compliance with IAS 28, which has been renamed "Investments in associates and joint ventures". The joint ventures can no longer be consolidated using the proportional method. The new standards IFRS 10, IFRS 11 and IFRS 12, the new versions of IAS 27 and IAS 28, together with the suppression of IAS 31, were endorsed by the European Commission on 11 December 2012 by means of Regulation No. 1254/2012.
In relation to the publication of the new standards regarding consolidation illustrated above, on 17 May 2012 the IASB published the document "**Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: transition guide",** containing clarifications relating to problems in terms of first-time application of the afore-mentioned standards IFRS 10, IFRS 11 and IFRS 12. The most significant clarifications contained in the document are as follows:

a) it is clarified that the date of first application of IFRS 10 coincides with the start of the annual period in which the principle is applied for the first time (1 January 2014 for EU entities with accounting periods coinciding with the calendar year);
b) as of the date of first-time application of IFRS 10, no adjustments have to be made to the previous financial statements in relation to entities which:
    a. would have been consolidated both under IFRS 10 and IAS 27/SIC 12;
    b. would not have been consolidated either under IFRS 10 or IAS 27/SIC 12;
c) in the event that the investor concludes that as of the date of first-time application of IFRS 10, an investee must be consolidated, not previously consolidated under IAS 27/SIC 12, IFRS 10 must be applied retrospectively, adjusting the annual period prior to the date of first application or the opening shareholders' equity for this period if the date when control was obtained as per this new standard is prior to the start of the annual period prior to the date of first application;
d) in the event that the investor concludes that as of the date of first-time application of IFRS 10 an investee must be consolidated, previously consolidated under IAS 27/SIC 12, the interest in the (former) subsidiary must be recognised at the value at which it would have been recognised if IFRS 10 had been in force when the investor had made the investment. The difference between this value and the book value, as of the date of first-time application, of the assets, liabilities and non-controlling interests must be recognised by adjusting the annual period prior to the date of first application or the opening shareholders' equity for this period if the date when the investment was made is prior to the start of the annual period prior to the date of first application;
e) if the afore-required matters are not feasible as per IAS 8, simplifications are envisaged which make it possible to apply the new IFRS 10 standard at the start of the first period in which the above becomes feasible (this period can also be the accounting period of first application).

The amendment was endorsed by the European Commission on 4 April 2013 under Regulation No. 313/2013.
In October 2012, the IASB also published the document "**Investment entity**", containing amendments to IFRS 10, IFRS 12 and IAS 27. The document introduces the definition of investment entity as an entity which obtains funds from third party investors for the purpose of providing them with investment services, undertaking to pursue the objective of appreciating the invested capital and maximising the profitability, assessing the result of more or less all their activities on the basis of fair value. An exception to the general rule that all the subsidiaries must be consolidated, is envisaged for these entities. In detail, the amendment envisages than these entities must measure the controlling equity investments at fair value with a matching balance in the income statement, both in the consolidated and separate financial statements. Amendments to IFRS 12 and IAS 27 are also introduced, inherent to the disclosure to be provided. The amendment was endorsed by the European Commission on 20 November 2013 under Regulation No. 1174/2013 and must be applied on a mandatory basis as from the annual periods starting as from 1 January 2014.
The **amendment to IAS 32 "Offsetting of financial assets and liabilities",** published by the IASB in December 2011, was also applied for the first time in 2014. This amendment introduced in the applicative guide a number of sections which

clarify the methods for application of the current rules (section 42 of IAS 32) which discipline the netting of the financial assets and liabilities in the balance sheet. The amendment was endorsed by the European Commission on 13 December 2012 under Regulation No. 1256/2012. The application of this amendment as from 1 January 2014 led to the net presentation of certain types of derivative instruments traded care of central counterparties, without significant impacts on the balance sheet and financial position, the income statement and the regulatory capital of the banks (for further details on the application of the standard please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provision of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes).
During 2014, the **amendment to IAS 36 "Disclosure on the recoverable value for non-financial assets",** published by the IASB in May 2013, must be applied for the first time. The amendment clarifies that the disclosure to be provided on the recoverable value of the assets which have undergone impairment only concerns those assets whose recoverable value is based on the fair value net of the sales costs; in this case, disclosure must be provided with regard to the hierarchy level of the fair value, the measurement techniques used and the key assumptions adopted for the measurements of levels 2 and 3. The amendment was endorsed by the European Commission on 19 December 2013 under Regulation No. 1374/2013.
As from 2014, the **amendment to IAS 39 "Novation of derivatives and continuation of hedge accounts",** published by the IASB in June 2013, must be applied for the first time. The amendment clarifies that a hedge accounting relationship must not be interrupted in the event of novation of the hedging instrument care of the central counterparties in accordance with the laws or regulations. The amendment, endorsed by the European Commission on 19 December 2013 under Regulation No. 1375/2013, was published within the context of the legislative changes which are affecting numerous jurisdictions with regard to centralisation of over-the-counter derivative transactions care of central counterparties.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2014

In November 2013, the IASB published the amendments to IAS 19 "**Defined-benefit plans: employee contributions**". The amendment clarifies the handling of contributions made by employees or by third parties to defined-benefit plans. Specifically, this disciplines the method for assignment to the service periods of the contributions which are associated with the services provided by the employees, with a view to streamlining the methods for recording the contributions which are not dependent in the number of years of service, but which - for example - are determined as a fixed percentage of salary. The amendment was endorsed by the European Commission on 17 December 2014 under Regulation No. 2015/29 and must be applied on a mandatory basis as from the annual periods starting as from 1 February 2015.

"Improvements to International Accounting Standards - 2010-2012 cycle" project On 12 December 2013, the IASB published a set of changes to the IFRS within the scope of this project, relating to the aspects summarised briefly below:

a) **IFRS 2 - "Share-based payments".** The definitions of "accrual condition" and "market condition" have been changed and the definitions of "result condition" and "service condition" have been introduced, which were incorporated before in the definition "accrual condition".
b) **IFRS 3 "Business combinations".** It has been clarified that the potential considerations which are classified as assets or liabilities are always measured at fair value on each balance sheet date subsequent to initial recognition.
c) **IFRS 8 "Operating segments".** An entity is required to provide information with regard to the discretional choices made by management in applying the aggregation criteria for the operating segments.
d) **IFRS 13 "Fair value measurement"**. It is clarified that the amendments to IAS 39 and IFRS 9 consequent to the publication of IFRS 13 have not eliminated the possibility of measuring the short-term assets and liabilities lacking

an pre-established interest rate at their nominal value, without discounting back, if the impact of this discounting is immaterial.

e) **IAS 16 "Property, plant and equipment".** It is clarified that when a property, plant and equipment item is revalued, the revaluation of the gross amount must be carried out on a consistent basis with the evaluation of the net amount.
f) **IAS 24 "Related parties".** It is clarified that an entity which provides strategic management services to the entity which draws up 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 on a consistent basis with the evaluation of the net amount.

The document was endorsed by the European Commission on 17 December 2014 under Regulation No. 2015/28 and will be applied on a mandatory basis as from the annual periods starting as from 1 February 2015.

"Improvements to International Accounting Standards - 2011-2013 cycle" project On 12 December 2013, the IASB published a set of changes to the IFRS within the scope of this project, relating to four aspects summarised briefly below:

a) **IFRS 1 "First-time adoption of IFRS".** This clarifies that an entity, in its first set of IFRS financial statements, can choose between the application of a standard to apply on a mandatory basis for that period and a new or reviewed standard which does not yet have to be applied on a mandatory basis, but which can be applied in advance on a voluntary basis. The entity is obliged to apply the same version of the standard for all the interim periods covered by the first set of IFRS financial statements.
b) **IFRS 3 "Business combinations".** It has been clarified that the recording of the formation of a joint-control arrangement in the financial statements of same joint-control arrangement falls outside the sphere of application of IFRS 3.
c) **IFRS 13 "Fair value measurement"**. It is clarified that the exception as per section 48 of IFRS 13 (portfolio exception) applies to all the contracts which fall within the sphere of application of IAS 39 or IFRS 9 irrespective of the circumstance that the definition of financial asset or liability defined in IAS 32 is satisfied or otherwise.
d) **IAS 40 "Investment property".** It is clarified that in order to determine whether a specific purchase transaction for a property with ancillary services satisfies the definition of business combination contained in IFRS 3 or the definition of investment property contained in IAS 40, the two standards must be applied separately one from the other.

The document was endorsed by the European Commission on 18 December 2014 under Regulation No. 1361/2014 and will be applied on a mandatory basis as from the annual periods which start after 1 January 2015.

In May 2013, the IASB published the interpretation **IFRIC 21 - "Levies"**, which applies to all the levies with the exception of those falling within the sphere of application of another standard and the fines and penalties deriving from legislative violations.

The interpretation deals with the recording in the accounts of a liability relating to the payment of a levy in the event that this liability falls within the sphere of application of IAS 37 as well as the recording of a liability relating to the payment of a levy whose timing and extent is unknown.

In detail, IFRIC 21 clarified that:

- an entity records a liability for a levy when the activity which triggers the payment, described by a legal provision, takes place;
- a liability for levies is provided for progressively only if the activity which triggers the payment takes place over a specific period of time;
- with regard to a levy whose payment is triggered by the reaching of a minimum level, no liability is recorded before the reaching of that minimum level.

IFRIC 21 was endorsed by the European Commission on 13 June 2014 under Regulation No. 634/2014. The mandatory application indicated in the interpretation starts as from 2014; with regard to companies operating in the EU, the mandatory application starts by contrast as from the annual periods which commence as from 17 June 2014. Retrospective application is possible in accordance with the requirements of IAS 8 for changes in accounting standards.

International accounting standards (IAS/IFRS) and related SIC/IFRIC interpretations issued by the IASB and still awaiting European Commission endorsement.

In July 2014, the IASB published the final version of **IFRS 9 "Financial instruments".** The document contains the results of the phases relating recognition and measurement, derecognition, impairment and hedge accounting of the project of the IASB aimed at replacing IAS 39.
As is known, in response to the requests for simplification of the accounting rules applicable to financial instruments, submitted both by political bodies and by international institutions, as from 2009 the IASB initiated a project for the replacement of the current IAS 39. The project in question was divided into three distinct lines: 1) recognition and measurement of financial instruments, 2) impairment, 3) hedges.
Regarding the first phase, on 12 November 2009 the IASB issued the accounting standard **"IFRS 9 - Financial instruments".** The new accounting standard concerns the recognition and measurement of financial assets. The portfolio categories have been reduced to three (amortised cost, fair value with changes in income statement and fair value with changes recognised under other comprehensive income). The Held To Maturity and Available For Sale categories were eliminated. Changes were also made to the classification rules of the three categories in question, including those for the Fair Value Option (FVO). The IFRS 9 uses a single method to determine whether a financial asset is measured at depreciated cost or at fair value. The method is based on the financial instrument management model adopted by the entity (business model) and on the contractual characteristics of the cash flow of the financial assets.
On 28 October 2010, the IASB completed the accounting standard IFRS 9 with the part pertaining to the classification and measurement of financial liabilities. The IASB opted for the essential maintenance of the framework of the current IAS 39. Consequently, it confirmed the current obligation to separate the derivatives embedded in financial liabilities; the full recording of fair value changes as offset entries in the income statements is prescribed, for instruments other than derivatives, only for financial liabilities held for trading. For the financial liabilities designated within the fair value option, the change in fair value attributable to changes in the credit risk of the liability is recorded directly among the other comprehensive income entries, unless this creates and/or exacerbates the accounting mismatch, in which case the entire change in fair value is recorded in the income statement. That amount recorded among the other comprehensive income entries is not reversed to the income statement when the liability is settled or extinguished.
With regard to phase 3 "Hedge accounting", in November 2013 the IASB published the standard **"IFRS 9 - Financial instruments: hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39"**. The document contains an essential review of the provisions which discipline hedge accounting, which should make it possible to reflect the risk management activities more faithfully in the financial statements. The document also contains an amendment which makes it possible to apply the provisions - which discipline the treatment of one's own credit worthiness on this standard (booking of the fair value measurements of the liabilities under fair value option under "other comprehensive income") - separately from the rest of IFRS 9. In conclusion, the indication of 1 January 2015 as the date of mandatory first-time application of IFRS 9 has been removed, for the purpose of permitting the compilers of IFRS financial statements sufficient time to handle the transition to the new regulations.
With the publication in July 2014 of the final version of IFRS 9, also phase 2) "impairment" was also completed. IFRS 9 envisaged a model, characterised by a forward-looking view, which requires the immediate recognition of the losses on receivables envisaged over the life of the financial instrument; the occurrence of a trigger event is not necessary for the recognition of the losses on receivables. The model requires that the estimate of the losses on receivables is carried out on the basis of information which can be supported, available without unreasonable liabilities or efforts which include current and forecast historical data.

The same "impairment model" applies to all the financial instruments, or rather the financial assets measured at amortised cost, those measured at fair value through other comprehensive income, receivables deriving from rental agreements and trade receivables.
IFRS 9 also envisaged greater disclosure on the losses on receivables and the credit risk. In detail, the companies must illustrate the methods for calculating the expected losses on receivables and those adopted for the measurement of the changes in the credit risk.
Further to the July 2014 publication, IFRS 9 should be considered to be complete. The aspects of macro hedging remains to be disciplined, an aspect which in any event lies outside the sphere of application of IFRS 9, on which the IASB has launched an independent project.
The new standard, which replaces the previous version of IFRS 9, must be applied as from the financial statements which start on 1 January 2018 or subsequently.
On 30 January 2014, the IASB published IFRS 14 **Regulatory Deferral Accounts**, the interim standard relating to the Rate-regulated activities project. IFRS 14 permits only those who adopt the IFRS for the first time to continue to recognise the amounts relating to the rate regulation according to the previous accounting standards adopted. For the purpose of improving the comparability with the entities who already apply the IFRS 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 applies as from 1 January 2016 but early application is permitted.

On 6 May 2014, the IASB issued a number of amendments to IFRS 11 "**Joint Arrangements"** relating to the recording of the purchase of a joint operation in the event the latter owns a business. The amendments require that the principles from IFRS 3 Business Combinations relating to the recognition of the effects of a business combination must be applied for recognising the purchase of a joint operation whose activities are represented by a business.
The amendments apply as from 1 January 2016 but early application is permitted.
On 12 May 2014, the IASB published **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38**), with the aim of clarifying that an amortisation/depreciation method based on the revenues generated by the asset (so-called revenue-based method) is not considered appropriate since it only reflects the flow of revenues generated by this asset and not - by contrast - the method of consumption of the economic benefits incorporated in the asset.

On 18 May 2014, the IASB published IFRS 15 **"Revenue from Contracts with Customers"** which replaces the previous standards on revenues: 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 the contracts which are entered into with the customers (except in the case where the same fall under other specific standards) and proposes a model according to which an entity must recognise the revenues so as to faithfully represent the process for the transfer of the goods and services to the customers and to an extent representative of the fees which one expects to obtain in exchange for the goods and services supplied. In this connection, the standard envisaged five stages:

1. the identification of the contract, defined as an agreement (written or verbal) which is commercial in essence between two or more parties which creates rights and obligations with the customer which can be protected legally;
2. the identification of the obligations (distinctly identifiable) contained in the contract;
3. the determination of the price of the transaction as the fee which the enterprise expects to receive from the transfer of the goods or from the provision of the services to the customer, on a consistent basis with the techniques envisaged by the Standard and in relation to the possible presence of financial components;
4. the allocation of the price of the transaction to each "performance obligation" envisaged by the contract;

5. the recognition of the revenue when the obligation is settled, taking into consideration the fact that the services could be provided not in a specific moment, but also over a period of time.

The IFRS 15 applies as from the accounting periods which started as from (or after) 1 January 2017. Early application is permitted.
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 the equity method in the separate financial statements for the recognition of the equity investment in subsidiaries, jointly-controlled entities and associated companies. Consequently, an entity may recognise these equity investments in its separate financial statements, either:

- at cost; or
- according to the matters envisaged by IFRS 9 (or by IAS 39); or
- using the equity method.

The amendments apply as from 1 January 2016. Early application is permitted.

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"** for the purpose of settling the legislative conflict between IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements".
The amendments introduced envisage that in a transfer/conferral of an asset or subsidiary to a joint venture or associated company, the extent of the gain or loss to be recognised in the financial statements of the transferor/assignor depends on the fact that the asset or subsidiary transferred/conferred represents or otherwise a business, as defined by IFRS 3. In the event that the asset or the subsidiary transferred/conferred represents a business, the entity must recognise the gain or loss on the entire holding previously owned; while, otherwise, the entity must recognise the portion of gain or loss relating to the holding still owned by the entity must be eliminated.

The amendments must be applied as from the financial statements which commence on 1 January 2016. Early application is permitted.

On 25 September 2014, the IASB published the document "**Annual Improvements to IFRSs: 2012-2014 Cycle**". The amendments must be applied as from the accounting periods which will start on 1 January 2016 or a subsequent date and concern the aspects briefly summarised below:

- **IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations":** the amendment concerns 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. The amendments clarify that:
  - these reclassifications should not be considered as a change in the sales plan or in a distribution plan and that the same recognition and measurement criteria remain valid;
  - the assets which no longer observe the classification criteria envisaged for held-for-distribution should be handled in the same way as an asset which ceases to be classified as held-for-sale.
- **IFRS 7 Financial Instruments: Disclosure**: the amendment envisages the introduction of additional guidance for clarifying the following aspects:
  - when a servicing contract represents an residual involvement in an asset transferred for the purpose of the disclosure requested in relation to the transferred assets.
  - the disclosure on the netting of financial assets and liabilities is not explicitly requested for all the interim financial statements, even if it could be necessary for observing the requirements envisaged by IAS 34, in the event this involves significant information.

- **IAS 19 Employee Benefits:** the high quality corporate bonds used to determine the discount rate of the post-employment benefits should be issued in the same currency used for the payment of the benefits. The interval of the market of high quality corporate bonds to be considered is that at currency level.
- **IAS 34 Interim Financial Reporting:** if the disclosure requested is presented in the interim financial report but not in the interim financial statements, this disclosure should be included via a cross-reference from the interim financial statements to other parts of the interim financial report. This document is made available to the users of the financial statements in the same way and with the same timescales as the interim financial statements.

On 18 December 2014, the ISAB published "**Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**". The changes concern the sphere of application of the departure to the consolidation for the investment entities.
The document has the aim of clarifying the following aspects:

- the exemption from drafting consolidated financial statements for the "intermediate" parent companies applies in the event that the parent company is an investment entity, also if this entity measures all the subsidiaries at fair value;
- a subsidiary which provides services correlated with the investment activities of the parent company does not have to be consolidated if the subsidiary itself is an investment company;
- the exemption from application of the equity method to its associated companies by an entity which is not an investment enterprise is extended, not only to the unlisted entities whose parent companies publish IFRS consolidated financial statements, but also to the entities whose parent companies publish IFRS financial statements in which the subsidiaries are measured at fair value through profit and loss as per IFRS 10;
- an "investment enterprise" entity which measures all its subsidiaries at fair value provides the disclosure envisaged by IFRS 12 for "investment entities".

The amendments are effective for the accounting periods which start as from 1 January 2016. Early application is permitted.

Again on 18 December 2014, the ISAB published "**Amendments to IAS 1: Disclosure Initiative**" which has the clear objective of encouraging the use of the "professional judgement" when determining the information to be included in the disclosure.
This document clarified the following aspects:

- with regard the materiality of the information, the disclosure must not be penalised by the aggregation or by the presentation of immaterial information; the assessment of materiality applies to the entire financial statements and also prevails when a specific disclosure is required by a standard.
- in the income statement, statement of comprehensive income and statement of financial position schedules, specific items can be separated and brought together as a pertinent and additional guide to the sub-totals of the schedules;
- the entity has the possibility of defining the order of presentation of the notes for the purpose of assisting the comprehensibility and comparability of the same.

The IASB has also eliminated the indications and the examples for the identification of the relevant accounting policy.
The amendments introduced by the document must be applied on a mandatory basis as from 1 January 2016. Early application is permitted.

A.2 - PRINCIPAL FINANCIAL STATEMENT AGGREGATES

Section 1 - ACCOUNTING STANDARDS

The accounting standards adopted with reference to the principal asset and liability items for the preparation of the Financial Statements as of 31 December 2014 are described below.

1) FINANCIAL ASSETS HELD FOR TRADING

a) initial recognition
Financial assets are initially recorded at the settlement date for debt securities and equities, and at the date of subscription for derivative contracts.
Financial assets held for trading are initially measured at their fair value, which generally corresponds to the amount paid, without considering the transactions cost or income directly attributable to the instrument itself, which are booked to the income statement.
In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recorded at fair value.
The appropriate reference accounting standard is applied to the primary agreement.

b) classification
The following are classified in this category: i) financial assets acquired primarily for the purpose of obtaining profits 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 therein the past due and impaired derivatives which have not been subject to early closure within the sphere of a netting arrangement (master netting agreement). Contracts designated as hedging derivatives are excluded; and iv) structured instruments (for these financial instruments, derivatives embedded in the primary contracts have not been reported separately).

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

d) derecognition
The financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits. Securities received within a transaction that contractually calls for the subsequent sale and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded or eliminated from the accounts. Consequently, in the case of securities acquired with resale agreement the amount paid is recorded in the financial

statements as a payable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among payables to banks, or to customers.
In particular for repurchase agreements and securities lending, for which the Bank continues to retain essentially all the risks and benefits of ownership of the transferred asset, the Bank continues to record the entire amount of the transferred asset in the balance sheet, as an offsetting entry to a financial liability equal to the consideration received.

e) income recognition
The effects of measurement, transfers and/or closures are booked to Item 80 of the income statement, “Net income from trading activities”, while the interest accrued on securities and any remuneration accrued for activities regarding repurchase agreements or securities lending (with the exception of fees, recognised in the commission items) are recorded in the income statement, under Item 10 “Interest income and similar income” and Item 20 “Interest expense and similar charges”.
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, under Item 70 “Dividends and similar income”.
Differentials on transactions in derivatives are booked to the income statement under the appropriate item in relation to the management nature of the contracts, as are the adjustments made at the time of measurement of the exposures for impaired derivatives.

2) FINANCIAL ASSETS AT FAIR VALUE

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

b) classification
Financial assets to be measured at fair value through profit and loss (with the exception of equity instruments lacking a reliable fair value) can be classified under this category when:
1. the designation at fair value eliminates or reduces the significant distortions in the accounting representation of the financial performance of the financial instruments; or
2. the management and/or measurement of a group of financial instruments at fair value through profit and loss is consistent with a Risk management or investment strategy, documented and reported to the company management; or
3. in the event of an instrument containing an embedded derivative which significantly changes the cash flows of the host instrument, and which otherwise must be separated.

c) measurement
Subsequent to initial recognition, these assets are measured at fair value.
For an illustration of the standards used for determining the fair value of the financial instruments, please see section A.4 “Fair value disclosure” further on.

d) derecognition

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

Securities received within a transaction that contractually calls for the subsequent sale and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded or eliminated from the accounts. Consequently, in the case of securities acquired with resale agreement the amount paid is recorded in the financial statements as a receivable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among payables to banks, or to customers.

e) income recognition

Gains and losses deriving from the change in fair value of the financial assets associated with the Fair Value Option are recognised in item “110 - Net result from financial assets and liabilities at fair value”.

3) FINANCIAL ASSETS AVAILABLE FOR SALE

a) initial recognition

Financial assets are initially recorded at the settlement date for debt and capital securities, and at the granting date for receivables.

They are initially recorded at their fair value, which normally corresponds to the amount paid, inclusive of transaction costs or income directly attributable to the instruments. If recording takes place following reclassification of the assets held to maturity, the recognition value is represented by the fair value at the time of the transfer. For debt securities, any difference between the initial amount and the repayment amount is amortised over the term of the instrument, at amortised cost.

b) classification

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

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

c) measurement criteria

After the initial recording, assets available for sale continue to be assessed at fair value, with the recording in the income statement of the interest portion as emerging from the application of the amortised cost and with the allocation in a dedicated shareholders’ equity reserve of the profits/losses deriving from the fair value change net of the related tax effect (liability item 130 “Valuation reserves”), with the exception of impairments. Exchange rate changes relating to non-monetary instruments (equities) are recorded in the specific shareholders’ equity reserve, while those relating to monetary instruments (receivables and debt securities) are booked to the income statement. Equity instruments whose fair value cannot be reliably determined are stated at cost, adjusted for any impairment losses. For more details of the procedures for determining fair value, please see section A.4 “Fair value disclosure” below.

Impairment testing is carried out at the close of each set of financial statements or interim report. Indicators of a possible impairment are, for example, significant financial distress of the issuer, breaches or failure to pay interest or principal, the possibility that the beneficiary may file for bankruptcy or is subjected to another insolvency procedure, the disappearance of an active market for the asset. In particular, regarding equity instruments listed on active markets,

objective evidence of impairment is considered the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the original purchase cost, or the prolonged presence for over twelve months of a market value lower than cost. If additional reductions occur in the following years, they are recorded directly in the income statement. With regard to debt securities, whether they are listed or otherwise on active markets, the recording of a permanent loss in the income statement is strictly linked to the ability of the issuer to meet their obligations and therefore to pay the envisaged remuneration and reimburse the principal on the due date. Therefore it is necessary to assess whether there are indications of a loss event which may have a negative impact on the expected cash flows. In the absence of effective losses, no loss is recognised on the security and any capital loss remains recorded in the negative shareholders' equity reserve.
The amount of any write-down resulting from the impairment test is recorded in the income statement as a cost for the year. When the reasons for the impairment no longer apply, as a result of an event occurring subsequent to the recognition of impairment, the amounts are written back in the shareholders' equity on equity instruments and in the income statement on debt securities.

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

e) income recognition
At the time of the sale or of the exchange with other financial instruments or in the presence of an impairment recorded as a result of the impairment test, the results of the assessments cumulated in the reserves for assets available for sale are recorded in the income statement:
- in the item 100 "Profit (loss) from sale or repurchase of: b) financial assets available for sale", in case of sale;
- in the item 130 "Net value adjustments/write-backs due to impairment of: b) financial assets available for sale", if an impairment is recorded.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recording of the impairment, write-backs are posted: i) to the income statement (under Item 130 as above) if the loss related to debit securities and receivables; ii) to shareholders' equity, Item 130 under Liabilities, "Valuation reserves", if relating to equity instruments. However, the amount of the write-back cannot exceed the amortised cost of the instrument had there been no prior adjustments. Subsequent increases exceeding the cost must be posted to shareholders' equity as revaluation reserves.
The effective interest accrued is booked to the income statement, under Item 10 "Interest income and similar income".
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, which generally corresponds to the year in which the dividend is paid, under Item 70 "Dividends and similar income".

4) FINANCIAL ASSETS HELD TO MATURITY

This portfolio is not used by the bank or the Group.

5) RECEIVABLES

a) initial recognition

Initial recognition takes place:

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

on the settlement date.

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

b) classification

Receivables include loans with customers or banks, provided directly and/or acquired from third parties, involving fixed or definable payments, which are not listed on an active market and which were not originally classified among financial assets available for sale and among the financial assets recorded at fair value with effects in the income statement.
The receivables item also includes trade receivables, receivables originated from financial lease transactions and securities acquired by subscription or private placement, with determined or determinable payments, not listed on active markets.

c) measurement and income recognition criteria

After initial recording, receivables are measured at the amortised cost, equal to the originally recorded value decreased/increased by repayments of principal, value adjustments/write-backs and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/income directly related to the individual receivable. The effective interest rate is the rate that renders the current value of future credit flows, both in terms of principal and interest, estimated in the expected lifetime of the credit equal to the amount disbursed, including the costs/income attributable to the receivable. The economic effect of the costs and income is distributed throughout the expected residual life of the receivable.
The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible. These receivables are shown at their original carrying amount. A similar measurement criteria is adopted for receivables with undefined maturity date or which are valid until cancelled.
In classifying impaired exposures into the various risk categories (non-performing, watch-list, restructured and past due exposures), the Bank referred to the regulations issued by the Bank of Italy, complemented by internal provisions setting criteria and automatic rules for the passage of the receivables within the distinct risk categories.
With reference to the restructurings of loan exposures, three different types are identified:

- restructurings in the strict sense of the word (as defined by Bank of Italy circular No. 272);
- renegotiations;
- the discharge of the debt by means of replacement of the debtor or swap of the debt to equity.

On a consistent basis with the supervisory legislation, restructuring of the debt (loan exposure) is understood to be a transaction by means of which the Bank, for economic reasons, makes a concession to the debtor in consideration of the difficult financial conditions of the same, a concession which otherwise would not have been agree and which leads to a loss vis-à-vis the creditor. This concession materialises in the waiver by the bank of certain rights contractually defined, which translates into an immediate or deferred benefit for the debtor, who gains an advantage from this waiver,

and in a corresponding loss for the creditor Bank. The effects of this waiver are gauged by the negative (positive) change of the economic value of the loan (debt) with respect to the book value of the loan (debt) prior to restructuring.
The renegotiation of lending exposures agreed by the Bank with performing customers is assimilated in essence to the opening of a new position, if this is essentially granted for commercial reasons, other than economic-financial difficulties of the debtor, and provided that the interest rate applied is a market rate as of the date of renegotiation.
Bank and debtor can, as an alternative to the hypotheses previously described (restructurings and renegotiations), agree the discharge of the original debt by means of:
• the novation or taking over by another debtor (release assignment);
• the essential amendment of the nature of the contract which envisages a debt-equity swap.
These events, leading to an essential change in the contractual terms, from an accounting standpoint, lead to the discharge of the pre-existing relationship and the consequent recognition at fair value of the new relationship. with recording in the income statement of a gain or a loss equal to the difference between the fair value of the assets received and the book value of the receivable subject to cancellation.
Watch-list receivables include those past due by over 270 days.
The classification is carried out by the organisations autonomously, with the exception of receivables past due and/or in serious default for over 90 days and watch-list receivables for the objective part pertaining to those past due and/or in serious default by over 270 days, which are recorded using automated procedures.
Receivables are analytically or collectively measured, depending on the various levels of impairment, In order to determine the adjustments to be made to the amounts in the financial statements, as illustrated below.
Analytical measurement is used for non-performing loans, watch-list exposures and restructured exposures, while collective measurement is used for exposures past due and/or in serious default by over 90 days, exposures subject to country risk, performing exposures, as well as watch-list and restructured exposures which, according to the analytical analysis, do not present any value adjustments. With regard to exposures expired and/or past due by more than 90 days, watch-list exposures and restructured exposures, in compliance with the indications provided in the latest update issued by the Bank of Italy in Circular 262/2005, in the tables of the explanatory notes the collective measurement is represented in any case as an analytical measurement.
For receivables subject to analytical measurement, the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said receivables at the time of measurement (amortised cost) and the current value of future cash flows, calculated applying the original effective interest rate. In the case of restructured exposures, the estimate of the future expected cash flows takes into account the effects of the changes in the contractual terms and conditions consequent to the restructuring.
The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure.
If the quality of the impaired receivable improves to the point that reasonable certainty exists that principal and interest will be recovered in a timely manner, the original value of the receivables is restored in the subsequent years to the extent to which the reasons that led to the adjustment no longer hold true and provided that this assessment is objectively connectable to an event that took place after the adjustment itself. The write-back is booked to the income statement, and cannot exceed the amortised cost of the loan had there been no prior adjustments.
Receivables for which no individual, objective evidence of impairment was detected are subject to collective measurement to detect impairment. This measurement is carried out on homogeneous categories of loans in terms of credit risk, and the related loss percentages are estimated by taking into account historical series, based on observable elements on the measurement date, which enable the value of the latent impairment to be estimated for each category of receivables.
The model for this type of measurement comprises the following steps:
• segmenting the receivables portfolio according to:
  - customer segments (turnover)

- industry
- geographic location

• determining the loss rate of the individual portfolio segments, assuming the Bank's historical experience as reference.

The value adjustments determined on a collective basis are booked to the income statement. At each balance sheet date or interim report date, any additional value adjustments or write-backs are recalculated, using differential calculation methods, with reference to the entire portfolio of receivables at the same date.

All value adjustments and write-backs linked to the measurement of loans are recorded under Item 130 "Net value adjustments/write-backs due to impairment of: a) loans". The adjustment component attributable to the discounting of cash flows is recognised on an accruals basis using the effective interest rate method, and booked to write-backs.

d) derecognition

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

If it is not possible to verify the essential transfer of all the risks and benefits, the receivables are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the receivables to be kept in the financial statements in an amount equal to the residual involvement, measure by the exposure to changes in the value of the loans transferred and to changes in their cash flows.

Lastly, transferred receivables are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties (so-called pass through arrangements).

6) HEDGING TRANSACTIONS

a) initial recognition - purpose

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

b) classification - hedging type

IAS 39 envisages the following types of hedging:

• fair value hedging, which aims at hedging exposure to changes in the fair value of a financial statement item attributable to a specific risk;
• cash flow hedging, which aims at hedging exposure to changes in future cash flows attributable to specific risks associated with financial statement items;
• foreign investment hedge, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

c) measurement and income recognition criteria

Hedging derivatives are measured at fair value. Specifically:

• in the case of fair value hedging, the change in fair value of the item hedged is offset with the change in fair value of the hedging instrument. This offsetting is recognised by booking the changes in value to the income statement under item 90 "Net income from hedging activities", for both the item hedged (as regards the changes produced by the underlying risk factor), and the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, consequently constitutes its net economic effect;
• in the case of cash flow hedging, the changes in fair value of the derivative are recorded under shareholders' equity

in a specific reserve, for the effective amount of the hedge, and are recorded in the income statement under Item 90 "Net income from hedging activities" only when the change in fair value of the hedging instrument does not offset the changes in cash flows of the hedged transaction;
- foreign investment hedges are accounted for using the same method as for cash flow hedges.

The hedging transaction must be related to a predefined risk management strategy, and must be consistent with the risk management policies adopted. Moreover, the derivative instrument is designated as a hedging instrument if there is official documentation regarding the relationship between the instrument hedged and the hedging instrument, and if it is effective both at the time the hedging begins and throughout the life of the hedge.
Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the intended goal of the Bank at the time the hedge was established.
A hedge is effective when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) the changes in the hedged instrument, resulting from the risk element being hedged.
The effectiveness of the hedge is carried out at the end of each year, using:
- prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of hedging effectiveness reached during the related period.

The derivative instruments which are considered to be hedged from an economic standpoint since they are operationally associated with financial liabilities measured at fair value (Fair Value Option) are classified under trading derivatives. The related differentials or positive and negative margins accrued until the financial statement reference date, in observance of their hedging function, are recorded under interest income and expense, while the gains and losses from measurement are recognised in the income statement item 110 "Net result from financial assets and liabilities at fair value".

d) derecognition - ineffectiveness
If the tests do not confirm the effectiveness of the hedge, both retrospectively and prospectively, the accounting of the hedged operations, according to the above, is interrupted and the hedging derivative contract, if not expired or discharged, is reclassified among instruments held for trading, while the financial instrument being hedged is once again measured based on its original class.
In the event of fair value hedges, the interruption of the hedging relationship involves the reversal to the income statement of the positive or negative adjustment made to the hedged element until the date of interruption of the hedge. In detail, if the hedged element has not been cancelled from the financial statements, this reversal is made over a timescale corresponding to the residual duration of the hedged element, by means of the change of the effective interest rate of said element; if the interruption of the hedge is accompanied by the cancellation of the hedged element from the financial statements (for example if repaid in advance), the adjustment is booked in full to the income statement at the time the hedged element is cancelled from the financial statements.
In the event of cash flow hedge, any reserve is reversed to the income statement when the element hedged, still outstanding, generates its effects in the income statement. By contrast, if the hedged instrument is cancelled, expires or is discharged, then the reserve is immediately reversed to the income statement at the same time as cancellation of the hedged element.

7) EQUITY INVESTMENTS

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

b) classification

Companies in which the Bank, directly or indirectly, holds a fifth or more of the voting rights (including therein the "potential" voting rights) and in relation to which it has the power to take part in the determination of the financial and operating policies, are considered to be associated, i.e. subject to considerable influence. Companies in which - albeit with a lower portion of voting rights - the Bank has the power to take part in the determination of the financial and operating policies by virtue of particular legal connections such as, for example, participation in shareholders' agreements, participation in important committees of the investee company as well as the presence of veto rights in significant decisions, are also considered to be associated companies.

c) measurement and income recognition criteria

The measurement criterion adopted for interests in subsidiaries and associates and in joint ventures is cost. At each balance sheet date or interim report, any objective evidence that the equity investment has undergone impairment is assessed.

When a parent company relinquishes control over an associated company but nonetheless continues to hold a minority interest in the company, it shall measure the retained interest in the balance sheet at fair value and allocate any profits or losses deriving from the loss of control in the income statement.

If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of said equity investment represented by the higher amount between the fair value net of sale costs and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.

If the recovery value is lower than the carrying amount, the related difference is stated in the income statement under item 210 "Profit (losses) from equity investments". By contrast, in the event that the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, the write-backs are made with booking to the income statement under the same aforesaid item 210.

d) derecognition

The 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.

If the Bank is engaged in a sale plan that entails loss of control over an investee company, all of the subsidiary's assets and liabilities shall be reclassified among assets held for sale, even if, after the sale, the Bank will still hold a minority interest in the subsidiary.

8) PROPERTY, PLANT AND EQUIPMENT

a) initial recognition

Property, plant and equipment is initially stated at cost which comprises both the purchase price and all the possible related charges directly attributable to the purchase and bringing on stream of the asset.

Extraordinary maintenance costs which involve an increase in the future economic benefits are booked as an increase in the value of the assets, while ordinary maintenance costs are recorded in the income statement under item 150 "Administrative expenses - other". Borrowing costs are recording according to the reference accounting treatment prescribed by IAS 23.

b) classification

Property, plant and equipment include land, properties used for business purposes, investment properties, plant, furniture and furnishings and all types of equipment.

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

c) measurement and income recognition criteria
Property, plant and equipment, including properties not used for business purposes, are measured at cost, less any accumulated depreciation and impairment losses.
The fixed assets are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. The specific sections of the Explanatory Notes show the depreciation rate and the consequent expected useful life of the main asset categories.
On closure of each set of financial statements or interim report, the presence of any signs of impairment is checked, meaning indications which demonstrate that an asset may have undergone a loss in value.
In the event of the presence of said signs, the carrying amount of the asset is compared to its recoverable value, i.e. the lower of the fair value, net of any costs to sell, and the related value in use of the asset, taken to be the current value of the cash flows originated by the asset. Any adjustments are recorded in the income statement under item 170 “Net value adjustments/write-backs to property, plant and equipment". Periodic depreciation is recorded in the same item.
If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.

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

9) INTANGIBLE ASSETS

a) initial recognition
Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. They are stated at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributed to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.
Goodwill is booked to assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.
If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference (badwill) is booked directly to the income statement.

b) classification, measurement and income recognition criteria
The cost of intangible fixed assets is amortized on a straight-line basis over the related useful life. If the useful life is

indefinite, the asset is not amortized, but merely subjected to a periodic check of the adequacy of the value recorded for the fixed assets in the financial statements. Intangible assets deriving from software developed internally or acquired from third parties are amortized on a straight-line basis as from the completion and bringing on stream of the application on the basis of the related useful life. The assets representative of dealings with customers or linked to trademarks, which can be recognised at the time of business combination transactions, are amortised an a straight-line basis.
On closure of each set of financial statements, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement item "180 Net value adjustments/write-backs to intangible fixed assets", is equal to the difference between the carrying amount of the assets and the recoverable value. Periodic amortisation is recorded in the same item.
Recorded goodwill is not amortised but subject to periodic checks on its carrying amount, carried out annually or more frequently in the presence of signs of an impairment in value. For such purposes, the cash generating units to which the goodwill is to be allocated are identified. The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recorded in the income statement item 230 “Value adjustments to goodwill”. Again with regard to goodwill, the statement of any subsequent write-backs is not permitted.

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

10) NON-CURRENT ASSETS HELD FOR SALE

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

b) classification
The item contains the classification of non-current assets held for sale and discontinued operations, when the carrying amount will be recovered mainly through a sale transaction deemed highly likely, instead of through use.

c) measurement and income recognition criteria
Subsequent to initial recognition, non-current assets held for sale and discontinued operations are stated at carrying amount or fair value net of costs to sell, whichever is the lower. The related income and expense (net of taxation) is stated in the income statement under a separate item 280 “Gain/loss on non-current assets held for sale, net of taxation” when they relate to discontinued operations. In this specific case (discontinued operations) it is also necessary to represent the same economic disclosure in a separate entry also for the previous periods presented in the financial statements, reclassifying the income statements accordingly.
At the time of classification of a non-current asset under non-current assets held for sale, the amortisation/depreciation process is suspended.

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

11) CURRENT AND DEFERRED TAXATION

a) initial recognition

The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.

Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.

Any provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.

In detail, current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances and other tax credits for withholdings made. Current assets also include tax assets whose repayment was requested from the cognisant Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.

Prepaid and deferred taxes are determined on the basis of the timing differences - without time-limits - between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes, applying the so-called balance sheet liability method.

Prepaid tax assets are recorded in the financial statements to the extent that they will probably be recovered, assessed on the basis of the ability of the Bank or the Parent Company, due to the exercise of the option relating to the "tax consolidation", to generate positive taxable income on an on-going basis. The probability of recovery of the prepaid taxes relating to goodwill, other intangible assets and write-downs of receivables, should be deemed as automatically satisfied due to the provisions of the law which envisage the transformation into tax credits in the presence of statutory and/or tax losses for the year. Specifically:

- in the presence of a statutory loss for the year, the prepaid taxes relating to goodwill, other intangible assets and write-downs of receivables will be subject to partial transformation into a tax credit as per the provisions of Article 2.55 of Italian Decree Law No. 225 dated 29 December 2010, converted with amendments by Italian Law No. 10 dated 26 February 2011. The transformation is effective as from the date of approval, by the shareholders' meeting, of the financial statements in which the loss was recognised, as envisaged by Article 2.56 of the afore-mentioned Italian Decree Law No. 225/2010.
- in the presence of a tax loss for the year, the related prepaid taxes, limited to the portion generated by deductions referring to goodwill, other intangible assets and write-downs of receivables, will be subject to transformation into a tax credit as per the provisions of Article 2.56 *bis* of the afore-mentioned Italian Decree Law No. 225/2010, introduced by Article 9 of Italian Decree Law No. 201 dated 22 December 2011, converted with amendments by Italian Law No. 214 dated 22 December 2011. The afore-mentioned transformation is effective as from the date of presentation of the income tax declaration relating to the year in which the loss is indicated.

Deferred tax liabilities are recorded in the financial statements, with the sole exception of the reserves subject to deferred taxation, since the balance of the unrestricted reserves already subject to taxation reasonably suggests that no operations will be carried out resulting in taxation of the same.

As a result of the amendments made by Italian Law No. 147 dated 27 December 2013 to the afore-mentioned provisions, as from the tax period in course as of 31 December 2013 the transformability in tax credits of prepaid taxes relating to goodwill, other intangible assets and write-downs and losses on receivables was extended also to IRAP, both in the presence of statutory losses for the year and in the presence of negative production value.

The deferred tax assets and liabilities are calculated using the tax rates in force, on the basis of the provisions existing as of the financial statement reference date. Any changes in the tax rates or the tax norms, issued or communicated after the financial statement reference date and before the date of authorisation for publication, which have a significant

effect on the deferred tax assets and liabilities, are handled as events after the financial statement reference date which do not lead to adjustments as per IAS 10, with consequent disclosure in the Explanatory Notes.
Current, prepaid and deferred taxes are recognised at balance sheet level, carrying out the nettings at the same tax level.

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

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

12) PAYABLES AND OUTSTANDING SECURITIES

a) initial recognition
The initial recognition of these financial liabilities takes place upon collection of the deposited amounts or upon the issue of the debt securities.
Initial recognition takes place at fair value of the liabilities, usually equal to the amount collected or to the issue price, increased by any additional costs/income directly attributable to the individual deposit or issue transactions and not repaid by the creditor counterparty. Internal administrative costs are excluded. The fair value of any financial liabilities issued at conditions other than market ones is subject to specific estimate and the difference with respect to the amount collected is charged directly to the income statement, only when the conditions envisaged by IAS 39 have been satisfied, in other words in the event that the fair value of the instrument issued can be determined by means of the use of reference prices on similar instruments on an active market or is determined by means of a measurement technique based exclusively on parameters which can be observed on the market.

b) classification
Payables to banks, payables to customers and outstanding securities include the various forms of deposits, both inter-

bank and with respect to customers and deposits made through certificates of deposits and outstanding bonds, net of any repurchases. Among outstanding securities are classified all securities not subject to "natural" hedging with derivatives, which are classified among the liabilities at fair value.
Also excluded are payables recorded by the lessee within any financial leases that may have been stipulated.

c) measurement and income recognition criteria
After initial recognition, financial liabilities are measured at the amortised cost with the effective interest rate method.
Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the collected value.
With regard to structured instruments, if the requirements envisaged by IAS 39 exist for the separate recognition of the embedded derivatives, the latter are separated from the host agreement and recognised at fair value as an asset or liability held for trading. In this latter case, the host agreement is recognised at the amortised cost.
Contractual interest accrued is charged to the income statement, item 20 "Interest expense and similar charges".

d) derecognition
Financial liabilities are eliminated from the financial statements when they have matured or been discharged.
Derecognition also takes place when previously issued securities are repurchased issued. The difference between the carrying amount of the liability and the amount paid to acquire it is recorded in the income statement under item 100 "Profit (loss) from sale or repurchase of financial liabilities".
The re-placing of own securities on the market subsequent to their repurchase is considered as a new issue with statement at the new re-placement price, without any effect on the income statement.
In compliance with the provisions of IAS 32, the potential commitment to purchase treasury shares due to the issue of put options is represented in the financial statements as a financial liability with a reduction in the shareholders' equity for present value of the contractually set repayment amount as a direct offsetting entry.

13) FINANCIAL LIABILITIES HELD FOR TRADING

a) initial recognition
Financial liabilities are initially recorded at the issue date for debt securities, and at the date of subscription for derivative contracts.
Financial liabilities held for trading are initially measured at their fair value, which generally corresponds to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are booked to the income statement. In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recorded at fair value. The appropriate reference accounting standard is applied to the primary agreement.

b) classification
The following are classified in this category:
- derivatives (with the exception of derivatives which are designated and effective hedging instruments), including embedded derivatives separated from structured financial instruments in accordance with the indications of IAS 39;
- liabilities referring to technical overdrafts on securities, stated in the sub-items due to banks and due to customers;
- repurchase agreements and security lending transactions.

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

14) FINANCIAL LIABILITIES AT FAIR VALUE

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

b) classification
Financial liabilities which are intended to be valued at fair value through profit and loss are classified in this category when:
- the designation at fair value eliminates or reduces the significant distortions in the accounting representation of the financial performance of the financial instruments;

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

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

c) measurement criteria
Subsequent to initial recognition, financial liabilities are stated at fair value.
For an illustration of the standards used for determining the fair value of the financial instruments, please see section A.4 “Fair value disclosure” further on.

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

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

15) PROVISIONS FOR RISKS AND CHARGES

a) initial recognition, classification, measurement criteria, income recognition and derecognition
Allocations to the provisions for risks and charges are made solely when:

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

If the timing element is significant, the provisions are discounted back.
Allocations to the provision are recorded in the income statement under item 160 “Net provisions for risks and charges”, where the interest payments accrued on the provisions that were discounted are also recorded.
No provision is made for liabilities which are merely potential and not probable, but disclosure is in any case provided in the explanatory notes, unless the likelihood of using resources is remote or the phenomenon is not significant.
As of each balance sheet date, these provisions are adjusted to reflect the best current estimate. If this is not necessary, the provision is cancelled and reversed to the income statement item 160 “Net provisions for risks and charges”.
The sub-item 120 “Pensions and similar obligations” includes the provisions recorded on the basis of the 2011 revised version of the international accounting standard IAS 19 “Employee benefits” for the purpose of making good the technical deficit of the supplementary welfare funds with defined benefits. Pension plans are divided up into the two categories “defined benefits” and “defined contributions”. While for defined contribution plans the liability of the company is established in advance, with regard to defined benefit plans, the liability is estimated and must take into account any insufficiency in the contributions or an insufficient return on the assets in which these contributions were invested, when required.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the afore-mentioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method. In detail, the logical route for representing the liability relating to defined-benefit funds in the financial statements is as follows:
- the surplus or the deficit of the plan is determined as the difference between the current value of the defined-benefit obligation (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 on the balance sheet coincides with said deficit;
- when the plan presents a surplus, it is necessary to preliminarily establish the current value of the future economic benefits available for the Bank under the form of reimbursements or reduction of future contributions to the plan (asset ceiling);
- then the asset ceiling is lower than the surplus, the net assets for the defined benefits must be recorded in the financial statements for an amount equal to the asset ceiling.

In essence, when the Bank cannot avail itself in any way of the surplus, no net asset is recorded in the financial statements.
The increase in the current value of the DBO attributable to the services provided by employees in the current period is recorded in the Bank’s income statement irrespective of the surplus or deficit position of the plan, on a par with that relating to the services provided in past years and the interest component.
The following components are by contrast immediately recognised in the statement of comprehensive income:
- actuarial gains and losses on the DBO;
- the difference between the effective return on the assets deriving the plan and the interest component on the same assets;
- the changes in the adjustment made to adapt 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) initial recognition

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

b) classification, measurement, derecognition and income recognition criteria

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

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

The exchange differences which derive from the settlement of monetary elements or from the conversion of monetary elements at rates other than for initial conversion, or conversion of the previous financial statements, are recorded in the income statement for the period in which they arise under item 80 "Net income from trading activities" (with the exception of financial instruments at fair value).

When a gain or a loss relating to a non-monetary element is recorded under shareholders' equity, the exchange difference relating to this element is also stated under equity. By contrast, when a gain or a loss is stated in the income statement, the related exchange difference is also recorded in the income statement, again under item 80.

It should also be noted that with regard to financial assets available for sale, the exchange differences which derive from the changes in the amortised cost are recorded in the income statement, while other changes in the carrying amount are recorded in accordance with the matters indicated in section 2 "Financial assets available for sale". In the event of financial assets available for sale which are not monetary elements (for example equity instruments), the gain or the loss recorded directly under shareholders' equity includes any related exchange differences.

17) OTHER INFORMATION

■ Treasury shares

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

■ Share-based payments

Any stock granting plans existing generally envisage, on occurrence of certain conditions, the purchase and assignment on an annual basis to employees of a number of Parent Company Banca Monte dei Paschi di Siena S.p.A. shares, equivalent in value to the amounts recognised as part of the Company Bonus.

This value is recorded as a personnel expense on an accruals basis.

■ Employee severance indemnities

The employee severance indemnity is recorded on the basis of its actuarial value since it takes on the form of an employee benefit after the employment relationship due on the basis of the defined benefits plan. For discounting back purposes, the Projected Unit Credit method is used which envisages the projection of the future outlays on the basis of historic statistical analysis and the population curve and the financial discounting back of these flows on the basis of a market interest rate. The 2011 reviewed version of IAS 19 "Employee benefits" applies for the determination of the liabilities to be recorded in the financial statements. Therefore, reference is made to the matters illustrated in the section

"Provisions for risks and charges" relating to defined-benefits 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 December 2006 remain with the Bank, while the portions of severance indemnity accruing as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or are maintained within the Bank, which then transfers said portions to the Treasury Fund 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.
- sundry accrued income and prepaid expenses and accrued expenses and deferred income which are capitalised on the related financial assets/liabilities.

They are recorded only when one of the parties has provided the assets or concluded their service in accordance with the matters envisaged in the contract; by contrast, elimination takes place upon maturity, which usually corresponds with the collection or payment date.
As from the 2013 annual financial statements, the capital gains/losses deriving from the measurement of the regular way securities transaction not yet settled, with a regulation value date as of the first few days of the subsequent year, are recorded respectively in the items indicated above, i.e. asset item 150 "Other assets" and 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:
- Dividends are recorded in the income statement when their distribution is resolved (usually coinciding with the date of resolution by the shareholders' meeting of the investee company which approves the financial statements and the related profit allocation proposal) and thus the right to receive the payment is established;
- interest is recognised pro rata temporis according to the contractual interest rate or to the effective interest rate in case of application of the amortised cost;
- default interest is recorded in the income statement solely at the time it is effectively collected;
- fees for revenues from services are stated, on the basis of the existence of contractual agreements, in the period in which the services were provided;
- revenues deriving from brokering or issuing financial instruments, determined by the difference between the price of the transaction and the fair value of the instrument, are recognised in the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same

market where the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument;
- costs are stated in the income statement in the periods in which the related revenues are recorded. Costs which cannot be associated with income are immediately stated in the income statement;
- any estimation errors on the costs provided in previous years are recorded in the pertinent individual items.

■ Guarantees given
Adjustments due to any impairment in guarantees given are recorded under item 100 “Other liabilities”. Write-downs due to impairment are stated under item “130 Net value adjustments/write-backs due to impairment of: d) other financial transactions” in the income statement.

■ Amortised cost
The amortised cost of a financial asset or liability is the value at which it has been gauged on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.
The effective interest rate is that which equals the current value of the contractual flows of the future payments or collections in cash until maturity or as of the subsequent date for the recalculation of the price at net carrying amount of the financial asset or liability. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).
The effective interest rate must be re-determined if the financial asset or liability was subjected to fair value hedging and said hedging relationship has ceased to exist.
In cases where it is not possible to reliably estimate the cash flows or the estimated life, the Bank uses the cash flows envisaged contractually for the entire duration of the agreement.
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortization process. The determination of the amortized cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate. With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. With regard to floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the determination of the cash flows is carried out on the basis of the last known rate. As of every rate review date, steps are taken to recalculate the repayment plan and the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.
Measurement at amortised cost is carried out for receivables, financial assets held to maturity and those available for sale, for payables and outstanding securities. With regard to debt instruments recorded under assets available for sale, the amortised cost is calculated solely for the purpose of booking the interest to the income statement on the basis of the effective interest rate (the difference between the fair value and the amortised cost is booked to a specific shareholders’ equity reserve).
Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds with the amount disbursed or paid inclusive - for instruments valued at amortised cost - of the transaction costs and the directly attributable commission such as fees and commission paid to agents, consultants, brokers and operators, as well as contributions collected by regulatory bodies and by the Stock Exchanges, taxes and transfer charges. These costs, which must be directly ascribable to the individual financial asset or liability, weigh into the original effective return and render the effective interest rate associated with the transaction different to the contractual interest rate.
The calculation of the amortised cost does not taken into account the costs which the Bank should incur irrespective of the transaction (for example: administrative, stationery, communication costs), those which, despite being specifically

attributable to the transaction, belong to the normal loan management activities (for example: assets for the purpose of disbursing the credit facility).
With particular reference to receivables, the flat-fee reimbursements of costs incurred by the Bank for the performance of a service must not be booked as a decrease of the cost of disbursing the loan but, since they are able to adopt the form of other operating income, the related costs must be charged to their own income statement item.

■ Securitisations

With regard to the securitisation transactions, finalised after 1 January 2004, by means of which receivables are factored to special purpose companies generally, also in the presence of formal transfer of the legal ownership of the receivables, both the essential nature of the risks and benefits and the control over the financial flows deriving from the same receivables are maintained by the transferor, and are not therefore cancelled from the financial statements of this transferor. In this case, a liability is recorded vis-à-vis the special purpose company net of the securities issued by said company and repurchased by the transferor. The income statement also reflects the same accounting approach.

■ Use of estimates and assumptions in the preparation of the financial statements

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

With regard to point b), please see the matters illustrated in the following section “A.4 Fair value disclosure”, while in relation to the other cases, the most significant and relevant qualitative problems subject to elements of discretionality are indicated below in greater detail.

a) Procedures for determining losses for impairment of receivables and other financial assets

At each financial statements date, financial assets not classified as “Financial assets held for trading” or as “Financial assets at fair value” are subjected to an impairment test to verify whether there is objective evidence of impairment which may lead to the determination that the carrying amount of the assets is not fully recoverable.
A reduction in value exists and losses due to impairment must be recorded if there is objective evidence of a reduction in future cash flows, with respect to the originally estimated ones, further to one or more specific events which have taken place after initial recognition; the impairment must be reliably quantifiable and be related to current, not merely expected events.
Impairments can also be caused by the combined effect of different events, rather than by a single event.
The objective evidence that a financial asset or a group of financial assets has undergone an impairment includes measurable data that become known with respect to the following events:
• significant financial hardships of the issuer or debtor;

• contract violation, e.g. a breach or a missed payment of interest or principal;
• granting the beneficiary some favourable terms which the Bank took into consideration mainly due to economic or legal reasons linked to the beneficiary's financial hardship, which otherwise it would not have granted;
• reasonable likelihood that the beneficiary will declare bankruptcy or other financial restructuring procedures;
• disappearance of an active market for that financial asset due to financial difficulties. However, the disappearance of an active market because the financial instruments of the company are no longer publicly traded is not evidence of impairment;
• measurable data indicating the existence of a considerable reduction in estimated future cash flows for a group of financial assets from the time of the initial measurement of those assets, although the reduction cannot yet be identified with the individual financial assets in the group, including:
  - unfavourable changes in the status of beneficiaries' payments in the BMPS Group

or

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

The objective evidence of impairment for an investment in an equity instrument includes information about important changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.
The impairment evaluation is carried out on an analytical basis for the financial assets that exhibit objective evidence of impairment losses and collectively for the financial assets for which the collective assessment is not requested or for which the analytical evaluation has not determined a value adjustment. The objective evaluation is based on the identification of homogeneous risk classes of the financial assets with reference to the characteristics of the debtor/issuer, to the industry, the geographical area, the presence of any guarantees or of other significant factors.
With reference to receivables due from customers and from banks, the receivables that were attributed the status of non-performing, watch-list, restructured receivables according to the definitions of the Bank of Italy were subject to analytical evaluation. Said receivables are subject to analytical measurement and the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said receivables at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated applying the original effective interest rate. The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure. The cash flows pertaining to receivables whose recovery is expected in the short term are not discounted, because the financial factor is not significant. The amount of the loss is booked to the income statement under Item 130 a) "Net value adjustments/write-backs due to impairment of receivables".
The process for the analytical evaluation of the aforesaid impaired receivables entails the need to define repayment plan for each individual position, in order to determine the cash flows deemed recoverable. Receivables for which no individual, objective evidence of impairment was detected are subject to collective evaluation. This evaluation takes place for categories of receivables that are homogeneous in terms of credit risk and indicative of the debtor's ability to return the amounts due according to the contractual terms.
The segmentation drivers used for this purpose comprise: i) industry, ii) geographic location, and iii) customer segments (turnover). Based on the latter indicator, the main segmentations of the portfolio are identified:
• Retail;
• Small and Medium Enterprise Retail;
• Small and Medium Enterprise Corporate;
• Corporate;
• Large Corporate;
• Banks;
• Other.

For each portfolio segment, the loss rate is determined identifying the greatest possible synergies (to the extent allowed

by the different regulations) with the approach prescribed for supervisory purposes by the provisions of the "New capital agreement" called Basel II. In particular, the amount of the period impairment of each loan belonging to a given homogeneous class is given by the difference between carrying value and the recoverable amount on the evaluation date, determined using the parameters of the calculation model prescribed by the new supervisory provisions, represented by the PD (probability of default) and by the LGD (loss-given default).
If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be objectively connected to an event that occurred after the recognition of the impairment (such as an improvement in the debtor's financial solvency), the impairment loss recognised previously is reversed (by recording under income statement item 130 "Net adjustments/write-backs due to impairment").
With reference to the receivables that are not subject to restructuring with their partial or full conversion into shares of the borrower companies, in compliance with the indications provided in joint Bank of Italy/Isvap/Consob Document no. 4 of 3 March 2010, these positions are evaluated taking into account the fair value of the shares received. In particular, in cases of impaired exposures this classification is also maintained for financial instruments received in conversion and, in the case of classification in the category "Assets available for sale", the capital losses recognised after conversion are allocated directly to the income statement.
With regard to debt securities classified under amounts due from customers, if there is objective evidence that an impairment loss has taken place, the amount of the loss derives from the difference between the book value of the asset and the current value of the estimated cash flows, discounted back to the original effective interest rate of the asset.
If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively linked to an event which has taken place after the recognition of the impairment loss, the value of the financial asset must be reinstated without however recording a book value higher than the amortised cost which it would have had if the loss had not been received. The amount of the write-back must be booked to the income statement.
With regard to the financial assets recognised in the balance sheet item "Assets available for sale", the impairment is recorded in the income statement when a fair value write-down was recognised directly in the shareholders' equity and the aforesaid "objective evidence" exists. In such cases, the cumulative loss that was recognised directly in the shareholders' equity must be reversed and recognised in the income statement even though the financial asset has not been eliminated. The amount of the total loss that is reversed from the shareholders' equity and recognised in the income statement is given by the difference between the purchase cost (net of any repayment of principal and interest) and the current fair value, deducting any impairment losses on that asset previously booked to the income statement. Impairment losses booked to the income statement for an investment in an equity instrument classified as available for sale must not be reversed with effect booked to the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can objectively be correlated to an event that occurs after the impairment loss had been booked to the income statement, the impairment loss must be eliminated, with the reversed amount booked to the income statement. On the contrary, the existence of a negative reserve is not sufficient in itself to determine the recording of a write-down in the income statement.
The nature and numerousness of the assumptions used in the identification of the impairment factors and in the quantification of the write-downs and the value write-backs, represent elements of uncertainty of the estimate.
In any event with regard to equities listed on active markets, objective evidence of impairment is considered to be: i) the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the initial recognition value, or ii) the prolonged presence for over twelve months of a market value lower than cost. If additional reductions occur in the following years, they are recorded directly in the income statement.

c) Procedure for determining the impairments 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 tangible and intangible assets
Tangible and intangible assets with defined useful life are subjected to impairment test if there is an indication that the carrying value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
With regard to properties, the fair value is mainly determined on the basis of an appraisal. This appraisal is renewed periodically each time a change takes place in the performance of the real estate market which suggests that the estimates previously drawn up are no longer valid. The impairment loss is recognised only in the event that the fair value net of the sales costs or the value in use is lower than the book value. Also in relation to these values and the consequent holding check, the nature and numerousness of the assumptions represent elements of uncertainty.

d) Quantification of personnel provisions and provisions for risks and charges
The Bank is subject to an extensive range of legal and tax-related disputes. The complexity of the possible situations which may underlie the outstanding disputes, together with the interpretative problems regarding the applicable legislation, make an estimate of the liabilities which might emerge at the time of definition of the pending disputes difficult. The assessment difficulties concern both the *an* and the *quantum* and the timescales for the possible manifestation of the liability or other similar non-recurrent circumstances.

e) Estimate and assumptions on the recoverability of deferred tax assets
The balance sheet assets includes significant prepaid tax assets, deriving from timing differences between the date of recognition in the income statement of specific business costs and the date on which the same costs can be deducted. These assets refer to timing differences which to a good extent originate from losses on receivables recoverable over a very long period of time, and are recognised in consideration of the condition that the Bank, within the sphere of the Group tax consolidation agreement, is able to generate suitable taxable income during the period of reversal of the same. It is also revealed that, in accordance with the matters envisaged by Italian Law No. 214/11, these assets for prepaid taxes are potentially transformable in full into tax credits in the event that a loss for the year (or tax loss) should emerge.

■ Correction of errors
The correction of the errors is disciplined by IAS 8 (Accounting policies, changes in accounting estimates and errors). According to this principle, the errors can be committed in relation to the recognition, measurement, presentation or disclosure of elements in the financial statements.
When the errors are identified in the period in which they were committed, they are corrected before the publication of the financial statements is authorised.
The errors identified in subsequent periods to that in which they were committed are corrected, if they can be determined, by amending the comparative information presented in the financial statements for the period in which the errors were identified. In detail, the material errors committed in previous periods must be corrected in the first set of financial statements authorised for publication after their discovery; the correction must be made by retrospectively calculating the comparative amounts for the period in which the error took place or, if the error took place in a period

which precedes the periods presented in the financial statements, recalculating the opening balances of assets, liabilities and equity for the first comparative period presented.

SECTION 2 - BUSINESS CONTINUITY

These financial statements have been drawn up deeming use of the assumption that the business is going-concern to be appropriate. It is in fact deemed that, by virtue of the commitment undertaken by the Parent Company Banca Monte dei Paschi di Siena with regard to the recapitalisation of MPSCS so as to ensure the same the necessary equity endowment for the correct performance of its activities and the observance of the statutory and supervisory obligations, no uncertainties currently exist with regard to the ability of the company to continue its activities as a going-concern in accordance with the matters envisaged by IAS 1. For greater details on the recapitalisation, scheduled for 2015, please see the section "Significant Events Subsequent to the End of the Year and Outlook on Operations".
The measurement criteria adopted are consistent with this assumption and comply with the principles of pertinence, importance and significance of the accounting information and prevalence of the economic substance over the legal form. These criteria have not undergone any changes with respect to last year.

SECTION 3 - RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

In compliance with the IFRS, Management must make assessments, estimates and hypotheses which influence the application of the accounting standards and the amounts of the assets and liabilities and costs and revenues in the financial statements, as well as on the disclosure relating to potential assets and liabilities. The estimates and related hypotheses are based on the past experiences and on other factors considered reasonable in the case in question and are adopted to estimate the book value of the assets and liabilities which cannot be easily obtained from other sources. Specifically, estimation processes have been adopted to support the book value of the most significant valuational items recorded in the financial statements as of 31 December 2014 (in continuity with the matters applied in the previous year), as envisaged by the accounting standards and the reference legislation indicated above. These estimation processes are mainly based on estimates of future recoverability of the balances recorded in the financial statements according to the rules laid down by current provisions and they were also made with a view to the business as a going-concern, or rather leaving aside hypotheses for forced liquidation of the items subject to measurement. Computation of these estimates entails use of available information and adoption of subjective evaluations. By their nature, the estimates and assumptions used may change from year to year and, therefore, it is possible that in subsequent years the current values in the financial statements may differ also significantly as a result of a change in the subjective evaluations used. These estimates and assessments are difficult and bring inevitable elements of uncertainty, also in the presence of stable macro-economic conditions. For greater details, please see the matters illustrated on the subject in the previous section "Use of estimates and assumptions in the preparation of the financial statements" as per Section 1, sub-section 17 "Other information", Part A.2 "Part relating to the accounting standards".

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The Bank did not apply the amendment to the accounting standards IAS 39 and IFRS 7 "reclassifications of financial assets" issued on 13 October 2010 by the IASB and endorsed by the European Commission on 15 October 2010 with Regulation 1004/2010. Therefore, no transfer was made either in previous years or in the current year.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

The disclosure relating to the measurement techniques and the inputs used for the measurements relating to assets and liabilities which are measured at fair value in the balance sheet on a recurrent basis and a non-recurrent basis (the latter essentially discontinued operations as per IFRS 5) follows.

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

Items	Fair value 31/12/2014: Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives	Types	Measurement technique	Input used
Debt securities	1,705,398	-	30,879	x	-	-	X	Bonds	Discounted Cash Flow	Rates curve, CDS Curve, Bases (yield), Inflation Curve
								Structured Bonds	Discounted Cash Flow	Rates curve, CDS curve, Bases (yield), Inflation Curves + parameters necessary for valorising the optional component
								Bonds	Market price	Market price
Equities	23	-	13,970	x	x	x	x		Market price	Market price
									Discount cash flow	Share prices, sector beta, risk free rate
									Net asset adjusted	Fair value asset
Units in collective investment undertakings	1,581	-	1,553	x	x	x	x		Market price	Market price
Loans/Payables	6,297,678	-	-	X	13,295,562	X	X		Accrual	Transaction rates
Financial	6,495,023	X	X	-	4,829,174	X	-	IR/Asset/Currency Swaps	Discounted Cash Flow	Rates curve, CDS curve, Bases (yield), Inflation Curves, Exchange Rates, Rate correlation
								Total return swaps	Discounted Cash Flow	Bond prices, Rates curve, Exchange Rates
								Equity swaps	Discounted Cash Flow	Share prices, Rates curve, Exchange Rates
								Forex Singlename Plain	Option Pricing Model	Rates curve, Exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Rates curve, Exchange rates, Forex volatility (Surface areas)
								Forex Multiname	Option Pricing Model	Rates curve, Exchange rates, Forex volatility, Correlation
								Equity Singlename Plain	Option Pricing Model	Rates curve, shares prices, Exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Rates curve, share prices, Exchange rates, Equity volatility (surface areas), Model parameters
								Equity Multiname Plain	Option Pricing Model	Rates curve, share prices, Exchange rates, Equity volatility, How much 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	Rates curve, Inflation curves, bond prices, Exchange rates, Rate volatility, Rate correlations
								Foreign currency transactions	Market price	Market price, Swap Point
Credit derivatives	525,590	X	X	-	487,410	X	-	Credit Index	Market price	Market price
								Default swaps	Discounted Cash Flow	CDS curve, Rates curve
								Cdo tranches	Discounted Cash Flow	Market price, Basis, CDS curves, Correlation Base, Rates curve
Total assets	**15,372,046**	**-**	**46,402**	**-**						
Total liabilities					**18,612,146**	**-**	**-**			

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

	Fair value 31/12/2014										
Items	*Financial assets held for trading*	*Financial assets designated at fair value*	*Financial assets available for sale*	*Non-current assets held for sale and discontinued operations*	*Financial liabilities held for trading*	*Financial liabilities at fair value*	*Hedging derivatives*	***Types***	***Measurement technique***	***Input non-observable***	***Range (weighted average)***
Debt securities	-	-	39,175	-	-	-	X	Bonds	Discounted Cash Flow	Liquidity bases	5 benchmark base multiplying factor
Equities	-	-	3,359	5,000	X	X	X		Cost/Shareholders' equity	Fair value asset	€ 0-0.7 million
Financial derivatives	457	X	X	X	3,652	X	-	Equity Exotic	Option Pricing Model	Model Risk Smile Dynamic	No dynamic / Stochastic volatility
Credit derivatives	-	X	X	X	-	X	-				
Total assets	**457**	**-**	**42,534**	**5,000**							
Total liabilities					**3,652**	**-**	**-**				

A.4.2 Processes and sensitivity of the measurements

Limited to Level 3, the category "Debt securities" includes the security XS0562139450; the sensitivity of the position with respect to the range of the parameter which cannot be observed (yield spread) comes to around € 0.3 million.
The category "Financial derivatives" includes the derivatives which see their market value depend on parameters which cannot be observed, in particular on the smile trend. Revaluing the position with models which treat this parameter differently from "no trend" (Black&Scholes) to "Stochastic volatility" (Heston Model), a variation in the market value under € 0.2 million is obtained.
The category "Equities" includes the equity investments belonging to the "Financial assets available for sale - Item 40" and carried at cost or shareholders' equity, in relation to which, given the absence of a market based approach in the measurement, they were classified in level 3. These positions amount to around € 3.4 million.

A.4.3 Fair value hierarchy

When determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the origin, the type and the quality of the information used in the calculation. This classification has the aim of establishing a hierarchy in terms of reliability of the fair value in relation to the degree of discretionality applied by the companies, giving precedence to the use of parameters observable on the market which reflect the assumptions which the market participants would use in the measurement (pricing) of the same assets/liabilities. The objective of the hierarchy is also that of increasing the consistency and comparability in the measurements at fair value.
The three different measurement levels envisaged by the afore-mentioned amendment are illustrated below, the choice of which is not optional, since the levels indicated must be applied in hierarchical order.
Level 1 (effective market quotes)
In this level, the inputs are represented by listed prices (unchanged) on active markets for instruments for identical assets or liabilities, which can be accessed as of the date of measurement.
Level 2 (comparable approach)
The level includes those instruments for which for the purposes of measurement listed prices are available on active markets for similar financial assets or liabilities or prices calculated by means of measurement techniques where all the significant inputs are based on parameters observable (directly or indirectly) on the market. 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 by contrast is used when prices calculated by means of measurement techniques are available, where at least one significant input is based in non-observable parameters.
In order to establish the methods for classification of the assets under fair value Level 1, the Bank - in line with the policies of the Parent Company - has used the presence of organised markets for certain categories of financial instruments. The classification in an active market is, in any event, linked to the passing of specific requirements established *ad hoc* for each type of financial instrument. In detail, shares and bonds (with the exception of plain vanilla Government securities issued in hard currency and Government securities of the G10 and Spain, for which it was deemed unnecessary to carry out significance tests on the prices given the extent and importance of the markets on which they are listed) are subject to periodic tests for the purpose of checking the presence of various elements such as contained bid-ask spread, the presence of numerous price contributors, the absence of listing unchanged over time which demonstrate the liquidity sufficient for making classification in level 1 possible. Specifically, listed derivatives, exchange rates and UCIT units (limited to SICAVs and mutual investment funds) are considered level 1.
All the other financial instruments (OTC derivatives, Hedge Funds, Private Equity Funds, investment assets at fair value) and the same instruments which do not pass the liquidity and price significance tests, are usually included in Level 2.

If these instruments should present peculiarities such as to be measured only with the aid of measurement models which avail themselves of input not observable on the market and/or assumptions of the valuator (entity specific), they are classified in Level 3.
The valuation method defined for an instrument is adopted with continuity over time and it is modified only as a result of significant changes in market or subjective conditions of the issuer of the financial instrument. By way of Group policy, any migrations of the same financial instrument between Levels 1 and 2 should be justified with changed conditions, both in terms of improvement and deterioration, of liquidity and price significance which lead or otherwise to the passing of the periodic tests carried out. The migration from and to Level 3, by contrast, may depend on the modification of the conditions of observability of the unknown parameters, as well as the adoption of various valuational techniques (models, replications, etc.). In particular, with regard to the changes referring to balance sheet asset item 40 "Financial assets available for sale", an increase is revealed in the balance of fair value Level 3 in the equities due to the change in the classification criteria for the equity investments, which are included in this fair value level when they are measured at adjusted cost; irrespective therefore of valorisations based on market parameters.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Assets / liabilities measured at fair value	*31/12/2014*			*31/12/2013*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	5,973,310	15,372,046	457	6,534,264	16,404,422	14,443
2. Financial assets at fair value						
3. Financial assets available for sale		46,402	42,534		160,266	44,084
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**5,973,310**	**15,418,448**	**42,991**	**6,534,264**	**16,564,688**	**58,527**
1. Financial liabilities held for trading	3,525,269	18,612,146	3,652	3,173,110	21,462,875	8,443
2. Financial liabilities at fair value						
3. Hedging derivatives					1,369	
Total	**3,525,269**	**18,612,146**	**3,652**	**3,173,110**	**21,464,244**	**8,443**

As the table reveals, the instruments classified in level 3, which present the greatest discretion in the determination of the fair value, represent a contained portion of the overall portfolio in both sets of financial statements, 2014 and 2013.

The balances as of 31 December 2014 of the financial assets and liabilities for trading in fair value level 1, include - for a total of €28,628 thousand - financial instruments which at the end of the previous year were classified in level 2. This change in level concerns group bonds and is essentially due to the improvement in the liquidity conditions of said securities (measured in terms of extent of the bid-ask of the listed price) which made this reclassification possible, according to the matters laid down by group policy concerning valorisation of the financial instruments.
The change in the fair value level from 1 to 2 by contrast involved positions for a total amount of €61,345 thousand again within the trading portfolio. These are group and non-group bonds, for which a deterioration was revealed generally in the liquidity conditions of the market; furthermore, with regard to 2014, a worsening - with respect to 2013 - also weighed in on this phenomenon, with regard to the requisites required by group policy on the valorisation of the financial instruments necessary for classification of the bonds in fair value level 1.

On a consistent basis with IFRS 13, the bank calculates the adjustment of the value of OTC derivatives in order to take into account the credit worthiness of the individual counterparties. This corrective, known as Credit Value Adjustment (CVA), is estimated for all the positions in OTC derivatives with commercial and institutional counterparties not collateralised and with counterparties with who Collateral Support Annex (CSA) agreements have been entered into outside market standards.
The method is based on the calculation of the expected operating loss linked to the rating of the counterparty and estimated on the duration of the position. The exposure includes the future lending change component represented by the add-ons.
“Market consistent” probability measures are used in the calculation of the CVA for the purpose of upholding the market expectations deriving from the listings of the CDS, together with the historical information available internally.

The value of the CVA as of 31 December 2014, amounted in total to around -€60.6 million, with an effect on the income statement during the year of around -€10.5 million.
On a consistent basis and with regard to perimeter, the bank calculates the adjustment of the value of OTC derivatives in order to take into account the credit worthiness, or the Debit Value Adjustment (DVA). At year end, the value of the DVA amounted in total to around €1 million, with a positive effect on the income statement for an identical amount.

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

		Financial assets held for trading	*Financial assets at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Property, plant and equipment*	*Intangible assets*
1.	**Opening balances**	**14,444**		**44,084**			
2.	**Increases**	**7,641**		**2,009**			
2.1	Purchases			264			
2.2	Profits booked to:						
2.2.1	Income statement	7,641		438			
	- of which capital gains	*108*		*438*			
2.2.2	Shareholders' equity			1,073			
2.3	Transfers from other levels						
2.4	Other increases			234			
3.	**Decreases**	**21,628**		**3,559**			
3.1	Sales	3,525		48			
3.2	Redemptions	16,348		542			
3.3	Losses allocated to:						
3.3.1	Income statement	155		1,073			
	- of which capital losses	*43*		*1,073*			
3.3.2	Shareholders' equity			1,073			
3.4	Transfers to other portfolios	1,600					
3.5	Other decreases			823			
4.	**Closing balances**	**457**		**42,534**			

A4.5.3 Yearly changes in liabilities at fair value on a recurrent basis (level 3)

		Financial liabilities held for trading	*Financial liabilities at fair value*	*Hedging derivatives*
1.	**Opening balances**	**8,443**		
2.	**Increases**	**2,344**		
2.1	Issues			
2.2	Losses allocated to:			
2.2.1	Income statement	2,344		
	- of which capital losses	*125*		
2.2.2	Shareholders' equity			
2.3	Transfers from other levels			
2.4	Other increases			
3.	**Decreases**	**7,135**		
3.1	Redemptions			
3.2	Repurchases			
3.3	Profits booked to:			
3.3.1	Income statement	7,135		
	- of which capital gains	*3,298*		
3.3.2	Shareholders' equity			
3.4	Transfers to other portfolios			
3.5	Other decreases			
4.	**Closing balances**	**3,652**		

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

Financial statements at 31/12/2014

Assets/Liabilities to measured at fair value or measured at fair value on a non-recurring basis	*Book value*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Due from banks	9,843,127		9,843,127	
3. Due from customers	11,109,185		260,535	11,155,599
4. Equity investments	3,006			3,006
5. Property, plant and equipment held for investment purposes	13,670			18,108
6. Non-current assets held for sale and discontinued operations	5,000			5,000
Total	**20,973,988**	**0**	**10,103,662**	**11,181,713**
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 assets held for sale				
Total	**20,036,621**	**0**	**20,013,335**	**0**

Financial statements at 31/12/2013

Assets/Liabilities to measured at fair value or measured at fair value on a non-recurring basis	*Book value*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Due from banks	6,185,758		6,185,758	
3. Due from customers	13,069,982		3,050,114	10,309,386
4. Equity investments	10,051			12,466
5. Property, plant and equipment held for investment purposes	13,971			20,918
6. Non-current assets held for sale and discontinued operations	1,700			4,028
Total	**19,281,462**	**0**	**9,235,872**	**10,346,798**
1. Due to banks	8,016,938		8,016,938	
2. Due to customers	8,604,046		8,604,046	
3. Outstanding securities	70,552		70,001	
4. Liabilities associated with assets held for sale				
Total	**16,691,536**	**0**	**16,690,985**	**0**

A.5 Disclosure on "day one profit/loss"

The fair value of financial instruments, in situations of non active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.
The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at the initial recognition and the amount that would have been determined at the same date using the selected evaluation technique.
The difference, income/expense, has to be measured immediately at the first evaluation after initial recognition: this phenomenon is known as "day one profit/loss".
The profits deriving from the characteristic intermediation of the investment banks fall outside this concept if arbitrage between different markets and products, in the presence of contained book entry positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial 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

	31/12/2014	*31/12/2013*
a. Cash	-	-
b. Unrestricted deposits with Central Banks		
Total	**0**	**0**

Cash as of 31 December 2014 amounted to €99.67 (€72.27 as of 31 December 2013)

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2014*			*31/12/2013*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	5,764,284	2,052,151	0	6,369,822	1,592,766	13,955
1.1 Structured securities	*389*	*346,753*		*253*	*338,851*	*1*
1.2 Other debt securities	*5,763,895*	*1,705,398*		*6,369,569*	*1,253,915*	*13,954*
2. Equities	57,545	23		96,417	11	
3. Units in collective investment undertakings	1,342	1,581		16,383	2,880	
4. Loans		6,297,678			5,960,141	
4.1 repurchase agreements		*6,297,678*			*5,960,141*	
4.2 other						
Total A	**5,823,171**	**8,351,433**	**0**	**6,482,622**	**7,555,798**	**13,955**
B. Derivative instruments						
1. Financial derivatives:	150,139	6,495,023	457	51,642	7,615,545	488
1.1 trading	*150,139*	*6,495,023*	*457*	*51,642*	*7,615,545*	*488*
1.2 associated with fair value option						
1.3 other						
2. Credit derivatives		525,590			*1,233,079*	
2.1 trading		*525,590*			*1,233,079*	
2.2 associated with fair value option						
2.3 other						
Total B	**150,139**	**7,020,613**	**457**	**51,642**	**8,848,624**	**488**
Total (A+B)	**5,973,310**	**15,372,046**	**457**	**6,534,264**	**16,404,422**	**14,443**

Note:

The above table includes the valuations on off-balance sheet transactions and the accrued coupon component.

Impaired assets, recorded in the sub-item "Debt securities - 1.2 Other debt securities", amount to € 292 thousand and include € 269 thousand relating to Argentine government securities.

The sub-item "Financial derivatives - 1.1 trading" comprises the past due spreads for OTC derivative contracts entered into with corporate customers for a net total of € 978 thousand (€ 1.147 thousand as of 31 December 2013). Specific value adjustments on impaired derivatives amount in total to € 69,531 thousand (€ 41,333 thousand as of 31 December 2013), of which € 22,772 thousand for exposures to non-performing customers (€ 17,439 as of 31 December 2013), € 44,541 thousand for watch-list positions (€ 5,443 as of 31 December 2013), € 1,425 thousand on restructured exposures (€ 205 as of 31 December 2013) and € 793 thousand on past due positions (€ 18,246 as of 31 December 2013). In accordance with IAS 32, section 42, which came into force as from 2014, level 1 derivatives listed on organised markets where netted for € 149,318 thousand (€ 181,965 thousand as of 31 December 2013) and level 2 OTC derivatives settled, by means of the Clearing members via which the Bank "indirectly" accesses, care of the Central Counterparty, the London Clearing House (LCH), for € 390,489 thousand (€ 446,230 as of 31 December 2013). For further information in this connection, please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

2.1.a Analysis of debt securities: structured securities

Structured debt securities	*31/12/2014*	*31/12/2013*
- Index Linked	224,740	228,204
- Reverse convertible		
- Convertible		
- Credit linked notes		1
- Equity Linked	17,112	14,410
- Step-up, Step-down	389	2,104
- Dual Currency		
- Drop Lock		
- Target redemption note		
- Cap Floater		
- Reverse Floater	5,527	7,996
- Corridor		
- Commodity	32,260	27,683
- Fund Linked	65,244	57,481
- Inflation		973
- Other	1,870	253
Total	**347,142**	**339,105**

2.1.b Analysis of debt securities: subordinated assets

Items / Balances	*31/12/2014*	*31/12/2013*
- Debt securities	225,557	145,833
- Loans other		
Total	**225,557**	**145,833**

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

Items / Balances	*31/12/2014*	*31/12/2013*
A. CASH ASSETS		
1. **Debt securities**	**7,816,436**	**7,976,544**
a) Governments and Central Banks	5,142,461	5,930,572
b) Other public entities	4	5
c) Banks	1,593,545	1,464,380
d) Other issuers	1,080,426	581,587
2. **Equities**	**57,568**	**96,427**
a) Banks	1,820	3,376
b) Other issuers	55,748	93,051
- Insurance companies	*6,936*	*18,878*
- Finance companies	*496*	*4,108*
- non-financial companies	*46,048*	*70,065*
- Other	*2,268*	
3. **Units in collective investment undertakings**	**2,923**	**19,263**
4. **Loans**	**6,297,678**	**5,960,141**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	2,865,214	2,994,837
d) Others	3,432,464	2,965,304
Total A	**14,174,605**	**14,052,375**
B. DERIVATIVE INSTRUMENTS		
a) Banks	4,406,080	5,593,919
- fair value		
b) Customers	2,765,129	3,306,835
- fair value		
Total B	**7,171,209**	**8,900,754**
Total (A+B)	**21,345,814**	**22,953,129**

Note:

The item "A. Cash assets", of which "1. Debt securities - a) Governments and Central Banks" mainly comprises (for a total of € 5,120,592 thousand) Italian government securities with the following maturities: € 988,049 thousand due within 12 months; € 1,555,439 thousand due between 1 and 5 years; € 2,391,576 thousand due between 5 and 10 years.

The amount indicated in item "B. Derivative instruments", of which "b) Customers", includes € 11,496 thousand which is the net exposure to the Clearing Brokers who are members of the LCH (London Clearing House), compared with a liability of € 11,133 thousand recorded as of 31 December 2013. The net exposure as of 31 December 2014 includes the liability relating to the hedging derivative on the position under fair value hedge for € 804 thousand.

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

Categories/Balances	31/12/2014	31/12/2013
a. Stock		121
b. Bonds	67	255
c. Balanced		7,471
d. Hedge Fund		
e. Private Equity		
f. Properties		
g. Other	2,856	11,416
Total	**2,923**	**19,263**

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

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	*Total*
A. Opening balances	**7,976,544**	**96,427**	**19,263**	**5,960,141**	**14,052,375**
B. Increases	**190,184,289**	**386,733**	**507,353**	**299,430,689**	**490,509,064**
B1. Purchases	186,158,661	357,577	326,426	299,424,518	**486,267,182**
B2. Positive fair value changes	148,882	1,267	3		**150,152**
B3. Other changes	3,876,746	27,889	180,924	6,171	**4,091,730**
C. Decreases	**190,344,397**	**425,592**	**523,693**	**299,093,152**	**490,386,834**
C1. Sales	186,092,837	419,716	257,112	298,983,142	**485,752,807**
C2. Redemptions	814,254				**814,254**
C3. Negative fair value changes	146,361	3,281	5,948		**155,590**
C4. Transfers to other portfolios					
C5. Other changes	3,290,945	2,595	260,633	110,010	**3,664,183**
D. Closing balances	**7,816,436**	**57,568**	**2,923**	**6,297,678**	**14,174,605**

Note:
the sub-items B3 and C5 in the columns "Debt securities" and "Equities" include the gains and losses from trading, the accruals on issue discounts and on coupon interest, the effects deriving from exchange rate fluctuations and the components relating to technical overdrafts, the latter included in the item "Financial liabilities held for trading" among the balance sheet liabilities; while those in the "Loans" column relate to accruals for securities lending transactions and repurchase agreements accrued as of 31 December 2014.

Section 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

During 2014 (and likewise as of 31 December 2013), the Bank did not hold any financial instruments classified in this category, in compliance with the guidelines laid down by the Board of Directors on 19 December 2007.

Section 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

4.1 Financial assets available for sale: breakdown by type

Items/Balances	*31/12/2014*			*31/12/2013*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities		30,879	39,175		135,959	39,325
1.1 Structured securities						
1.2 Other debt securities		*30,879*	*39,175*		*135,959*	*39,325*
2. Equities		13,970	3,359	0	22,766	4,759
2.1 Measured at fair value		*13,970*	*1,031*		*22,766*	*1,396*
2.2 Measured at cost			*2,328*			*3,363*
3. Units in collective investment undertakings		1,553			1,541	
4. Loans						
Total		**46,402**	**42,534**	**0**	**160,266**	**44,084**

Note:
on the debt securities indicated in level 3, for both periods compared, there is a hedge on the interest rate risk (fair value hedge), obtained through interest rate swap type derivative contracts.
The level 2 decrease, in particular in sub-item 1.2 "Other debt securities", is mainly attributable to the sales of a subordinated security issued by the BMPS Group, maturing in 2018.

4.1.a Analysis of debt securities: structured securities

The Bank holds no structured security in this category

4.1.b Financial assets available for sale: subordinated assets

Items / Balances	*31/12/2014*	*31/12/2013*
- Debt securities	30,879	135,959
- Loans		
Total	**30,879**	**135,959**

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

Items / Balances	*31/12/2014*	*31/12/2013*
1. **Debt securities**	**70,054**	**175,284**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	30,879	134,755
d) Other issuers	39,175	40,529
2. **Equities**	**17,330**	**27,525**
a) Banks	64	
b) Other issuers	17,266	27,525
- Insurance companies		
- Finance companies	*19*	*133*
- non-financial companies	*17,247*	*27,392*
- Other		
3. **Units in collective investment undertakings**	**1,553**	**1,541**
4. **Loans**		
) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Others		
Total	**88,937**	**204,350**

4.2.a Analysis of equities issued by parties classified under non-performing or watch-list status

	Historical cost	*Cumulative write-downs*	*Carrying amount*	*Adjustments ascertained in the year*
Non-performing:	3,340	(1,714)	1,616	(1,714)
- Moncada Solar Equipment Srl	*3,340*	*(1,714)*	*1,626*	*(1,714)*
Watch-list:	48,605	(47,900)	705	(455)
- Targetti Sankey S.p.A.	*705*		*705*	
- Fenice Holding S.p.A.	*42,077*	*(42,077)*	-	
- S.T.B. S.p.A.	*5,823*	*(5,823)*	-	*(455)*
Total	**51,945**	**(49,614)**	**2,321**	**(2,169)**

4.2.b Units in collective investment undertakings: Breakdown by main categories

	Categories / Balances	*31/12/2014*	*31/12/2013*
a.	Stock		
b.	Bonds		
c.	Balanced		
d.	Hedge Funds		
e.	Private Equity		
f.	Properties	1,553	1,541
g.	Other		
	Total	**1,553**	**1,541**

4.3 Financial assets available for sale subject to micro-hedging

	Items / Balances	*31/12/2014*	*31/12/2013*
1.	Financial assets subject to fair value micro-hedging	39,175	39,325
	a) interest rate risk	*39,175*	*39,325*
	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**	**39,325**

4.4 Financial assets available for sale: changes in the year

		Debt Securities	*Equities*	*Units in collective investment undertakings*	*Loans*	*Total*
A.	**Opening balances**	**175,284**	**27,525**	**1,541**		**204,350**
B.	**Increases**	**27,997**	**25,749**	**12**		**53,758**
B1.	Purchases		7,799			7,799
B2.	Positive fair value changes	5,293	615	12		5,920
B3.	Write-backs		17,335			17,335
	- booked to income statement					
	- booked to shareholders' equity		*17,335*			*17,335*
B4.	Transfers from other portfolios					
B5.	Other changes	22,704				22,704
C.	**Decreases**	**133,227**	**35,944**			**169,171**
C1.	Sales	131,740	48			131,788
C2.	Redemptions		542			542
C3.	Negative fair value changes		18,019			18,019
C4.	Write-downs due to impairment		17,335			17,335
	- booked to income statement		17,335			*17,335*
	- booked to shareholders' equity					
C5.	Transfers to other portfolios					
C6.	Other changes	1,487				1,487
D.	**Closing balances**	**70,054**	**17,330**	**1,553**		**88,937**

Note:
line "B3. Write-backs - booked to shareholders' equity" and line "C4. Write-downs due to impairment - booked to income statement" include the following value adjustments:
- € 13,044 thousand referring to Fenice Holding (investment instruments acquired at the time of restructuring of a loan);
- € 1,714 thousand relating to equities of Moncada Solar Equipment Srl;
- € 532 thousand relating to Targetti Poulsen S.p.A. (investment instruments acquired at the time of restructuring of a loan);
lines "B5. Other changes" and "C6. Other changes" include the results from disposal, plus the interest accrued in the period.

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

As of 31 December 2014 (and likewise as of 31 December 2013), the Bank has held no financial instruments classified in this category, in compliance with the guidelines set by the Board of Directors on 19 December 2007.

Section 6 - DUE FROM BANKS - ITEM 60

6.1 Due from banks: breakdown by type

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

The Bank does not hold any impaired receivables due from banks (likewise as of 31 December 2013).

Note:
The sub-item B. "Due from banks - 1.2. Restricted deposits" comprises € 3,123 thousand (€ 3,466 thousand in 2013), as the mandatory reserve acquitted indirectly (through the Parent Company Banca Monte dei Paschi di Siena);
The sub-item B. "Due from banks - 1.3. Other loans: - Other" mainly comprises receivables for collateral paid in relation to security lending, OTC derivative and listed derivative and repurchase agreement transactions (the latter by way of additional marginalisations) on the basis of the agreements entered into by the parties (CSA for OTC derivatives, GMSLA for securities lending, GMRA for repos). Specifically, the item includes € 4,149,077 thousand (€ 4,630,948 thousand at the end of 2013) paid to BMPS to guarantee securities lending transactions (securities which, in turn, BMPS borrows from its customers).
Additionally, the Bank holds a subordinated debt instrument for a nominal € 6,000 thousand issued by Banca Popolare di Garanzia, which was subjected to compulsory winding-up with decree of the Ministry of the Economy and Finance of 16 December 2009. The position is currently classified as non-performing and it was subjected to a value adjustment equal to its entire carrying amount.

				Total 31/12/2013	
	Type of transaction / Balances	*Book value*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits		X	X	X
2.	Compulsory reserve		X	X	X
3.	Repurchase agreements		X	X	X
4.	Other		X	X	X
B.	**Due from banks**	**6,185,759**		**6,185,758**	
1.	Loans	6,185,758		6,185,758	
1.1	Current accounts and unrestricted deposits	180,814	X	X	X
1.2	Restricted deposits	565,338	X	X	X
1.3	Other loans:	5,439,607	X	X	X
	-Lending repurchase agreements		X	X	X
	-Financial lease		X	X	X
	- Other	*5,439,607*	X	X	X
2.	Debt securities				
2.1	Structured securities		X	X	X
2.3	Other debt securities		X	X	X
	Total	**6,185,759**		**6,185,758**	

6.2 Due from banks subject to micro-hedging

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

6.3 Financial lease

There are no outstanding agreements.

Section 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Loans to customers: breakdown by type

Total 31/12/2014

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

Total 31/12/2013

	Carrying Amount			*Fair value*		
Type of transaction / Balances	*Performing*	*Impaired*				
		purchases	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	8,686,700		4,322,292	0	334,969	12,963,541
1. Current accounts	28			X	X	X
2. Lending repurchase agreements				X	X	X
3. Mortgage loans	8,135,733		4,322,292	X	X	X
4. Credit cards, personal loans						
and loans secured over						
wages and salaries	2,541			X	X	X
5. Financial lease				X	X	X
6. Factoring				X	X	X
7. Other loans:	548,398			X	X	X
Debt securities	59,843		1,148		59,490	1,500
8. Structured securities				X	X	X
9. Other debt securities	59,843		1,148	X	X	X
Total	**8,746,543**		**4,323,440**	**0**	**394,459**	**12,965,041**

7.1.a Loans to customers: analysis of impaired assets

Category / Balances	*31/12/2014*	*31/12/2013*
1. Non-performing	2,104,612	2,091,365
2. Watch-list	2,078,909	1,052,110
3. Restructured exposures	322,134	312,401
4. Past due exposures	227,451	867,564
Total carrying amount	**4,733,106**	**4,323,440**

Note:
Impaired debt securities are classified in the watch-list category.

7.1.b Loans to customers: analysis of other loans

Type of transaction / Balances	*31/12/2014*	*31/12/2013*
1. Collateral credits	309,218	391,758
2. Deposits for disbursement of real estate credit transactions	-	49,880
3. Amounts receivable from special purpose entities for retrocession of collections on receivables	-	41,483
3. Other	68,381	65,277
Total	**377,599**	**548,398**

Note:
The sub-item 1. "Collateral credits" relates to security lending, OTC derivative and listed derivative and repurchase agreement activities (the latter by way of additional marginalisations), as per agreements entered into by the parties (CSA for OTC derivatives, GMSLA for securities lending, GMRA for repos).

7.2 Loans to customers: breakdown by debtor/issuer

Type of transaction / Balances	*31/12/2014*			*31/12/2013*		
	Performing	*Impaired*		*Performing*	*Impaired*	
		purchases	*other*		*purchases*	*other*
1. Debt securities:	**1,480**		**634**	**59,843**		**1,148**
a) Governments						
b) Other public entities						
c) Other issuers	1,480		634	59,843		1,148
- non-financial companies	*1,480*		*634*	*1,500*		*1,148*
- finance companies				*58,343*		
- insurance companies						
- Other						
2. Loans to:	**6,374,599**		**4,732,472**	**8,686,700**		**4,322,292**
a) Governments	5,441			8,975		
b) Other public entities	12,258		1,191	14,100		
c) Other operators	6,356,900		4,731,281	8,663,625		4,322,292
- non-financial companies	*5,451,539*		*4,593,143*	*7,463,550*		*4,234,565*
- finance companies	*569,631*		*48,191*	*1,035,810*		*14,264*
- insurance companies				*39,975*		
- Other	*335,730*		*89,947*	*124,290*		*73,463*
Total	**6,376,079**		**4,733,106**	**8,746,543**		**4,323,440**

7.3 Loans to customers subject to micro-hedging

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

7.4 Financial lease

There are no outstanding agreements.

Section 8 - HEDGING DERIVATIVES - ITEM 80

There are no such transactions for this financial statement item.

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

There are no such transactions for this financial statement item.

Section 10 - EQUITY INVESTMENTS - ITEM 100

10.1 Equity investments: information on investment relationships

Name	*Registered Offices*	*Operating head-quarters*	*% holding*	*Available votes %*	*Carrying Amount*	*Fair value*
A. Subsidiaries under exclusive control						
B. Subsidiaries under joint control						
C. Companies subject to significant influence					3,005	
1. Immobiliare Centro Milano S.p.A.	Milan		33.333	33.333	0	
2. Terme di Chianciano S.p.A.	Chianciano T.		28.993	28.993	1,325	
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)					**3,005**	

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. Subsidiaries under exclusive control			
B. Subsidiaries under joint control			
C. Companies subject to significant influence	**3,005**		
1. Immobiliare Centro Milano S.p.A.	0		
2. Interporto Toscano A. Vespucci S.p.A.	901		
3. Sviluppo Imprese Centro Italia S.p.A.	779		
4. Terme di Chianciano S.p.A.	1,325		
Total (A+B+C)	**3,005**		

10.3 Significant equity investments: accounting information

Name	*Cash and cash equivalents*	*Financial assets*	*Non-financial assets*	*Financial liabilities*	*Non-financial liabilities*	*Total revenues*	*Interest margin*	*Adjustments and value write-backs on property, plant and equipment and intangible assets*	*Profit (loss) from current operations before taxes*	*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. Subsidiaries under														
exclusive control														
B. Subsidiaries under														
joint control														
C. Companies subject														
to significant influence														
1. Terme di Chianciano S.p.A.	x	3	11,005	4,942	3,912	5,493	x	x	(1,615)	(1,630)	-	(1,642)	-	(1,642)
2. Interporto Toscano SpA	x	70	177,500	62,108	93,141	7,077	x	x	(6,632)	(5,158)	-	(5,243)	-	(5,243)
3. Sviluppo Imprese														
Centro Italia S.p.A.	x	7,725	1,618	-	527	1,561	x	x	289	183	-	183	-	183

Nota:

The balances refer to the financial statements as of 31 December 2013, the last set approved.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. has been classified under companies subject to significant influence, despite the presence of a holding of less than 20% in the share capital since the Bank has the power to take part in determining the financial and operating policies by means of indication of a member of the company's Board of Directors.

The nature of the activities carried out by the investee companies is illustrated below, none of which are deemed strategic for the Bank:

Terme di Chianciano S.p.A.: management company of the Chianciano Terme spa resort.

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

Sviluppo Imprese Centro Italia S.G.R. S.p.A.: the company manages four closed-end mutual 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 before 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. Subsidiaries under exclusive control									
B. Subsidiaries under joint control									
C. Companies subject to significant influence									
1. Immobiliare Centro Milano S.p.A.	x	7,955	9,247	0	(1,399)	0		(1,399)	(1,399)

Note:
The balances refer to the financial statements as of 31 December 2013, the last set approved.

10.5 Equity investments: changes in the year

		31/12/2014	*31/12/2013*
A.	**Opening balances**	**10,051**	**20,113**
B.	**Increases**	**2,010**	**846**
	B1. Purchases	2,010	
	B2. Write-backs		
	B3. Revaluations		
	B4. Other changes		846
C.	**Decreases**	**9,056**	**10,908**
	C1. Sales		8,188
	C2. Value adjustments	4,056	1,992
	C3. Other changes	5,000	728
D.	**Closing balances**	**3,005**	**10,051**
E.	**Total revaluations**		
F.	**Total adjustments**	8,193	4,101

Notes to the 2014 financial statements.

B1. Acquisition, within the sphere of a reorganisation agreement as per 67.3, letter d) of the Italian Bankruptcy Law, of the equity investment in Terme di Chianciano S.p.A., a company in which the parent company already held an investment of 20.35%.

C2. The value adjustments concern Interporto Toscano S.p.A. for € 3,367 thousand, Terme di Chianciano S.p.A. for € 685 thousand and Agricola Merse S.p.A. for € 4 thousand.

C3. Amount relating 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" (IFRS 5), disposed of in February 2015.

Notes to the 2013 financial statements.

C1. In March 2013, the Bank disposed of the equity investment held in RE.GE.IM. S.p.A.. The capital gain generated further to *this disposal has been stated in item B4. "Other changes".*

C2. The entire amount is attributable to the value adjustment on the investee Interporto Toscano Amerigo Vespucci S.p.A. (see note 2 in the previous section 10.2).

C3. Amount relating to the stake representative of 14% in SICI SGR S.p.A. transferred to the item "Non-current assets held for sale and discontinued operations and associated liabilities" (IFRS 5), in relation to which an agreement for its sale has been reached.

10.6 Commitments relating to equity investments in subsidiaries under joint control

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

10.7 Commitments relating to equity investments in companies under significant influence

As of the balance sheet date, there were no commitments relating to equity investments in companies under significant influence.

10.8 Significant restrictions

There were no significant restrictions.

10.9 Other information

Nothing to report.

Section 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110

11.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Assets / Balances	*31/12/2014*	*31/12/2013*
1. Owned by the Bank	**306**	**428**
a) land		
b) buildings		
c) furniture	150	268
d) electronic equipment		4
e) other	156	156
2. Assets acquired under financial lease		
a) land		
b) buildings		
c) furniture		
d) electronic equipment		
e) other		
Total	**306**	**428**

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

	Total 31/12/2014			
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Owned by the Bank	**13,670**			**18,108**
a) for recovery of receivables				
b) other				
- land	10,426			11,231
- buildings	3,244			6,877
2. Assets acquired under financial lease				
a) land				
b) buildings				
Total	**13,670**			**18,108**

		Total 31/12/2013		
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Owned by the Bank	**13,971**			**20,918**
a) for recovery of receivables				
b) other				
- land	10,426			12,927
- buildings	3,545			7,991
2. Assets acquired under financial lease				
a) land				
b) buildings				
Total	**13,971**			**20,918**

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

There is no revalued property, plant and equipment used in the business.

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

There is no property, plant and equipment held for investment purposes measured at fair value.

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

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening balances - gross			**1,231**	**446**	**189**	**1,866**
A.1 Total value reductions - net			963	442	33	1,438
A.2 Opening balances - net			**268**	**4**	**156**	**428**
B. Increases:			**5**			**5**
B.1 Purchases			5			5
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4. Positive fair value changes						
booked to:						
a) shareholders' equity						
b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes						
C. Decreases:			**123**	**4**		**127**
C.1. Purchases						
C.2 Depreciation			123	4		127
C.3 Value adjustments due to						
impairment booked to:						
a) shareholders' equity						
b) income statement						
C.4 Negative fair value changes booked to:						
a) shareholders' equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
a) intangible assets						
held for investment purposes						
b) discontinued operations						
C.7 Other changes						
D. Net closing balances			**150**	**0**	**156**	**306**
D.1 Total value reductions - net			1,086	446	33	1,565
D.2 Gross closing balances			**1,236**	**446**	**189**	**1,871**
E. Measured at cost			150	0	156	306

Note:
the item "other" refers to furnishings which cannot be depreciated (in particular works of art).

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

	Land	*Buildings*	*Total*
A. Opening balances	**10,426**	**3,545**	**13,971**
B. Increases:			
B.1 Purchases			
B.2 Capitalised improvement costs			
B.4. Positive fair value changes			
B.3 Write-backs			
B.5 Exchange gains			
B.6 Transfers from properties used for business			
B.7 Other changes			
C. Decreases:		**301**	**301**
C.1. Purchases			
C.2 Depreciation		301	301
C.3 Negative fair value changes			
C.4 Value adjustments due to impairment			
C.5 Exchange losses			
C.6 Transfers to other asset portfolios:			
a) properties used for business			
b) Non-current assets held for sale			
C.7 Other changes			
D. Closing balances	**10,426**	**3,244**	**13,670**
E. Measurement at fair value	**11,231**	**6,877**	**18,108**

11.7 Commitments to buy Property, plant and equipment (IAS 16/74.c)

As of the balance sheet date, there were no commitments undertaken to buy Property, plant and equipment.

11.6 Property, plant and equipment: 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	*It. Law No. 576/75*	*It. Law No. 72/83*	*It. Law No. 408/90*	*It. Law No. 413/91*	*It. Law No. 342/00*	*It. Law No. 266/06*
Florence - Via Scialoia, 47			180		336	237
Florence - Piazza D'Azeglio, 22	230	804	2,745	1,175	336	1,857
Florence - Piazza D'Azeglio, 26		319	173	4,638	1,109	3,670
Florence - Via della Mattonaia						97
Florence - Piazza Stazione (parking space)					14	3
Total230	**1,123**	**3,098**	**5,813**	**1,795**	**5,864**	

Section 12 - INTANGIBLE ASSETS - ITEM 120

There are no such transactions for this financial statement item.

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

Current taxes

The item comprises the estimate of the payable for current liabilities or those referring to transactions relating to previous years. Assets for current taxes and liabilities for current taxes are stated as a net balance in the respective balance sheet item after netting carried out at the same tax level.
Current tax assets amount to €16,266 thousand, by way of IRAP advances paid over with reference to the 2013 tax, for a total of €18,940, netted against payables for €2,674 thousand.
As a result of compliance with the national tax consolidation system pursuant to Article 117 *et seq.* of the Consolidated Income Tax Law ("TUIR"), as a consolidated company, the Bank determines - in the presence of taxable profit - the charge for which it is liable and the corresponding IRES taxable income is transferred to the Parent Company BMPS, which, as consolidating company, after consolidating the taxable amounts belonging to the scope of consolidation, will pay any tax due to the tax authorities. With regard to 2014, due to the realisation of a tax loss, no taxable income was transferred to the consolidating body MPS, but an IRES credit was recorded vis-à-vis the same for €1,325,000 by virtue of the transfer of the ACE (Aiuto alla Crescita Economica - *Help to Economic Growth*-) benefit as per the provisions contained in the MEF decree dated 14 March 2012 and in implementation of Italian Law No. 214/11.
With respect to IRES, the debit and credit positions are posted respectively among "Other assets" and "Other liabilities".

Prepaid and deferred taxation

Deferred taxation is measured with the "balance sheet liability method" specified in IAS 12 in accordance with the specifications prescribed by the Bank of Italy. This method takes into account the tax effect associated with the timing differences between the book value and the value for tax purposes of the assets and liabilities which will lead to taxable or deductible amounts in future periods. Accordingly, "taxable timing differences" are understood to be those which in future periods will lead to taxable amounts and "deductible timing differences" are those which in future periods will lead to deductible amounts.
The prepaid and deferred taxation is calculated by applying the tax rates established by the current provisions of the law to the taxable timing differences in relation to which probability of effectively incurring taxes exists, and to the deductible timing differences for which reasonable certainty of recovery exists.
Prepaid and deferred taxes are stated as a net balance in the respective balance sheet item, further to nettings at the same tax level and for each period taking into account the recovery timing profile envisaged. Consequently, as of 31 December 2014, the deferred tax liabilities were fully netted with the prepaid tax assets.
The significant increase in prepaid tax assets is consequent to both the considerable increase in net adjustments due to impairment of the receivables and the legislative amendments introduced by the so-called Stability Law for 2014, No. 147/13 which specifically envisaged:

- the inclusion of the afore-mentioned net value adjustments on loans to customer in the taxable base to be subject to IRAP, with deduction of the same over five years;
- the deduction for IRES purposes of the value adjustments and loan losses over five years, rather than eighteen annual instalments.

In accordance with the afore-mentioned Law No. 214/11, the Bank will proceed:

- after the approval of the 2014 financial statements, as a result of the loss, to transform the prepaid taxes, recorded

in the presence of future decreases originated by the deferral of the deduction of the value adjustments on the receivables, into a tax credit, to the extent determined by applying the ratio between the loss for the year and the sum of the capital and reserves to the amount of the prepaid taxes;
- after the presentation of the tax declaration, to transform the prepaid taxes relating to the tax losses into a tax credit, within the limits of the portion generated by the value adjustments of the receivables made as per Article 106.3 of the Consolidated Income Tax Law ("TUIR").

By contrast, with reference to the prepaid taxes which cannot be transformed into a tax credit, on the basis of the current tax legislation in force, no difficulty in recovery of the same emerges.

13.1 Prepaid tax assets: breakdown

Prepaid tax assets, gross of the netting with the deferred tax liabilities, essentially derive from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for €417,985 thousand and to IRAP for €58.435 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 to be carried forward in subsequent years, as well as the provisions for endorsement credits. In detail, the prepaid taxes recorded on the net value adjustments and on the losses can be reabsorbed in the next four years for €352,884 thousand and in the next seventeen years for €100,750 thousand. As indicated above, after the approval of the financial statements, these prepaid taxes will be transformed into a tax credit, in accordance with Italian Law No. 214/11;
- the prepaid taxes referring to the tax losses will be transformed into a tax credit for €12,000 thousand, in accordance with Italian Law No. 214/11.
- the prepaid taxes posted in sub-item "reserves from measurement of financial instruments", recorded as offsetting entries to shareholders' equity, pertain to taxation on negative valuation reserves relating to financial assets available for sale;
- the item "other" refers to the provision due to legal disputes and liabilities associated with exogenous events.

	31/12/2014					*31/12/2013*
Items / Balances	*Prepaid taxes with matching balance in IS (IRES)*	*Prepaid taxes with matching balance in SE (IRES)*	*Prepaid taxes with matching balance in IS (IRAP)*	*Prepaid taxes with matching balance in SE (IRAP)*	*Total*	*Total*
Receivables	400,234		58,061		**458,295**	**187,043**
- of which It. Law No. 214/2011	*395,573*		*58,061*		***453,634***	***185,063***
Other financial instruments						
Goodwill						
Deferred charges						
Intangible fixed assets	82		17		**99**	**98**
- of which It. Law No. 214/2011						
Entertaining expenses						
Personnel-related costs		165			**165**	**165**
Tax losses	12,000				**12,000**	
- of which It. Law No. 214/2011	*12,000*				***12,000***	
Reserves from measurement of fin. instruments		574		116	**690**	**12,164**
Other	4,930		242		**5,172**	**8,324**
Prepaid tax assets - gross	**417,246**	**739**	**58,320**	**116**	**476,421**	**207,794**
Offsetting against deferred tax liabilities	**(597)**	**(214)**	**(18)**	**(78)**	**(907)**	**(817)**
Net prepaid tax assets	**416,649**	**525**	**58,302**	**38**	**475,514**	**206,977**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for €811 thousand and IRAP for €96 thousand. They are mainly recorded as offsetting entries in the income statement for €615 thousand (versus €699 thousand for 2013) in addition to €292 thousand recorded as offsetting entries to the shareholders' equity, the latter fully recorded under revaluations of available for sale financial assets (in 2013, they were €148 thousand).
The main taxable timing differences that led to the emergence of deferred taxes pertain to the sub-item "Financial instruments", in particular to the capital gains on valuation registered for the collective investment undertakings and equity investments.

Items / Balances	*31/12/2014*					*31/12/2013*
	Deferred taxation with matching balance in IS (IRES)	*Deferred taxation with matching balance in SE (IRES)*	*Deferred taxation with matching balance in IS (IRAP)*	*Deferred taxation with matching balance in SE (IRAP)*	*Total*	*Total*
Capital gains to be realised						
Goodwill						
Property, plant and equipment and intangible assets						
Financial instruments	496				**496**	**497**
Personnel-related costs	9				**9**	**12**
Reserves from measurement of fin. instruments		214		78	**292**	**148**
Other	92		18		**110**	**160**
Deferred tax liabilities - gross	**597**	**214**	**18**	**78**	**907**	**817**
Offsetting against prepaid tax assets	**(597)**	**(214)**	**(18)**	**(78)**	**(907)**	**(817)**
Net deferred tax liabilities	**0**	**0**	**0**	**0**	**0**	**0**

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

The table shows all prepaid taxes to be absorbed in subsequent years as offsetting entries to the income statement.
Among the main prepaid taxes emerging during the year were those generated by the tax losses for €12,000 thousand and by the net value adjustments on receivables exceeding the deductible limit in the year for €296,620 (€76,745 thousand in 2013), inclusive of the effects envisaged by the afore-mentioned Stability Law for 2014, and by the taxed allocations to provisions, made during the year amounting to €5,282 thousand (€3,580 thousand in 2013).
The decreases reported during the year included:

- the uses of provisions taxed in previous years amounting to €5,753 thousand (€10,884 thousand in 2013);
- €28,048 thousand relating to the deductible portion in the current year of net value adjustments on receivables recorded in previous years (they amounted to €7,567 thousand in 2013).

		31/12/2014	*31/12/2013*
1.	**Opening balance**	**195,465**	**133,592**
2.	**Increases**	**313,902**	**80,325**
2.1	Prepaid taxes recorded in the year	313,902	80,325
	a) relating to previous years		
	b) due to change in accounting standards		
	c) write-backs		
	d) other	*313,902*	*80,325*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**33,801**	**18,452**
3.1	Prepaid taxes cancelled during the year	33,801	18,452
	a) transfers	*33,801*	*18,452*
	b) written-off as non-recoverable		
	c) due to changes in accounting standards		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases		
	a) transformation in tax credits as per Italian Law No. 214/2011		
	b) other		
4.	**Closing balance**	**475,566**	**195,465**

13.3.1 Change in prepaid taxes as per Italian Law No. 214/2011 (as offsetting entry to the income statement)

	IRES	*IRAP*	*Total 31/12/2014*	*Total 31/12/2013*
1. Opening balance	**173,590**	**11,473**	**185,063**	**115,885**
2. Increases	**259,163**	**49,456**	**308,619**	**76,745**
3. Decreases	**25,180**	**2,868**	**28,048**	**7,567**
3.1 Reversals	25,180	2,868	**28,048**	7,567
3.2 Transformation in tax credit				
a) deriving from losses for the year				
b) deriving from tax losses				
3.3 Other decreases				
4. Closing balance	**407,573**	**58,061**	**465,634**	**185,063**

These are prepaid tax assets recorded in the financial statements, potentially transformable in tax credits, on occurrence of a loss for the year and/or a tax loss in accordance with the provisions of Italian Law No. 214/2011.
These taxes, as illustrated above, will be transformed into tax credits respectively for €453,634 thousand (within the limits of the ratio between the loss for the year and the sum of the capital and reserves) subsequent to approval of the financial statements and for €12,000 thousand after the presentation of the tax declaration.

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

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

	31/12/2014	*31/12/2013*
1. Opening balance	**669**	**1,684**
2. Increases	**12**	**657**
2.1 Deferred taxes recorded during the year	12	657
a) relating to previous years		
b) due to change in accounting standards		
c) other	*12*	*657*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**66**	**1,672**
3.1 Deferred taxes cancelled during the year	66	1,672
a) transfers	*66*	*1,672*
b) due to change in accounting standards		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**615**	**669**

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

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

	31/12/2014	*31/12/2013*
1. Opening balance	**12,329**	**8,874**
2. Increases	**690**	**6,355**
2.1 Deferred taxes recorded during the year	690	6,355
a) relating to previous years		
b) due to change in accounting standards		
c) other	*690*	*6,355*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**12,164**	**2,900**
3.1 Deferred taxes cancelled during the year	12,164	2,900
a) transfers	*12,164*	*2,900*
b) written-off as non-recoverable		
c) due to changes in accounting standards		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**855**	**12,329**

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. In relation to the write-backs of equity investments having the requirements for participation exemption, deferred taxes were measured on the taxable rate of 5%.

	31/12/2014	*31/12/2013*
1. Opening balance	**148**	**110**
2. Increases	**840**	**87**
2.1 Deferred taxes recorded during the year	840	87
a) relating to previous years		
b) due to change in accounting standards		
c) other	*840*	*87*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**696**	**49**
3.1 Deferred taxes cancelled during the year	696	49
a) transfers	*696*	*49*
b) due to change in accounting standards		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**292**	**148**

13.7 Other information

13.7.1 Current tax assets

	31/12/2014	*31/12/2013*
1. IRES advances		
2. IRAP advances	18,940	33,144
3. IRAP receivables		
4. Other receivables and withholdings		
Current tax assets - gross	**18,940**	**33,144**
Offsetting against current tax liabilities	(2,674)	(19,994)
Current tax assets - net	**16,266**	**13,150**

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

13.7.2 Current tax liabilities

Items / Balances	*31/12/2014*		*31/12/2013*	
	taxation to shareholders' equity	*taxation to income statement*	*taxation to shareholders' equity*	*taxation to income statement*
1. IRES payables				4,280
2. IRAP payables		2,674		19,994
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**2,674**		**24,274**
Offsetting against current tax assets		(2,674)		(19,994)
Amounts due for current taxes - net		**0**		**4,280**

The items comprises the payable for current liabilities or those referring to transactions relating to previous years. The IRAP payable, as of 31 December 2014, decreased considerably with respect to the previous year, due to the considerable drop relating to net value adjustments on loans to customers.

Section 14 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS, AND ASSOCIATED LIABILITIES - ASSET ITEM 140 AND LIABILITY ITEM 90

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

		31/12/2014	*31/12/2013*
A.	**Individual assets**		
A.1	Financial assets		
A.1	Equity investments	5,000	1,699
A.2	Property, plant and equipment		
	- for recovery of receivables		
	- other		
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A	**5,000**	**1,699**
	of which measured at cost	**5,000**	**1,699**
	at which measured at fair value (level 1)		
	at which measured at fair value (level 2)		
	at which measured at fair value (level 3)		
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading		
B.2	Financial assets at fair value		
B.3	Financial assets available for sale		
B.4	Financial assets held to maturity		
B.5	Due from banks		
B.6	Loans to customers		
B.7	Equity investments		
B.8	Property, plant and equipment		
B.9	Intangible assets		
B.10	Other assets		
B.	**Total B**		
	of which measured at cost		
	at which measured at fair value (level 1)		
	at which measured at fair value (level 2)		
	at which measured at fair value (level 3)		
C.	**Liabilities associated with individual assets held for sale**		
C.1.	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
	of which measured at cost		
	at which measured at fair value (level 1)		
	at which measured at fair value (level 2)		
	at which measured at fair value (level 3)		
D.	**Liabilities associated to groups of assets held for sale**		
D.1	Due to banks		
D.2	Due to customers		
D.3	Outstanding securities		
D.4	Financial liabilities held for trading		
D.5	Financial liabilities at fair value		
D.6	Provisions		
D.7	Other liabilities		
	Total D		
	of which measured at cost		
	at which measured at fair value (level 1)		
	at which measured at fair value (level 2)		
	at which measured at fair value (level 3)		

14.2 Other information

Equity investments classified, as of 31 December 2013, in accordance with the matters envisaged by IFRS 5, under "non-current assets held for sale" (48% of MPVenture SGR S.p.A. and 14% of Sviluppo Imprese Centro Italia S.G.R. S.p.A.) were subject to disposal during the year for a total equivalent value of €2.7 million with recognition of a gain from disposal of around €1 million.
During 2014, the 20% equity investment held in Agricola Merse S.r.l. was reclassified among "non-current assets held for sale" (IFRS 5), and was disposed of in February 2015.

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

Information on the equity investment classified under discontinued operations follows:

Corporate name: Agricola Merse S.r.l.
Registered Offices: Milan
Operating headquarters: Siena
Investment holding: 20.00%
Available votes: 20.00%
Carrying amount: 5,000

A summary of the economic-financial data relating to the financial statements as of 31 December 2013 (last set approved) is provided below:

Figures	*Balances*
Cash and cash equivalents	-
Financial assets	2
Non-financial assets	83,505
Financial liabilities	15,417
Non-financial liabilities	33,997
Total revenues	2,311
Interest margin	-
Adjustments and value write-backs on property, plant and equipment and intangible assets	-
Profit (loss) from current operations before taxes	(4,597)
Profit (loss) from current operations net of taxes	(4,597)
Gain (Loss) on discontinued operations, net of taxation	
Profit (loss) for the period	(4,564)
Other income components net of taxes	
Comprehensive income	(4,564)

Section 15 - OTHER ASSETS - ITEM 150

15.1 Other assets: breakdown

Type of transaction / Balances	*31/12/2014*	*31/12/2013*
1. Amounts due from the tax authorities and similar	1,937	2,121
2. Items being processed	2,915	288
3. Amounts receivable associated with the supply of goods and services	470	4,582
4. Improvement and incremental costs on third party assets	365	924
5. Accrued income not attributable to own items	4,746	3,572
6. Prepaid expenses not attributable to own items	2,345	1,893
7. Receivable from consolidating entity for tax consolidation system	5,304	3,961
8. Receivables for reimbursement to personnel seconded with third parties	4,386	3,996
9. Measurement of securities ("regular way")	3,339	4,630
10. Other	3,875	6,119
Total	**29,682**	**32,086**

Note:
the sub-item "amounts due from the tax authorities and similar" includes amounts due from foreign tax authorities for € 112 thousand (€ 98 thousand in 2013).
The sub-item "receivables from consolidating entity for tax consolidation system" includes receivables for a total of € 2,783 thousand, relating to the additional IRES paid as a result of the failure to deduct IRAP as per Article 6 of Italian Decree Law No. 185/2010 and Italian Decree Law No. 16/2012; furthermore, during 2014 the ACE (Aiuto alla crescita economica) benefit was recognised for € 1,325 thousand.

LIABILITIES

Section 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by type

Type of transaction / Balances	*31/12/2014*	*31/12/2013*
1. Due to Central Banks		
2. Due to banks	**19,329,301**	**8,016,938**
2.1 Current accounts and unrestricted deposits	328,539	409,344
2.2 Restricted deposits	17,933,111	6,354,248
2.3 Loans	271,070	302,053
2.3.1 borrowing repurchase agreements		
2.3.2 other	*271,070*	*302,053*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other amounts payable	796,581	951,293
Total	**19,329,301**	**8,016,938**
Fair value - level 1		
Fair value - level 2	**19,329,301**	**8,016,938**
Fair value - level 3		
Total fair value	**19,329,301**	**8,016,938**

Note:
the sub-item "Due to banks - 2.5 Other payables" includes collateral received in relation to security lending, OTC derivative and listed derivative and repurchase agreement transactions (the latter by way of additional marginalisations) on the basis of the agreements entered into by the parties (CSA for OTC derivatives, GMSLA for securities lending, GMRA for repos).
The significant increase in the item in question is essentially due to the transfer from item 20 "Due to customers" of the payables due to MPS Ireland (€ 8,384,879 thousand as of 31 December 2013) further to the absorption of this financial company by the Parent Company Banca Monte dei Paschi di Siena, with efficiency as from 11 February 2014 and as from 1 January 2014, in addition to the payment of € 4,147 million by the Parent Company to establish a restricted deposit to guarantee its customers who lend securities.

With regard to the disclosure on fair value, you are hereby informed that the majority of the loans indicated in sub-item 3 envisage the option of early repayment on demand; consequently, we opted for the quantification of the related fair value at book value, excluding the changes in the credit worthiness of the bank after the date the individual transactions were initiated.

1.2 Analysis of Item 10 "Due to banks": subordinated liabilities

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

1.3 Analysis of Item 10 "Due to banks": structured payables

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

1.4 Due from banks subject to micro-hedging

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

1.5 Payables for financial lease

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

Section 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by type

Type of transaction / Balances	*31/12/2014*	*31/12/2013*
1. Current accounts and unrestricted deposits		
2. Restricted deposits	3,170	3,197
3. Loans	7,119	8,315,458
3.1 borrowing repurchase agreements		
3.2 other	*7,119*	*8,315,458*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	229,731	285,391
Total	**240,020**	**8,604,046**
Fair value - level 1		
Fair value - level 2	**240,020**	**8,604,046**
Fair value - level 3		
Total fair value	**240,020**	**8,604,046**

Note:
The sub-item 5. Other payables" includes collateral received from institutional counterparties in relation to security lending, OTC derivative and listed derivative and repurchase agreement transactions (the latter by way of additional marginalisations) on the basis of the agreements entered into by the parties (CSA for OTC derivatives, GMSLA for securities lending, GMRA for repos).
The significant decrease in the item in question is essentially due to the transfer from item 10 "Due to banks" of the payables due to MPS Ireland (€ 8,384,879 thousand as of 31 December 2013) further to the absorption of this financial company by the Parent Company Banca Monte dei Paschi di Siena, with efficiency as from 11 February 2014 and as from 1 January 2014.

With regard to the disclosure on fair value, you are hereby informed that the majority of the loans indicated in sub-item 3 envisage the option of early repayment in favour of the Bank, repayable on demand; consequently, we opted for the quantification of the related fair value at book value, excluding the changes in the credit worthiness of the bank after the date the individual transactions were initiated.

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

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

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

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

2.4 Due to customers subject to micro-hedging

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

2.5 Payables for financial lease

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

Section 3 - OUTSTANDING SECURITIES - ITEM 30

3.1 Outstanding securities: breakdown by type

Type of security /Balances	*31/12/2014*				*31/12/2013*			
	Carrying Amount	*Fair value*			*Carrying Amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	467,301		444,015		70,552		70,001	
1.1 structured								
1.2 other	*467,301*		*444,015*		*70,552*		*70,001*	
2. other securities								
2.1 structured								
2.2 other								
Total	**467,301**		**444,015**		**70,552**		**70,001**	

Note:
the 2014 carrying amount includes € 7,287 thousand in interest accrued as of the balance sheet date (versus € 551 thousand in 2013).

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

Security name	*Currency*	*date of issue*	*maturity*	*interest rate*	*Carrying Amount 31/12/14*	*31/12/13*
1. IT0003878755 MPS B IMPR SUB15 TV	Euro	30 June 2005	30 June 2015	floating	10,000	20,000
2. IT0004809601 MPSCS-TV 12/22	Euro	30 March 2012	30 March 2022	floating	50,531	50,552
3. IT0005003451 MPSCS-TV 14/24	Euro	14 March 2014	14 March 2024	floating	253,568	
4. IT0005041709 MPSCS-TV 14/24	Euro	31 July 2014	31 July 2024	floating	153,201	
					467,300	**70,552**

Main features of the subordinated securities

1. Repayment shall be in five straight-line principal instalments on 30 June each year as from the end of the sixth year of duration; early repayment is not possible.
2. Lower Tier II subordinated domestic bond issues, whose repayment shall be in a single instalment upon maturity; early repayment is not possible.
3. Tier II subordinated domestic bond issues, whose repayment shall be in a single instalment upon maturity; early repayment is not possible.
4. Tier II subordinated domestic bond issues, whose repayment shall be in a single instalment upon maturity; early repayment is not possible.

The subordination clause provide that, in case of Bank liquidation, the loans shall be reimbursed only after all other creditors not equally subordinated are satisfied. The Bank may freely acquired on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy.
Units of these securities were not present in the asset portfolio on either of the 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 31/12/2014*				
	Par value or notional value	*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 trading		*10,494*	*4,829,174*	*3,652*	
.2 associated with fair value option					
1.3 other					
2. Credit derivatives			487,410		
2.1 trading			*487,410*		
2.2 associated with 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.*

Note:
The amounts shown in lines "1. Due to banks" and "2. Due to customers" are mainly correlated to those in line "1. Debt securities" and "4. Loans" in asset table 2.1 "Financial assets held for trading". The sub-items "Due to banks" and "Due to customers", as above, also include the technical overdrafts. The same are measured at fair value consistently with the standards applied to "long" positions. In accordance with IAS 32, section 42, which came into force as from 2014, level 1 derivatives listed on organised markets where netted for € 149,318 thousand (€ 181,965 thousand as of 31 December 2013) and level 2 OTC derivatives settled, by means of the Clearing members via which the Bank "indirectly" accesses, care of the Central Counterparty, the London Clearing House (LCH), for € 390,489 thousand (€ 446,230 as of 31 December 2013). For further information in this connection, please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

Type of transaction / Balances	*Total 31/12/2013*				
	Par value or notional value	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value(*)*
A. Cash liabilities					
1. Due to banks	11,553,390	3,164,544	8,642,590		11,807,134
2. Due to customers	5,735,610	8,566	5,727,931		5,736,497
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	**17,289,000**	**3,173,110**	**14,370,521**		**17,543,631**
B. Derivative instruments					
1. Financial derivatives		0	5,832,208	8,443	
1.1 trading			*5,832,208*	*8,443*	
1.2 associated with fair value option					
1.3 other					
2. Credit derivatives			1,260,146		
2.1 trading			*1,260,146*		
2.2 associated with fair value option					
2.3 other					
Total B		**0**	**7,092,354**	**8,443**	
Total (A+B)		**3,173,110**	**21,462,875**	**8,443**	

(*) *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 line "1. Due to banks" and "2. Due to customers" are mainly correlated to those in line "1. Debt securities" and "4. Loans" in asset table 2.1 "Financial assets held for trading". The sub-items "Due to banks" and "Due to customers", as above, also include the technical overdrafts. The same are measured at fair value consistently with the standards applied to "long" positions.

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 payables

There are no structured payables.

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

Changes/ Types	*Due to banks*	*Due to customers*	*Outstanding securities*	*Total 31/12/14*	*Total 31/12/13*
A. Opening balances	**8,640,408**	**5,727,931**		**14,368,339**	**12,495,986**
B. Increases	**474,372,270**	**662,261,023**		**1,136,633,293**	**1,163,945,236**
B.1 Issues					
B.2. Sales	474,365,595	662,261,011		1,136,626,606	1,163,835,069
B.3. Positive fair value changes					
B.4 Other changes	6,675	12		6,687	110,167
C. Decreases	**473,607,178**	**664,105,313**		**1,137,712,491**	**1,162,072,883**
C.1. Purchases	473,501,906	664,100,418		1,137,602,324	1,162,020,693
C.2. Redemptions				-	
C.3 Negative fair value changes				-	
C.4 Other changes	105,272	4,895		110,167	52,190
D. Closing balances	**9,405,500**	**3,883,641**		**13,289,141**	**14,368,339**

Note:
Sub-items B.3 and C.2 "Other changes" include the components relating to interest accrued at year end. Technical overdrafts are not considered for the purpose of compilation of the above table.

Section 5 - FINANCIAL LIABILITIES AT FAIR VALUE - ITEM 50

No positions have been classified in this category.

Section 6 - HEDGING DERIVATIVES - ITEM 60

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

Items / Balances	*31/12/2014*				*31/12/2013*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*Level 3*	*Notional value*
A. Financial derivatives		0		37,500		1,369		37,500
1. *Fair value*				37,500		*1,369*		37,500
2. Cash flows								
3. Foreign investments								
B. Financial derivatives								
1. *Fair value*								
2. Cash flows								
Total		**0**		**37,500**		**1,369**		**37,500**

Note:
During 2014, the hedging derivative was subject to novation and transferred to a Clearing Broker belonging to the LCH; consequently, the value of the liability was subject to offsetting as indicated at the bottom of table 2.2, Part B Financial assets held for trading - Item 20.

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

Transactions / type of hedge	*Fair value*						*Cash flows*		
	Micro					*Macro*	*Micro*	*Macro*	*Foreign invest.*
	interest rate risk	*exchange rate risk*	*credit risk*	*price risk*	*cumulative risks*				
1. Financial assets available for sale									
2. Receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**0**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected settlements									
2. Portfolios of financial assets and liabilities									
Total									

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

There are no such transactions for this financial statement item.

Section 8 - TAX LIABILITIES - ITEM 80

8.1 Current tax liabilities

Details of current tax liabilities are discussed in the explanatory notes part B - Assets - Section 13 "Tax assets and tax liabilities".

8.2 Deferred tax liabilities

Details of deferred tax liabilities are discussed in the explanatory notes part B - Assets - Section 13 "Tax assets and tax liabilities".

Section 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - ITEM 90

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

Section 10 - OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

Type of transaction / Balances	*31/12/2014*	*31/12/2013*
1. Taxes due to the tax authorities and similar	2,733	3,825
2. Amounts due to social security and welfare institutions	1,551	1,626
3. Amounts due to the Parent Company for tax consolidation		79,419
4. Sums available to customers	989	1,020
5. Liabilities for payment agreements on Parent Company shares		-
6. Other amounts due to employees	6,063	4,292
7. Items being processed	65,715	2,088
8. Amounts payable associated with the payment of supplies of goods and services	12,261	19,455
9. Guarantees given	16,950	7,200
10. Payables for reimbursement of cost of personnel seconded to Bank	1,388	1,194
11. Deferred income not attributable to own items	316	334
12. Accrued expenses not attributable to own items	46	-
13. Measurement of securities (“regular way”)	1,307	2,931
14. Other	2,226	5,614
Total	**111,545**	**128,998**

Note:
the sub-item “Items being processed” includes transactions which were settled in the first few days of 2015.

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: changes in the year

	31/12/2014	31/12/2013
A. Opening balances	**2,851**	**2,964**
B. Increases	**646**	**145**
B.2 Provision for the year	90	109
B.3 Other increases	556	36
C. Decreases	**278**	**258**
C.1 Indemnities paid	278	258
C.2 Other decreases		
D. Closing balances	**3,219**	**2,851**

Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accruing as from 1 January 2007 can be, at the discretion of the employee, assigned to supplementary welfare plans or can be transferred to the fund managed by INPS (National Institute of Social Insurance). These portions do not appear in the statement of changes.
The opening balance referring to 2012 and the change for the year were recalculated to retrospectively reflect the amendments introduced by the new IAS 19. In detail, the opening balance for 2012 increased by €930 thousand, while the closing balance increased by €776 thousand (due to the additional decreases for €154 thousand).

The amount subject to prudent filter recognised in accordance with the indications imparted by the Bank of Italy regarding the determination of the supervisory capital is presented below.

	31/12/2014	31/12/2013
a) Net liability value for defined benefits on the basis of the new IAS 19	3,219	2,851
b) Net liability value for defined benefits on the basis of the approach adopted in the financial statements at 31 Dec. 2012	1,951	2,072
c) Difference between the two values (a-b)	**1,268**	**779**
d) Tax effect on the difference	349	214
e) Net difference to be added as prudent filter to the supervisory capital	**919**	**565**

11.2 Other information

11.2.a Changes in the year in defined benefit liabilities. Employee severance indemnities

Items / Balances	*A (-) Plan assets*	*B(+) DBO current value*	*C(+) Limit to the availability of a net asset (asset ceiling)*	*D=A+B+C Net liabilities/ asset for defined benefits*
Opening balances		**2,851**		**2,851**
Welfare cost relating to current work services				
Interest income/expense		90		90
Revaluation of the net liability/asset for defined benefits:		556		556
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		*556*		*556*
Changes of the effect of the limitations to the availability of a net asset for defined-benefit plans				
Welfare cost relating to past work services and gains/losses from regulations				
Exchange differences				
Contributions:				
Paid by employer				
Paid by employees				
Payments made by plan		(278)		(278)
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**3,219**		**3,219**

11.2.b Main actuarial hypotheses used

	Main actuarial hypotheses / Percentages	*31/12/2014*	*31/12/2013*
1.	Average discounting back rate (*)	1.3406%	3.1639%
2.	Estimated salary increase rates	2.7800%	2.7400%
	Annual inflation rate	2.0000%	2.0000%

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

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

Actuarial hypotheses	*Change in the value of the bond*	*% change in bond*
Average discounting back rate		
Increase of 25 bp	(87)	(2.69%)
Decrease of 25 bp	90	2.79%
Estimated salary increase rates		
Increase of 25 bp		
Decrease of 25 bp		

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

Pursuant to Article 2424 *bis* of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity is €2,695 thousand (€2,871 thousand as at 31 December 2012).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2014*	*31/12/2013*
1. Company pension funds	5,902	5,796
2. Other provisions for risks and charges:	28,827	44,176
2.1 legal disputes	*17,927*	*13,454*
2.2 staff costs		
2.3 other	*10,900*	*30,722*
Total	**34,729**	**49,972**

Note:
the sub-item "other provisions for risks and charges: 2.1 legal disputes" includes the provisions for liabilities deemed probable relating to ordinary litigation with customers and revocatory action, respectively 98% and 2% of the total illustrated in the table (97% and 3% as of 31 December 2013).
The sub-item "other provisions for risks and charges: 2.3 other" includes reliable estimates of likely charges for the Bank, connected to low interest financing, as well as the occurrence of liabilities for exogenous events. With regard to the change in this aggregate, an increase of € 6.6 million was reported in connection with the reversal to the income statement of a provision no longer necessary. Furthermore, in March 2014 a settlement agreement was finalised with Lehman Brothers Special Financing Inc. within the sphere of the out-of-court intermediation procedure entitled "Derivatives Alternative Dispute Resolution Procedure" established in the USA on 6 September 2013, which led to the payment by the Bank of € 6,345 thousand (of which € 47 thousand classified under due to customers). € 13,222 thousand had been set aside for this dispute; the surplus of € 6,924 thousand was reversed to the income statement.

12.2 Provisions for risks and charges: changes in the year

		Pension funds	*Other*	*Total*
A.	**Opening balances**	**5,796**	**44,176**	**49,972**
B.	**Increases**	**652**	**4,592**	**5,244**
B.1	Provision for the year	519	4,552	5,071
B.2	Changes due to the passage of time	133	13	146
B.3	Changes due to discount rate changes		27	27
B.4	Other increases			
C.	**Decreases**	**546**	**19,941**	**20,487**
C.1	Uses in the year	546	6,337	6,883
C.2	Changes due to discount rate changes			
C.3	Other changes		13,604	13,604
D.	**Closing balances**	**5,902**	**28,827**	**34,729**

12.3 Defined-benefit company pension funds

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

The determination of the actuarial values, required by the application of IAS 19 “employee benefits” for the supplementary pension funds with defined benefits, is carried out by an independent actuary, with the use of the “projected unit credit method” as shown in greater detail in part A of the explanatory notes, Accounting standards.

The internal funds with defined benefits in which the Bank is jointly liable are the following:
Defined-benefits pension fund, supplementary and additional, for the former staff of Mediocredito Toscano and the former Istituto Nazionale di Credito Agrario (now included in MPSCS) already retired as of 1 January 1999 and the staff in service employed before 27 April 1993 who have expressed the desire to remain in the same scheme. The provision exclusively payable by the Bank is calculated on the basis of the mathematical reserves established by an independent actuary at the end of each year.
“Defined-contribution” plan, extended to all the MPSCS staff, endowed with separate equity but not autonomous legal status (for greater details please see the reports of the pension funds attached to the Explanatory Notes).

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

Items / Balances	*31/12/2014*		*31/12/2013*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**5,796**		**5,532**	
Increases	**652**		**822**	
Welfare cost relating to current work services				
Borrowing costs	133		221	
Members contributions to plan				
Actuarial losses	519		601	
Exchange losses				
Welfare cost relating to past work services				
Other changes				
Decreases	**546**		**558**	
Indemnities paid	546		558	
Welfare cost relating to past work services				
Actuarial gains				
Exchange gains				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances	**5,902**		**5,796**	

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

Items / Balances	*A (-) Plan assets*	*B(+) DBO current value*	*C(+) Limit to the availability of a net asset (asset ceiling)*	*D=A+B+C Net liabilities/ asset for defined benefits*
Opening balances		**5,796**		**5,976**
Welfare cost relating to current work services				
Interest income/expense		133		133
Revaluation of the net liability/asset for defined benefits:		519		519
Return on plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions		*179*		*179*
Actuarial gains/losses deriving from changes in financial assumptions		*340*		*340*
Changes in the effect of the limitations to the availability of a net asset for defined-benefit plans				
Welfare cost relating to past work services and gains/losses from regulations				
Exchange differences				
Contributions:				
Paid by employer				
Paid by employees				
Payments made by plan		546		546
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**5,902**		**5,902**

12.3.3. Information on 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. Consequently, it is not possible to provide precise information on the fair value of the plan assets.

12.3.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	*31/12/2014*	*31/12/2013*
1. Average discounting back rate *(*)*	1.05%	2.07%
2. Estimated salary increase rates	N.A.	1.00%
Annual inflation rate	1.50%	2.00%

(*) for the purpose of calculating the discounting back gains/losses, the Bank adopts the BFV EUR Composite (AA) curve as of the measurement date

12.3.5. Information on the amount, timing and uncertainty of the cash flows

The uses estimated for the coming years are presented below:

FUTURE PAYMENTS

Year	*2015*	*2016*	*2017*	*2018*	*2019*
Cash flow	521	491	459	426	392

OTHER INFORMATION

Main actuarial hypotheses / Percentages	*31/12/2014*	*31/12/2013*
Number of active employees	0	0
Number of retirees	42	42
2014 Service Cost	0	0
Residual average permanence	6.94	8.00

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

Actuarial hypotheses	*Change in the value of the bond*	*% change in bond*
Average annual discounting back rate and inflation rate		
DBO + 0.25% discounting back	(103)	(1.75%)
DBO - 0.25% discounting back	105	1.79%

12.3.6. Plans relating to several employers

There are no plans relating to several employers.

12.3.7. Defined-benefit plans which share the risks between entities under mutual control

There are no plans with these characteristics.

Section 13 - REFUNDABLE SHARES - ITEM 140

There are no such transactions for this financial statement item.

Section 14 - BANK'S SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200

The Bank's shareholders' equity breaks down as follows:

Items / Balances	*31/12/2014*	*31/12/2013*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	689,068	640,420
4. (Treasury shares)		
5. Valuation reserves	(2,764)	(25,442)
6. Equities		
7. Profit (loss) for the year	(587,503)	48,648
Total	**603,325**	**1,168,150**

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

14.1.a Share capital: breakdown

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

14.1.b Treasury shares: breakdown

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

14.2 Share capital - number of shares: changes in the year

The number of shares in circulation did not undergo any change during 2014.

14.3 Share capital: other information

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

14.4 Profit reserves: other information

Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital. A part of these reserves safeguards, in accordance with Article 2359 *bis* of the Italian Civil Code, the purchases of stock issued by the parent company Banca Monte dei Paschi di Siena, according to the limits and terms envisaged by the shareholders' resolutions; these purchases are made within the sphere of the brokerage transactions on share indexes and listed options.
The Bank does not hold any investments in the stock of the Parent Company as of 31 December 2014.

Items / Balances	*31/12/2014*	*31/12/2013*
Legal reserve	41,018	38,586
Reserve for treasury shares and shares of the Parent Company		
Statutory reserve	34,338	31,906
Reserve pursuant to Article 13 of It. Leg. Decree No. 124/93.		
Extraordinary reserve	367,768	323,985
Other reserves	(387)	(387)
Total	**442,737**	**394,090**

14.5 Equities: breakdown and changes in the year

There are no such transactions for this financial statement item.

14.6 Other information

14.6.1 Valuation reserves

14.6.1.1 Valuation reserves: breakdown

Items / Components	*31/12/2014*	*31/12/2013*
1. Financial assets available for sale	(694)	(35,769)
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 indemnity	(1,454)	(898)
10. Company pension funds	(1,716)	(1,196)
11. Tax effect	1,100	12,421
Total	**(2,764)**	**(25,442)**

14.6.1.2 Valuation reserves: changes in the year

	Financial assets available for sale	*Employee severance indemnities*	*Company pension funds*	*Tax effect*	*Total*
A. Opening balances	**(35,769)**	**(898)**	**(1,196)**	**12,421**	**(25,442)**
B. Increases	**53,094**			**(11,665)**	**41,429**
B.1 Fair value increases	5,920			(1,797)	4,123
B.2 Other changes	47,174			(9,868)	37,306
C. Decreases	**18,019**	**556**	**520**	**(344)**	**18,751**
C.1 Fair value decreases	18,019			(48)	17,971
C.2 Other changes		556	520	(296)	780
D. Closing balances	**(694)**	**(1,454)**	**(1,716)**	**1,100**	**(2,764)**

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

Assets / Balances	*31/12/2014*		*31/12/2013*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities	693	2,087	255	36,782
2. Equities	647		717	
3. Units in collective investment undertakings	53		41	
4. Loans				
Total	**1,393**	**2,087**	**1,013**	**36,782**

Note:
The negative valuation reserves on debt securities, as per sub-item 1., are almost entirely 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*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(36,527)**	**717**	**41**	
2. **Positive changes**	**35,133**	**17,949**	**12**	
2.1 Fair value increases	5,294	614	12	
2.2 Transfer to income statement of negative reserves	29,839	17,335		
- due to impairment		*17,335*		
- due to conversion	*29,839*			
2.3 Other changes				
3. **Negative changes**		**18,019**		
3.1 Fair value decreases		18,019		
3.2 Transfer to income statement of positive reserves				
- due to conversion				
3.3 Other changes				
4. Closing balances	**(1,394)**	**647**	**53**	

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

	Amount	Possibility of utilisation (*)	Available portion	Summary of uses made in previous three years: for coverage of losses	Summary of uses made in previous three years: for other reasons
Capital reserves	**363,865**	A,B,C	**363,865**		
Profit reserves	**499,228**	A,B,C	**458,210**		
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**40,668**	A,B,C	**40,668**		
TOTAL RESERVES	**914,393**		**873,375**		
Profit for 2014	(587,503)				
Total Equity	**603,325**				

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

Note:
the item "Profit reserves" includes € 56,103 thousand for the portion of the merger surplus consequent to the absorption of the former MPS Bancaverde s.p.a. in MPS Merchant s.p.a. which took place during 2004. Article 172.6 of the Income Tax Consolidation Act envisaged that the merger surplus is reserved the same tax regime applicable to the reserves of the absorbed company.
The item "Other IAS reserves" includes the amount of € 1,052 thousand as the negative profit reserve arising on first-time application of the IAS (2005 with reference to the 2004 financial statements), plus € 665 thousand as the reserve which arose further to application of the amendments introduced by the new IAS 19.

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	*31/12/2014*	*31/12/2013*
1. Financial guarantees given	240,351	281,835
a) Banks	*5,165*	*1,049*
b) Customers	*235,186*	*280,786*
2. Commercial guarantees given	17,293	12,505
a) Banks	*800*	*62*
b) Customers	*16,493*	*12,443*
3. Irrevocable commitments to grant finance	4,365,009	3,812,697
a) Banks	1,459,575	1,223,277
- certain to be called on	*1,459,575*	*1,223,277*
- not certain to be called on		
b) Customers	2,905,434	2,589,420
- certain to be called on	*2,376,105*	*1,988,822*
- not certain to be called on	*529,329*	*600,598*
4. Commitments underlying derivatives on receivables: protection sales	13,587,996	22,501,527
5. Assets lodged as collateral for third party bonds	396,750	513,963
6. Other commitments	161,416	202,512
Total	**18,768,815**	**27,325,039**

Note:
item 5. "Assets lodged as collateral for third party bonds" includes the loans of the bank guaranteeing loan transactions of the Eurosystem entered into by the Parent Company. The commitments underlying derivatives on receivables for protection sales, as per sub-item 4, are covered by essentially equivalent purchases of protection.

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

Portfolios	*31/12/2014*	*31/12/2013*
1. Financial assets held for trading	5,713,259	6,087,421
2. Financial assets at fair value		
3. Financial assets available for sale	39,175	39,325
4. Financial assets held to maturity		
5. Due from banks	4,611,261	5,476,450
6. Loans to customers	309,010	391,702
7. Property, plant and equipment		

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

3 Information on operating leases

Items / Balances	*31/12/2014*	*31/12/2013*
- Within 1 year	237	409
- Between 1 and 5 years	136	170
- Beyond 5 years	-	-

4. Management and brokerage on behalf of third parties

Type of services	*31/12/2014*	*31/12/2013*
1. Execution of order on customers' behalf		
a) Purchases	7,596,920	8,631,153
1. Settled	*7,583,503*	*8,566,939*
2. Not settled	*13,417*	*64,214*
b) Sales	7,927,279	7,376,435
1. Settled	*7,904,755*	*7,335,661*
2. Not settled	*22,524*	*40,774*
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 reporting Bank		
2. Other securities		
b) Third party securities on deposit (excluding asset management): other	9,996,539	11,082,055
1. Securities issued by the reporting Bank		
2. Other securities	*9,996,539*	*11,082,055*
c) Third party securities deposited with third parties	9,946,616	11,033,742
d) Bank's securities deposited with third parties	7,291,833	8,010,358
4. Other transactions	**11,683,997**	**12,549,699**

Note:
The amounts indicated in point 3 "Custody and administration of securities" concern the par value of the securities.
The sub-item "third party securities" includes € 834,418 thousand as collateral received to guarantee the securities lending and derivative activities (€ 865,637 thousand in 2013), in addition to securities received for repurchase agreements and securities lending receivable for a nominal value of € 8,982,308 thousand (€ 10,075,740 thousand as of 31 December 2013). The aggregate presents an overall fair value of € 10,983,342 thousand (€ 11,613,614 as of 31 December 2013).
The "Other transactions", indicated in point 4, represent the volumes of placement activities with or without the undertaking of guarantees carries out during the reference years.

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

Technical forms	*Gross amount of the financial assets (a)*	*Amount of the financial liabilities offset in the financial statements (b)*	*Net amount of the financial assets recognised in the financial statements (c)*	*Correlated amounts not subject to netting in the financial statements*		***Net amount 31/12/2014***	***Net amount 31/12/2013***
				Derivative instruments	*Cash deposits received as collateral*		
1. Derivatives	7,629,928	540,610	7,089,317	5,786,149	742,032	**561,136**	**676,149**
2. Repurchase agreements	6,297,678		6,297,678	6,295,877	340	**1,461**	**99,468**
3. Securities loan							
4. Other							
Total 31 December 2014	**13,927,606**	**540,610**	**13,386,995**	**12,082,026**	**742,372**	**562,597**	
Total 31 December 2013							**775,617**

Note:
The assets indicated in the above table are measured according to the criteria illustrated in the reference accounting standards, or rather section 1 - part A.2, 2) Financial assets at fair value. The values relating to the derivatives refer to: i) derivatives listed on organised markets; ii) OTC financial derivatives settled care of the Central Counterparty LCH - London Clearing House, via the Clearings Members; iii) OTC derivatives entered into with institutional counterparties disciplined by ISDA MNA and CSA; iv) OTC derivatives with customers falling under agreements similar to netting agreements; v) repurchase and securities lending agreements disciplined respectively by GMRA and GMSLA collateralisation agreements.
The values shown in column "c" correspond to the matters indicated in the balance sheet assets under item 20. Financial assets held for trading.

Description of the netting rights subject to outline netting agreements or similar agreements, including the cases where the criteria envisaged by section 42 of IAS 32 are not satisfied.

The transactions referring to derivatives listed on organised markets present the characteristics required by the amendment to IAS 32 for the netting of financial assets and liabilities, since the Bank has both an actual, unconditional right which can be exercised during the normal course of business and also in the event of default, insolvency or bankruptcy of the counterparty, to offset the financial assets and liabilities (IAS 32 §AG38B), and the intention to settle the net amount, or realise the asset and at the same time discharge the liability (IAS 32 §AG38E).
With reference to the OTC derivatives settled care of the Central Counterparty LCH, the relationship between the Bank and the Clearing Members is disciplined by an ISDA MNA contract and CSA, in which - in contrast to that which takes place within the sphere of the agreements envisaged with other counterparties - the application of the «Multiple Transaction Payment Netting» is envisaged as defined by Article 2(c) of ISDA MNA dated 2002. The activation of the «Multiple Transaction Payment Netting» option involves:
- *the net settlement on a daily or intraday basis;*
- *a single transfer of funds for each settlement currency inclusive of the trades of the contractual flows, any amounts to be paid in the event of early termination and the payments/collections relating to the initial margins and variation margins (collateral).*

In the event of the default of a Clearing Member, the rules envisaged by the ISDA MNA apply. In detail, the Bank can choose whether to transfer the position to another Clearing Member or arrange for the settlement of the outstanding positions.
This type of transaction also presents the characteristics envisaged by the amendment to IAS 32 (see the previous point).
The OTC derivatives entered into with institutional counterparties are disciplined by ISDA MNA and CSA contracts. The contractual clauses of these transactions make it possible to carry out a netted settlement of the financial assets and liabilities in question only in the event that specific events arise, while the possibility of netting during the normal course of business is by contrast excluded.
With the exception of the agreements entered into with the Clearing members of the CCP, there are no agreements outstanding with institutional counterparties which envisage the application of the «Multiple transaction payment netting» clause.
Therefore, the necessary characteristics for netting in the financial statements, as disciplined by the amendment to IAS 32, have not been recognised in the case in question.

OTC derivatives entered into with customers and falling under agreements similar to netting agreements. As from July 2012, a new legislative agreement was introduced which disciplines the transactions with retail and corporate customers, which the Bank is gradually extending to all customers with derivative transactions. The new legislative agreement envisages netting hypotheses both in the normal course of business and in the event of default, insolvency or bankruptcy. Despite the presence of the clauses described above, however, the operational practices do not envisage the settlement on a net basis of the cash flows in the normal course of business and, therefore, operating formalities which are in line with the requisites envisaged by the amendment to IAS 32 for the purpose of the netting of the financial assets and liabilities in the financial statements have not been acknowledged.
The repurchase and security lending agreements have all been disciplined by the following agreements entered into with a view to mitigation of the credit risk:

- *Global Master Repurchase Agreement (GMRA) for the repurchase agreements;*
- *Global Master Securities Lending Agreement (GMSLA) for the loan of securities.*

On the basis of the analysis carried out, with particular reference to the contractual regulations pertaining to the settlement of the cash flows, no cases have been identified which envisage the net settlement of the daily or infra-daily cash flows, during the normal course of business. Therefore, the requisites referred to by the amendment to IAS 32 for the related netting in the financial statements do not exist.

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

Technical forms	*Gross amount of the financial assets (a)*	*Amount of the financial liabilities offset in the financial statements (b)*	*Net amount of the financial assets recognised in the financial statements (c)*	*Correlated amounts not subject to netting in the financial statements*		***Net amount 31/12/2014***	***Net amount 31/12/2013***
				Derivative instruments	*Cash deposits received as collateral*		
1. Derivatives	5,860,535	540,610	5,319,925	5,003,429	277,788	**38,708**	**68,712**
2. Repurchase agreements	13,289,141		13,289,141	13,287,175		**1,966**	**80,752**
3. Securities loan							
4. Other							
Total 31 December 2014	**19,149,676**	**540,610**	**18,609,066**	**18,290,604**	**277,788**	**40,674**	
Total 31 December 2013							**149,464**

Note:
The liabilities indicated in the above table are measured according to the criteria illustrated in the reference accounting standards, or rather section 1- part A.2, 13) Financial liabilities held for trading.
The values shown in column "c" correspond to the matters indicated in the balance sheet liabilities under item 40. Financial liabilities held for trading.
With regard to the disclosure of the netting rights, please see the matters indicated at the bottom of the previous table "5. Financial assets subject to netting in the financial statements, or subject to outline netting or similar agreements".

7. Securities lending transactions

Securities lending transactions, like the similar Repo transactions, are finalised - to a good extent - to hedge similar and identical transactions; on a parallel, they are also activated to hedge short positions in securities (so-called technical overdrafts, represented, in terms of volumes, mainly by exposures to government issuers) undertaken by the trading desks for maturity strategies aimed at the short - mid-term.
Overall, a very dynamic and complex management of the trading portfolios is revealed, both with regard to investments and funding, as the entity of the figures concerned shows:

- the amount of the receivable securities lending, as of 31 December 2014, came to €3,749 million (compared with €4,716.8 million as of 31 December 2013);
- payable securities lending amounted to €195 million (compared with €1,106.1 million as of 31 December 2013). The change is attributable to the transaction with a security from the SIENA SME self-securitisation transaction as the underlying element, a transaction closed in December 2014.

The counterparties of the securities lending transactions were, as of 31 December 2014, exclusively banking. In detail, the receivable securities lending transactions are all carried out with the Parent Company and concern securities which the same borrows from its customers. Out of the total of 3,749 million, 2,291 have Government securities as the underlying element, mainly BTPs - long-term treasury bonds (1,962 million).
Considering all the securities lending transactions (net receivable balance of €3,554 million) and those relating to repurchase agreements (net payable balance of €6,991 million), an overall net funding position emerges, linked to the financing of net long positions in securities. The main objective is to optimise the cost of carry of the portfolios benefiting from the relative value approach, in particular on the BTP market.

8. Disclosure on joint control activities

Nothing to report.

Part C
Notes to the Income Statement

Section 1 - INTEREST - ITEMS 10 AND 20

Interest income and similar income: breakdown

Items / Technical forms	*Debt securities*	*Loans*	*Other transactions*	***Total 31/12/14***	***Total 31/12/13***
1. Financial assets held for trading	132,725	11,348		**144,073**	**150,269**
2. Financial assets available for sale	6,818			**6,818**	**9,438**
3. Financial assets held to maturity					
4. Due from banks		67,237		**67,237**	**63,622**
5. Loans to customers	6	271,602		**271,608**	**294,177**
6. Financial assets at fair value					
7. Hedging derivatives					
8. Other assets					**3**
Total	**139,549**	**350,187**	**0**	**489,736**	**517,509**

Note:
The interest accrued during the year relating to positions classified as "impaired" amounts to € 80,835 thousand (€ 55,201 as of 31 December 2013). Default interest is fully written down and recorded for accounting purposes at the time of collection.

1.2 Interest income and similar income: differentials relating to hedging transactions

1.3 Interest income and similar income: other information

	31/12/2014	*31/12/2013*
1. Interest income on foreign currency financial assets	10,791	11,172
2. Interest income on financial lease transactions		-

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/14***	***Total 31/12/13***
1. Due to Central Banks					
2. Due to banks	(276,315)			**(276,315)**	**(136,185)**
3. Due to customers	(213)			**(213)**	**(116,687)**
4. Outstanding securities		(15,339)		**(15,339)**	**(2,650)**
5. Financial liabilities held for trading	(29,051)			**(29,051)**	**(31,194)**
6. Financial liabilities at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			(734)	**(734)**	**(746)**
Total	**(305,579)**	**(15,339)**	**(734)**	**(321,652)**	**(287,462)**

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

Types /Items	*31/12/2014*	*31/12/2013*
A. Positive differentials relating to hedging transactions		
B. Negative differentials relating to hedging transactions	(734)	(746)
C. Balance (A-B)	**(734)**	**(746)**

1.6 Interest expense and similar charges: other information

	31/12/2014	*31/12/2013*
1. Interest expense on foreign currency liabilities	(3,081)	(4,001)
2. Interest expense on liabilities for financial lease transactions		

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

Type of services / Balances	31/12/2014	31/12/2013
a) on guarantees given	4,216	4,344
b) on credit derivatives		
c) on asset management, services and consultancy:	36,830	82,372
1. financial instrument trading		
2. foreign currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. securities placement	*34,570*	*78,980*
7. order reception and transmission	*2,260*	*3,392*
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) on collection and payment services		
e) on securitisation services		
f) on factoring services		
g) on tax collection and State lottery services		
h) management of multilateral trading systems		
i) holding and managing current accounts		
j) other services	46,135	63,447
Total	**87,181**	**150,163**

Note:
in sub-item 6. Securities placement. Despite the reduction in the number of placement transactions with/without guarantee seen to by the Bank (37 in 2014 compared with 21 in 2013), the drop in commission is mainly attributable to the fact that in 2013 placements were made for a significant amount for the issues of the BTP Italy security (€ 1.3 million in 2014 compared with € 38.6 million in 2013).

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

Type of services / Balances	*31/12/2014*	*31/12/2013*
a) for early repayment/termination of loans and mortgage loans	19,270	33,109
b) fees for consulting activities	13,891	15,907
c) fees for services	3,592	2,768
d) fees for securities lending	889	973
e) other	8,493	10,690
Total	**46,135**	**63,447**

Note:
the sub-item "d) other" mainly refers to fees for approval and secretarial processes, fees for non or delayed use of the agreed credit facility, divestment charges and agency fees.

2.2 Fee income: distribution channels for products and services

Channels / Balances	*31/12/2014*	*31/12/2013*
a) **at Bank branches:**		
1. asset management		
2. securities placement		
3. third party services and products		
b) **door-to-door sales:**		
1. asset management		
2. securities placement		
3. third party services and products		
c) **other distribution channels:**		
1. asset management		
2. securities placement	34,570	78,980
3. third party services and products		

2.3 Fee expense: breakdown

Services / Balances	*31/12/2014*	*31/12/2013*
a) on guarantees received	(625)	(147)
b) on credit derivatives		
c) on asset management and other services:	(34,877)	(82,565)
1. financial instrument trading	*(12,282)*	*(15,098)*
2. foreign currency trading	*(3)*	*(4)*
3. asset management		
3.1. own portfolio		
3.2. third party portfolios		
4. custody and administration of securities	*(687)*	*(837)*
5. financial instrument placement	*(21,905)*	*(66,626)*
6. financial promoters offering financial instruments, products and services		
d) on collection and payment services	(18)	(19)
e) on other services	(19,484)	(20,917)
Total	**(55,004)**	**(103,648)**

Note to sub-item 5:
Financial instrument placement. For greater details on the significant increase in this component, please see the note at the bottom of the previous table 3.1 "Fee income: breakdown".

2.3.1 Fee expense: breakdown of fees for other services

Type of services / Balances	*31/12/2014*	*31/12/2013*
a) presentation of loan applications	(8,340)	(9,173)
b) handling of non-performing positions	(7,192)	(7,292)
c) expense and fees paid to Barclays, Citibank and Clearstream	(3,254)	(3,320)
d) fees for securities lending	(196)	(422)
e) other	(502)	(710)
Total	**(19,484)**	**(20,917)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income

Items / Income	*31/12/2014*		*31/12/2013*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	2,924	616	2,917	835
B. Financial assets available for sale			41	
C. Financial assets at fair value				
D. Equity investments	1,611		720	
Total	**4,535**	**616**	**3,678**	**835**

Section 4 - NET INCOME (LOSS) FROM TRADING ACTIVITIES - ITEM 80

4.1 Net income from trading activities: breakdown

Transactions / Income components	*Capital gains (A)*	*Trading gains (B)*	*Capital losses (C)*	*Trading losses (D)*	*Net profit (loss) (A+B-C-D) 31/12/14*	*Net profit (loss) (A+B-C-D) 31/12/13*
1. Financial assets held for trading						
1.1 Debt securities	146,985	330,842	(17,973)	(75,914)	**383,940**	**158,315**
1.2 Equities	1,050	12,449	(2,626)	(1,868)	**9,005**	**17,491**
1.3 Units in collective						
investment undertakings	3	3,347	(450)	(4,149)	**(1,249)**	**14,478**
1.4 Loans						
1.5 Other						
2. Financial liabilities held for trading						
2.1 Debt securities	1,897	51,663	(128,388)	(122,734)	**(197,562)**	**(160,115)**
2.3 Payables						
2.2 Other	217	1,929	(6,155)	(8,085)	**(12,094)**	**(4,319)**
3. Other financial assets and liabilities						
- Exchange differences					**1,036**	**273**
4. Derivative instruments						
4.1 Financial derivatives:						
- on debt securities and interest rates	1,917,382	7,086,870	(1,249,645)	(7,681,374)	**73,233**	**250,916**
- on equity securities and share indexes	371,446	1,818,973	(272,482)	(2,160,781)	**(242,844)**	**(168,679)**
- on foreign currency and gold					**(3,947)**	**7,581**
- Other	28,077	192,055	(23,420)	(199,558)	**(2,846)**	**(11,391)**
4.2 Credit derivatives	440,093	1,348,077	(346,343)	(1,315,675)	**126,152**	**49,337**
Total	**2,907,150**	**10,846,205**	**(2,047,482)**	**(11,570,138)**	**132,824**	**153,341**

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

5.1 Net income from hedging activities: breakdown

	Income components / Balances	*31/12/2014*	*31/12/2013*
A.	**Income related to:**		
A.1	Fair value hedging derivatives	570	704
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)	**570**	**704**
B.	**Costs related to:**		
B.1	Fair value hedging derivatives		
B.2	Hedged financial assets (fair value)	(586)	(660)
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)	**(586)**	**(660)**
C.	**Net income from hedging activities (A-B)**	**(16)**	**44**

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

6.1 Profit (loss) on sale/repurchase: breakdown

Items / Income components	*31/12/2014*			*31/12/2013*		
	Gains	*Of Losses*	*Net profit (loss)*	*Gains*	*Of Losses*	*Net profit (loss)*
Financial assets						
1. Due from banks						
2. Loans to customers	547	(2,853)	(2,306)		(488)	(488)
3. Financial assets available for sale	20,786	(29,839)	(9,053)	563	(7,020)	(6,457)
3.1 Debt securities	*20,786*	*(29,839)*	*(9,053)*	*206*	*(6,986)*	*(6,780)*
3.2 Equities				*357*	*(34)*	*323*
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**21,333**	**(32,692)**	**(11,359)**	**563**	**(7,508)**	**(6,945)**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Outstanding securities						
Total liabilities						

Section 7 - NET RESULT FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE - ITEM 110

There are no such transactions for this financial statement item.

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

8.1 Net value adjustments due to impairment of receivables: breakdown

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	*31/12/2014*	*31/12/2013*
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(500)	(1,242,139)	(31,308)	87,266	76,789			(1,109,892)	(257,465)
Impaired receivables acquired									
-Loans									
- Debt securities									
Other receivables									
-Loans	(500)	(1,242,139)	(31,308)	87,266	76,789			*(1,109,892)*	*(257,465)*
- Debt securities									
C. Total	**(500)**	**(1,242,139)**	**(31,308)**	**87,266**	**76,789**			**(1,109,892)**	**(257,465)**

Note:
the column "cancellations" discloses the losses reported in the presence of the final cancellation of the receivables, while the column "other" includes the specific write-downs on impaired receivables subject to analytical measurement. The balances stated in the column "specific value write-backs - from interest" relate to the release of interest on value adjustments for the discounting back of the recoveries on non-performing and impaired positions with analytical doubtful outcome.

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*	
	Cancellations	*Other*	*From interest*	*Other write-backs*	*31/12/2014*	*31/12/2013*
A. Debt securities						
B. Equities		(17,335)			(17,335)	(36,906)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total		**(17,335)**			**(17,335)**	**(36,906)**

Note:
The additional value adjustments made in 2014 were as follows:
- € 13,044 thousand referring to securities of Fenice Holding;
- € 1,714 thousand relating to securities of Moncada Solar Equipment Srl;
- € 532 thousand relating to securities of Targetti Poulsen 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*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	*31/12/2014*	*31/12/2013*
A. Guarantees given		(12,540)					2,790	(9,750)	710
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**(12,540)**					**2,790**	**(9,750)**	**710**

Note:
the amounts relating to the item "Guarantees given" represent the value adjustments/write-backs made on guarantees given in the face of expected losses in the event of enforcement of the same.

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel expenses: breakdown

	Type of costs / Balances	*31/12/2014*	*31/12/2013*
1.	Employees	**(43,608)**	**(41,363)**
	a) wages and salaries	(29,335)	(30,448)
	b) social security charges	(7,799)	(7,538)
	c) severance indemnities	(960)	(974)
	d) pension costs		
	e) provision for personnel severance indemnities	(90)	(109)
	f) provision for pensions and similar obligations:	(491)	(591)
	- defined-contributions	*(358)*	*(370)*
	- defined benefits	*(133)*	*(221)*
	g) payments to external supplementary welfare funds		
	- defined-contributions		
	- defined benefits		
	h) costs deriving from payment agreements based on		
	Parent Company equity instruments (stock granting)		
	i) other employee benefits	(4,933)	(1,703)
2.	Other working personnel	**(71)**	
3.	Directors and Statutory Auditors	**(513)**	**(708)**
4.	Retired personnel	**(68)**	**(33)**
5.	Recovered expenses for employees seconded at other companies	**16,115**	**14,776**
6.	Expense reimbursements for third party employees seconded at the Bank	**(4,879)**	**(4,861)**
	Total	**(32,953)**	**(32,260)**

Note:

the sub-item i) "other benefits in favour of employees" includes the cost relating to the action for reducing staff, envisaged in the 2012-2015 BMPS Group business plan, and expressed in the level II bargaining agreements signed with the Trade Unions on 19 December 2012 and 7 August 2014. The total of this item, calculated on the basis of the requirements contained in IAS 19 (termination benefits), amounts to € 3,466 thousand for 2014 and € 393 thousand in 2013.

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	*31/12/2014*	*31/12/2013*
Employees:	**363**	**386**
a) executives	23	28
b) managers	216	232
c) other employees	124	126
Other personnel	**-**	**1**
Total	**363**	**387**

For further details, please refer to the matters which will be illustrated in the report on operations (currently being approved).

9.3 Defined-benefit company pension funds: costs and revenues

Items / Balances	*31/12/2014*		
	Defined-benefit company pension funds		*Employee severance indemnities*
	Internal plans	*External plans*	
Interest income/expense			
- welfare cost relating to current work services			(90)
- welfare cost relating to past work services	(133)		
Gain / loss from discharge of fund			
Total	**(133)**		**(90)**

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

Items / Balances	*31/12/2014*	
	Defined-benefit company pension funds	*Employee severance indemnities*
1. Contributions to the Plan which the Bank estimates it will pay out in the next year	135	90

9.5 Other administrative expenses: breakdown

Items / Balances	*31/12/2014*	*31/12/2013*
1. substitute tax -	-	
2. municipal property tax	(103)	(103)
3. stamp duty	(601)	(799)
4. other taxation	(299)	(317)
5. rental of bank properties	(3,327)	(3,398)
6. fees for outside professionals	(4,912)	(5,561)
7. maintenance of furnishings and property used for business purposes	(944)	(887)
8. postal charges	(65)	(74)
9. telephone charges	(126)	(140)
10. advertising	-	-
11. sundry rents and leasing	(6,120)	(5,795)
12. information and searches	(104)	(197)
13. transport	(303)	(333)
14. electricity, heating and water	(7)	(51)
15. security	(4)	(27)
16. reimbursement of staff vehicle and travel costs	(297)	(292)
17. other staff costs	(1,499)	(1,692)
18. contracts for cleaning of premises	(168)	(160)
19. rental of data lines and transmission	(75)	(110)
20. printed matter, stationery and consumables	(37)	(32)
21. insurance	(19)	(25)
22. services outsourced from Group companies	(18,390)	(19,774)
23. membership fees	(350)	(330)
24. Entertaining expenses	(22)	(20)
25. subscriptions to publications	(16)	(39)
26. sundry	(1,572)	(1,370)
Total	**(39,360)**	**(41,526)**

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

10.1 Net provisions for risks and charges: breakdown

	31/12/2014			*31/12/2013*		
	Personnel costs	*Legal disputes*	*Other*	*Personnel costs*	*Legal disputes*	*Other*
1. Provisions for the year		(4,592)			(1,396)	(9,273)
2. Write-backs		80	13,524	5	479	32,974
Total		**(4,512)**	**13,524**	**5**	**(917)**	**23,701**

Note:
the sub-item "Other" includes reliable estimates of likely charges for the Bank, connected to low interest financing, to some typical operating transactions, e.g. derivatives or the occurrence of liabilities for exogenous events (for greater details please refer to the note at the bottom of table 12.1 in Section 12 - Provisions for risks and charges - in part B of the Explanatory Notes.

SECTION 11 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO PROPERTY, PLANT AND EQUIPMENT - ITEM 170

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

Assets / Income components		*Depreciation (A)*	*Value adjustments due to impairment (B)*	*Write-backs (C)*	*Net profit (loss) (A+B-C)*	
					31/12/14	*31/12/13*
A.	**Property, plant and equipment**					
A.1	**Owned by the Bank**	(428)			(428)	(440)
	- For use in business	*(127)*			*(127)*	*(139)*
	- Investment purposes	*(301)*			*(301)*	*(301)*
A.2	**Acquired under financial lease**					
	- For use in business					
	- Investment purposes					
	Total	**(428)**			**(428)**	**(440)**

Section 12 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 180

There are no such transactions for this financial statement item.

Section 13 - OTHER OPERATING INCOME AND CHARGES - ITEM 190

13.1 Other operating charges: breakdown

Items / Balances	*31/12/2014*	*31/12/2013*
1. Amounts not receivable not attributable to own items	(24)	(140)
2. Out-of-period expense not attributable to own items	(8)	(9)
3. Amortisation of leasehold improvement costs classified among “Other assets”	(571)	(596)
4. Settlements paid for litigation	(219)	(148)
5. Other	(1,028)	(358)
Total	**(1,850)**	**(1,251)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2014*	*31/12/2013*
1. Amounts not payable not attributable to own items	17	51
2. Out-of-period income not attributable to own items	27	239
3. Rental income from investment properties		-
4. Other costs charged back	4,911	5,651
5. Other	635	2,375
Total	**5,590**	**8,316**

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

14.1 Profit (loss) from equity investments: breakdown

Income components / Balances	*31/12/2014*	*31/12/2013*
A. Income	**971**	**846**
1. Revaluations		
2. Gains on disposal	971	846
3. Write-backs		
4. Other income		
B. Expense	**(4,056)**	**(1,992)**
1. Write-downs		
2. Value adjustments due to impairment	(4,056)	(1,992)
3. Losses on disposal		
4. Other charges		
Net profit (loss)	**(3,085)**	**(1,146)**

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

Notes to the 2013 financial statements:
The gains on disposal recognised for € 846 thousand relate to the disposal of the equity investment held in RE.GE.IM. S.p.A..
The value adjustment due to impairment, amounting to € 1,992 thousand, derives from the measurement of the equity investment in Interporto Toscano Amerigo Vespucci S.p.A..

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

There are no such transactions for this financial statement item.

Section 16 - VALUE ADJUSTMENTS TO GOODWILL - ITEM 230

There are no such transactions for this financial statement item.

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

There are no such transactions for this financial statement 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	*31/12/2014*	*31/12/2013*
1.	Current taxes (-)	(175)	(102,658)
2.	Changes in current taxes for previous years (+/-)	5,705	82
3.	Reduction in current taxes for the year (+)		
3. *bis*	Reduction in current taxes for the year for tax credits as per Italian Law No. 214/2011 (+)		
4.	Change in prepaid taxes (+/-)	280,101	61,873
5.	Change in deferred taxes (+/-)	54	1,015
6.	**Taxes for the year (-)**	**285,685**	**(39,688)**

Note:
2014 accounting period. The sub-item 1. “Current taxes” represents the IRES and IRAP tax liability for the year. The permanent tax-related changes include the partial deductibility from taxable income, both for IRAP and IRES purposes, of interest expense: this phenomenon lead to a greater cost of € 4,109 thousand. The increase in the sub-item 4. “Change in prepaid taxes” is attributable to the significant rise in value adjustments on receivables exceeding the limit established by legislation, as well as the recognition of prepaid taxes relating to the tax losses, as already illustrated in the section 13.1 “Prepaid tax assets: breakdown” in Section B of the explanatory notes.

2013 accounting period. The sub-item 1. “Current taxes” represents the IRES and IRAP tax liability for the year, inclusive of the IRES surtax of 8.5%, introduced by Italian Decree Law No. 133/2013 for just the 2013 tax period. The permanent tax-related changes include the partial deductibility from taxable income, both for IRAP and IRES purposes, of interest expense: this phenomenon led to a greater cost of € 4,372 thousand. For the sake of complete disclosure, it also revealed that due to the contents of the 2014 Stability Law, as from 2013 the value adjustments and losses on receivables were deductible from the taxable base subject to IRAP. The increase in the sub-item 4. “Change in prepaid taxes” is attributable to the increase in value adjustments on receivables exceeding the new limit established by legislation, as already illustrated in the section 13.1 “Prepaid tax assets: breakdown” in Section B of the explanatory notes.

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

IRES

Items / Balances	*31/12/2014*		*31/12/2013*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation(873,188)	88,336			
B. Profit (Loss) on discontinued operations				
before taxes				
Profit (Loss) gross of taxation (A+B)	**(873,188)**		**88,336**	
Theoretical tax charge - IRES with application				
of the nominal rate	**(240,127)**	**27.50%**	**31,801**	**36.00%**
- Non deductible portion of interest expense	3,392		3,732	
- Non deductible write-downs and losses on equity securities	2,149		2,706	
- Non deductible costs	903		630	
- Other increases	588		1,447	
Total tax effect of increases	**7,032**		**8,515**	
- Capital gains and revaluations on exempt equity investments	254		267	
- Dividends	421		260	
- Change in current taxes for previous years	3,300		82	
- Other decreases	4,256		7,391	
Total tax effect of decreases	**8,231**		**8,000**	
IRES taxation to income statement	**(241,326)**		**32,316**	
of which:				
- Income taxes for the year from current operations	(241,326)		32,316	
- Income taxes for the year of discontinued operations held for sale				

IRAP

Items / Balances	*31/12/2014*		*31/12/2013*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	(873,188)		88,336	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**(873,188)**		**88,336**	
Theoretical tax charge - IRAP with application of the nominal rate	**(40,603)**	**4.65%**	**4,108**	**4.65%**
- Personnel expenses	1,532		1,500	
- Net value adjustments on receivables	1,259		1,683	
- Rate increases implemented by regions	0		1,226	
- Other increases	1,586		820	
Total tax effect of increases	**4,377**		**5,229**	
- Profits on equity investments				
- Prepaid taxes relating to previous years				
- Dividends	134		109	
- Rate increases implemented by regions	7,353			
- Other decreases	646		1,855	
Total tax effect of decreases	**8,133**		**1,964**	
IRAP taxation to income statement	**(44,359)**		**7,373**	
of which:				
- Income taxes for the year from current operations	(44,359)		7,373	
- Income taxes for the year of discontinued operations held for sale				

Section 19 - GAINS (LOSSES) ON DISCONTINUED OPERATIONS, NET OF TAXATION - ITEM 280

There are no such transactions for this financial statement item.

Section 21 - EARNINGS PER SHARE

21.2 Weighted average reconciliation of outstanding ordinary shares

(number of shares)

Items / Balances	*31/12/2014*	*31/12/2013*
1. Weighted average of outstanding shares (+)	891,724,988	891,724,988
2. Diluting effect deriving from put options sold (+)		
3. Diluting effect deriving from ordinary shares to be assigned as a result of share-based payments		
4. Diluting effect deriving from convertible liabilities (+)		
Weighted average of the outstanding ordinary shares for diluted earnings per share	**891,724,988**	**891,724,988**

21.2 Other information

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

(amounts in euros)

Items / Balances	*31/12/2014*	*31/12/2013*
1. Net profit (loss)	(587,503,147)	48,647,999
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**(587,503,147)**	**48,647,999**

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

(amounts in euros)

Items / Balances	*31/12/2014*	*31/12/2013*
1. Net profit (loss)	(587,503,147)	48,647,999
2. Profit (loss) attributable to other categories of shares		
3. Interest expense on convertible instruments (+)		
4. Other (+/-)		
Net profit attributable to ordinary shares - diluted earnings per share numerator	**(587,503,147)**	**48,647,999**

21.2.c Basic and diluted earnings per share

(amounts in euros)

Items / Balances	*31/12/2014*	*31/12/2013*
1. Basic earnings per share	(0.65884)	0.05455
2. Diluted earnings per share	(0.65884)	0.05455

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	*Gross amount*	*Income tax*	*Net amount*
10. Profit (loss) for the period	**(873,188)**	**285,685**	**(587,503)**
Other comprehensive income without			
transfer to income statement			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined-benefit plans	(1,075)	295	**(780)**
50. Current assets held for sale			
60. Portion of valuation reserves of equity investments			
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	35,075	(11,617)	23,458
a) fair value changes	(12,099)	(1,749)	(13,848)
b) transfer to income statement	47,174	(9,868)	37,306
- impairment adjustments	*17,335*		*17,335*
- gains/losses on disposal	*29,839*	*(9,868)*	*19,971*
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 valuation reserves of equity investments			
booked to shareholders' equity			
a) fair value changes			
b) transfer to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
130. Total other income components			
140. Comprehensive income (Item 10+110)	**(839,188)**	**274,363**	**(564,825)**

Part E
Information on Risks and Related Hedging Policies

INTRODUCTION

For a summary of the organisation of the governance of risks of the Montepaschi Group, the related processes and key functions as well as information on the objectives of the risk management unit, the related tasks and responsibilities and the methods via which independence is ensured, please refer to the matters specified in the section "Integrated Management of Risks and Capital" present in the Report on Operations.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

As part of the strategic priorities established by the Parent Company's Business Plan, the Bank continues to pursue an improvement in the quality of its loan portfolio. The Parent Company's Credit Division defines the strategic guidelines on the lending portfolio, both at Group and individual subsidiary level, including MPSCS. The Group's lending activities are handled with a view to supervision of the risk and exploitation of the growth opportunities, developing lending policies and systems which pursue the exploitation of the trend-related information at individual relationship level, in a context of in-depth awareness and strategic management of the position (loan culture).

Since 2008, the MPS Group has received from the Bank of Italy the authorisation to use advanced internal methods to determine capital requirements in view of credit risk (AIRB - Advanced Internal Rating Based). MPSCS uses the internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses. To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.

2. Credit risk handling policies

2.1 Organisational aspects

2.1.1 Organisational aspects: banking book

The Bank carries out medium and long-term lending within an extraordinary finance and corporate finance sphere, in all its technical forms, directed at the growth of manufacturing and production sectors. In certain cases, the financing is agreed within the sphere of financial subsidies, now what is more residual having taken into account that the public measures have been limited to a few projects intended for research and industrialisation.
The assessment of the credit worthiness, safeguarding the risk undertaken, takes place by means of an analysis of the reimbursement sources on the basis of income capabilities and cash production (past, current and prospective) and in relation to the specific characteristics of the funded project (competitive positioning, quality of management, the quality and quantity of the equity and financial means available, equity capacity of the shareholders). As a rule, secured

guarantees are acquired (mortgages, liens, pledges) and/or unsecured guarantees (sureties, letters of patronage) for the purpose of mitigating the risk and reducing the capital absorption.
The loans are classified in categories of differing risk intensity (essentially real estate and non-real estate), on which the decision-making autonomy limits for the credit of the lowest level appointed bodies are parameterized; these limits undergo an increase or decrease depending on the rating assigned to said counterparty: the Bank in fact assesses its customer by means of the RATING system which is assigned by the Parent Company.
The project rating assignment process (activated in May 2009) for specialised lending transactions specifically identified as IPRE (Income Producing Real Estate), Project Finance or Object Finance, did not undergo any changes in 2014 when compared with previous years (to-date the regulatory phase of the calculation of the capital absorptions according to this rating is not yet operative).
The lending activities also include granting credit facilities for derivative transactions, to contain exposure according to the market risks (interest rate, exchange rate and goods) assumed by the contracting parties (corporate clients).
General Management, on a consistent basis with the directives of the Credit Division 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.

At organisational structure level, it is the Credit Division which carries out the activities described above with the Bank’s competent unit, represented by:
• Loan Assessment Office, with reference to the activities summed up below:
  - implementation of initiatives aimed at achieving the loan quality objectives by product/segment/other parameters within the framework of the overall economic consistencies outlined by General Management;
  - assessment of creditworthiness via i) the examination of the applications originating from the competent Units (including those inherent to the financial transactions requested by corporate counterparties), as well as the loan requests from employees, and ii) the analysis of the credit capacity of the applicant, the risk of the transaction and the guarantees backing the same, with the subsequent preparation of the report that summarises and set out the assessment and appraisal work carried out;
  - assessment of the credit worthiness as a consequence of changes to matters envisaged contractually for the transactions after stipulation, until disbursement of the balance of the same;
  - merit surveys to assign counterparty and project rating;
  - decision on the project Rating, by validating the "Specialized Lending" Questionnaire, involving related periodic rating reviews; The decisions are made by means of the validation of the specific section of the BI-PEF (Banca Impresa Pratica Elettronica di Fido) application and input in the approval model in use;
  - drafting of technical opinions by the Credit Facility and Proposal Review Sector for all the proposals for new facilities and change of the lending operations already authorised, prepared by units other than the Credit Division, with decision-making responsibility equal to or higher than General Management;
  - decision on the credit facility proposals falling under its autonomy and the proposal, also for those originating from other Divisions, to the Supervising Bodies.
• Stipulations Department, which is responsible both for overseeing the loan agreement stipulation phase, with checking of the documentation and envisaged fulfilments, and the disbursement of the loan after having checked all the prescribed conditions.
• Ordinary Finance Portfolio Management Department, which, besides representing the reference point of the Bank with regard to General Record Files, sees to the operational fulfilments associated with anti-money laundering, relating to the activities carried out within the Credit Division sphere. The same Department is therefore responsible for the assessment of all the change proposals relating to ordinary finance transactions under repayment.

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 Loan Assessment Department - Counterparty Assessment Sector. Usually, market counterparties are regulated intermediaries, such as banks, IMEL (Electronic money institutions), investment firms, financial firms (as per Art. 107 TUF), asset management companies, Funds subject to Italian and foreign law, insurance companies, as well as territorial, governmental and supranational agencies; part of these parties have a rating assigned 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 Group’s individual corporate entities, among them also MPSCS, which, in compliance with this limit, autonomously approves its own credit lines, as regulated by the internal documents "Financial credit autonomy - autonomy for market risk, issuer risk, country risk" and "Counterparty lending process for financial operations”. The Counterparty Assessment Sector is tasked with carrying out all stages of the lending process, from collation of the documentation necessary to examination for the launch of the approval process, the assessment of creditworthiness and the loan proposal.
The credit facility granted is dynamic, i.e. it may be used until reaching the overall limit for financial operations, in its various technical forms and between the various companies belonging to the same Group, if not indicated otherwise at the time of granting. For the purposes of the absorption of the overall counterparty risk, the Parent Company’s Risk Management Unit identifies weighting factors, differentiated in relation to the financial nature of the operations, to the duration and average volatility of the underlying asset.
The Counterparty Assessment Sector periodically reviews and revises the creditworthiness of each counterparty with a credit facility, also on the basis of the operational needs manifested by the Front Office departments. If doubtful situations should emerge, the Sector proceeds with an extraordinary review of the position and/or, if necessary, immediately applies an adequate reduction to its amount. Each review is immediately notified to the corporate functions concerned.
Every six months, the Counterparty Assessment Sector 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 relating to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit facilities and the record of pre-lending investigations, the situation of collateral 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 BMPS.
Regarding operational controls, the Counterparty Assessment Sector oversees compliance with the total credit line limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit lines granted and on the record of their utilisation. The irregularities noted are reported to Senior Management and to the Internal Audit Department. Monitoring takes place through the Murex application which is supplied data by the position keeping systems, able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC application. In the presence of collateralisation agreements, if the net market value is positive, exposure is measured net of the collateral deposited by the counterparties. Overdrafts - in terms of amount and duration - are monitored daily by the Counterparty Assessment Sector.

2.2 Management, gauging and control systems

The Montepaschi Group uses the internal PD, LGD and EAD models to gauge the credit risk, these representing one of the main measurement elements for all the structures involved in the lending industry, both central (Credit Division, Risk Management, CFO, General Management, Risks Committee, Board of Directors) and peripheral (rating agencies and

Operators). At present, the Group is authorised to use the advanced internal rating systems (AIRB - Advanced Internal Rating Based) to establish the capital requirements for the credit risk on business portfolios and retail exposures of MPSCS and is awaiting the validation of the EAD parameter and the roll out of the NBFI domestic portfolio.

In order to develop the internal rating system, strict and advanced statistical methods have been adopted observing the requisites envisaged by legislation; at the same time, the models have been selected so that the results obtained are consistent with past experience of the bank in the management of credit. In conclusion, for the purpose of optimising the correct use of new instruments, the rating models have been shared in a top-down logic - from Risk Management to the individual customer managers. Internal records relating to flows of capital recovery and costs effectively registered on the positions which have passed to non-performing status, have been used in the estimation of the loss rate model. The results obtained by the model were subsequently compared with that observed by the Debt collection unit which with the Credit Divisions is dedicated to the management and recovery of non-performing loans.

The main features of the advanced rating systems are illustrated below:

- the rating, for all the regulatory portfolios validated, is calculated according to an approach by counterparty, in line with the management practices which envisage the assessment of the credit risk, both in the disbursement and monitoring stage, at individual borrower level;
- the rating is based on a Group logic: each individual counterparty is assigned a unique rating at banking Group level based in the information set relating to all the Banks granting credit in the AIRB scope; while the LGD is distinct for the various companies given the diversity of the products disbursed and the type of customer they are offered to;
- the segmentation of the rating models was defined in such a way as to render the individual model clusters consistent with the commercial logics, the credit process logics and the regulatory portfolios envisaged by legislation;
- the determination of the final rating is diversified by type of counterparty. The lending process envisage a level of analysis proportional to the risks associated with the counterparty: the assessment of the loans granted presents a complex and intricate structure for the medium-to-large corporate counterparties (SME and Large Corporate - LC segments), with greater exposure and concentration risks, and a simplified structure for Small Business and Retail customers;
- in line with the process, the final rating for the SME and LC companies is determined as the integration of various components: statistical rating, qualitative rating, override faculty and assessment of the pertinent economic group; by contrast, with regard to the SB and Retail counterparties, the rating is determined on the basis of just the statistical component;
- the rating has an internal validity of 12 months and as a rule is reviewed once a year, subject to rating review hypotheses which follow well-structured and coded rules or which are anticipated upon the initiative of the operator or further to a serious deterioration in the counterparty;
- the LGD rate refers to the economic loss registered and not only to the accounting loss; accordingly, in the estimate stage the costs incurred in the recovery process and the time factor are also included;
- the loss rate in the event of default is different for the various types of loan and the assignment takes place at individual transaction level; it is differentiated by geographic area, having discovered different recovery rates between the North, Centre and the South and Islands in the past and at present;
- the estimate of the loss rate in positions in a state of default other than non-performing has been carried out as per the Cure Rate logic. With regard to the counterparties with an administrative status which is Watch-list, Restructured or Past Due, the percentages of recovery to Performing status have been determined and used to adjust the estimated LGD rate starting off from the disputed cases;
- the Montepaschi Group has adopted a single Master Scale for all the types of exposures: this permits all the units involved in the management of the credit an immediate comparison of the risk associated with different counterparties or portfolios; furthermore, the probabilities of default of the internal rating classes have been mapped to the Standard&Poor’s external rating scale so as to make the internal risk measures comparable with those available on the financial market.

The development and monitoring activities for the rating systems are functionally assigned to the Risk Management unit and subject to control by the Internal validation and Internal Audit unit.
MPSCS has used the PD, LGD and EAD parameters, estimated for regulatory purposes for the calculation of the Risk Weighted Assets, also for other internal management and operating ends. Effectively, they represent the calculation basis for different measurement and monitoring systems, and specifically:

- for the measurement of the economic capital in the presence of credit risk;
- for the process used to calculate the risk adjusted performances and the measurement of the creation of value;
- for the risk-adjusted pricing processes;
- in all the loan processes (disbursement, review, management and follow up) which are completely engineered in the PEF application (Pratica Elettronica di Fido), in whose sphere the counterparty rating is the result of a process which assesses all the economic-financial, performance-related and qualitative information relating to the customers with whom there are credit risks, in a transparent, structured and standardised manner.

The prudential supervisory instructions for banks, consistent with the matters indicated by the guidelines of the Basel Committee and the best practices, envisage that the banks carry out stress testing.
MPSCS regularly carries out stress test analysis on all the risk factors. Stress tests make it possible to assess the ability of the Bank to absorb sizable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.
Stress tests are computed on the basis of historical and discretionary scenarios.

- historical scenarios: shocks are hypothesised for risk factor combinations observed in the past, which maintain a certain degree of actuality and repeatability;
- discretional scenarios: shocks are hypothesised for risk factor combinations which may manifest in the near future, in relation to the foreseeable environmental, social and economic context. The discretional 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 Montepaschi Group's stress test method approach is based on the identification of the main risk factors, with the aim of the selection of events or combinations of events (scenarios) which disclose particular vulnerabilities at Group level. Accordingly, specific stress test plans have been established on First Pillar risks (credit, market and operating) which were then channelled - together with stresses designated *"ad hoc"* on other risk factors - to a Second Pillar comprehensive stress test plan, aimed at determining the potential Group impact, within the sphere of the ICAAP process.
In detail, with regard to the Credit Risk, the Montepaschi Group has defined a regressive macro-economic model for the estimation of the changes in the Probabilities of Default as a function of the changes in the main credit drivers. First of all, the credit drivers which explain the PD changes in a significant manner are indentified. The disturbances of the same are then estimated on the basis of the regressive model, on a consistent basis with the current and forecast economic situation. This shock impressed on the credit drivers determines the change in the PD of the loan book, triggering off the simulation of a possible downgrading of the counterparties, with a consequent change in the risk in terms of Expected Loss, Unexpected Loss and inclusion of new defaults.
The results of the stress tests are brought to the attention of Senior Management and the Parent Company's Board of Directors. They are formally examined by the latter Body within the sphere of approval of the Annual ICAAP Report, with a view to internal assessment of the current and forecast capital adequacy of the Montepaschi Group.

2.3 Credit risk mitigation techniques

Given that the Bank does not apply netting processes for the exposures subject to credit risk with items with an opposite

sign within the sphere of the financial statements or "off the balance sheet", with regard to the commercial portfolio, the same has by contrast adopted policies for reducing the counterparty risk with institutional counterparties, entering into netting agreements in accordance with the international ISDA / ISMA standards and the related collateral agreements, both for derivatives and repurchase agreements.
The main forms of credit protection of a secured type used by MPSCS are represented by pledges, mortgages and other forms of secured guarantee (insurance coverage, guarantee funds). Sometimes the exposures are also backed by unsecured guarantees, provided essentially by private parties (sureties) and also by businesses (sureties and binding letters of patronage).
MPSCS has equipped itself with a unique process for the acquisition of secured guarantees, which at the same time is a work instrument and expression of the management policies. The handling of the guarantees is activated further to the authorisation of the granting of credit and the process is divided up into different stages:

- acquisition (including multiple): the consistency checks (formal and amount-related) with the guarantees proposed in the decision phase are carried out in this stage;
- adjustment/variation/correction: this makes it possible to change the characteristics of the guarantee without interrupting the protection of the credit;
- interrogation: this makes it possible to gain awareness of the current data and the historic evolution of the guarantees received;
- discharge/cancellation.

In the event that the monitoring measures on the secured guarantees disclose operating anomalies in the acquisition stage or any inadequacies/losses in the value received under pledge, events are activated belonging to the credit monitoring policies which trigger off operating fulfilments for assessment of the credit risk.
Overall, MPSCS accepts various instruments for the protection of the credit which can be summarised in the following categories:

- sureties (including therein omnibus securities and unsecured guarantees provided by third parties);
- endorsement;
- surety policy;
- strong/binding letter of patronage;
- autonomous guarantee contract;
- assumption;
- unsecured guarantees subject to foreign law;
- credit derivatives:
- credit default swaps;
- total return swaps;
- credit linked notes.

The main providers are indicated below:

- sovereign states and central banks
- bodies in the public sector and area bodies
- multilateral development banks
- supervised intermediaries
- guarantee institutions (Confidi)
- businesses and private individuals.

The disbursement of the credit with the acquisition of guarantees is subject to specific control measures, differentiated in terms of type of guarantee, applied at the time of disbursement and monitoring.
The general requirements, aimed at ensuring the legal certainty and the effectiveness of the guarantees, are ensured by observance of the following relevant aspects:

• the binding nature of the legal commitment between the parties and the legal enforceability;
• the documentability, the opposability of the instruments vis-à-vis third parties in all the significant jurisdictions, for the purpose of establishment and enforcement;
• the promptness of realisation in the event of default;
• the observance of the organisational requirements.

With regard to the observance of the organisational requirements, the mitigation of the risks is ensured:
• by the presence of a disclosure system supporting the life cycle stages of the guarantee (acquisition, assessment, management, revaluation, enforcement);
• by the formulation of management policies for the guarantees (principles, formalities, processes) regulated and available to all the users.

As was mentioned in the introduction, for the relationships with market counterparties for operations in financial instruments (repurchase agreements, purchase/sale of and securities lending, forex transaction, financial and credit derivatives), the Bank uses (bilateral) netting agreements that allow, in the event of default, the netting of all the credit and debit positions outstanding within its own scope of operations.
To optimise the credit risk management and mitigation, MPSCS adopts the following protocols: ISDA (with CSA annex for derivatives), GMSLA (Global Master Securities Lending Agreement for securities lending) and GMRA (Global Master Repurchase Agreement for repurchase agreements). 95.83% of the uses in derivatives are vis-à-vis counterparties with whom an ISDA Master Agreement exists, of which 94.79% assisted also by a collateral agreement (CSA).
Another risk mitigation technique used by the Bank during 2014 is indirect participation in the “SwapClear” service, via the brokers Barclays Bank PLC, Merrill Lynch International and Morgan Stanley & Co. International PLC. It is a clearing activity (performed by LCH Clearnet Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the clearer, through the novation legal mechanism. Besides an initial margin, this “circuit” entails the liquidation of a daily variation margin on individual transactions, deriving from the automatic netting of the reciprocal credit and debit positions.

2.4 Impaired financial assets

Management and control activities for impaired loans (with the exception of non-performing positions) are disciplined by the document 56 “Administration of positions under doubtful loan risk” and by the Parent Bank's directives which discipline the more extensive category of “doubtful loans”. The internal document also disciplines the methods for assessing and handling arrears associated with financial derivatives existing with corporate customers.
All the positions which are classified as “past due” (positions in arrears by more than 90 days, exceeding 5% of the total exposure), “watch-list” (positions meeting objective and subjective “watch-list” requirements) or “restructured loans” are handled by the Bank’s Credit Management and Credit Quality Division, while recovery activities for positions classified as “non-performing” are entrusted to the Debt Collection Unit of the Parent Company which, in April 2013, incorporated Gestione Crediti Banca previously tasked with these activities.
The Credit Management Division, which manages all impaired, not yet non-performing positions, has the objective of i) recovering past due amounts and ii) returning the position to a performing status. On the basis of the analysis of each individual position and joining up with the other Group banks, it makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position.
The return of “impaired loans” to performing status takes place in various ways according to the classification category: with regard to “past due” the mere payment of the arrears present beyond 90 days is sufficient, while for “watch-list” positions not only must payment take place but also the disappearance of any subjective hypothesis which could have led to this classification must be verified. With regard to “restructured positions”, the instructions of the Supervisory

Body must be followed. In relation to non-performing positions, their return to performing status is possible if, besides the payment of the amount in arrears (and any instalments due over the short-term) the following conditions apply: i) the absence of enforcement procedures and reports of dispute to the Risk Authority; ii) the overcoming of the economic-financial difficulties which led to the classification. Since non-performing positions, as already previously mentioned, are handled by the Parent Company's Debt Collection Unit, returns to performing status must be analyzed and proposed to the Bank by the assignee.

Every "doubtful loan" position, including the exposure deriving from unpaid derivatives, is adequately analysed. In particular, the valuation concerns both positions due to be included in the category "past due", and those already present in this category (so as to assess any requisites for changeover to watch-list or non-performing status), as well as those present in the watch-list category (since the time factor affects the valuation of the reversibility of the debtor's state of difficulty). The analysis and the handling of the position obviously also involves the estimation of the write-downs of the par values of the loans (doubtful outcomes and discounting back in accordance with the criteria identified as per the IAS). These decisions, which exclusively concern "restructured loan", "watch-list" or "non-performing" positions, take into account the loan recovery prospects, usually basing themselves on the value of the guarantees acquired to cover said transactions and on the performance of the property market. With regard to the valuation of "non-performing" loans, the proposal to update the assessment comes from the Parent Company's Debt Collection Unit with reference to the events, such as up-dated appraisals, court-appointed expert appraisals, auctions, etc, which lead to the change.

In Autumn 2014, the ECB, undertaking the new supervisory role over the main European banks, requested that the accounting standards for the purpose of drafting the 2014 financial statements should take the impacts of the AQR attributable to the Credit File Review and the Collective Provisioning into due account.

For additional information in this connection, please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provision of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the Explanatory Notes.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

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

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

Portfolios/Quality	*Non performing*	*Watch list*	*Restructured Exposures*	*Impaired past due exposures*	*Unimpaired past due exposures*	*Other assets*	***Total***
1. Financial assets held for trading	292				557	21,284,474	**21,285,323**
2. Financial assets available for sale						70,054	**70,054**
3. Financial assets held to maturity							
4. Due from banks						9,843,128	**9,843,128**
5. Loans to customers	2,104,611	2,078,908	322,134	227,451	344,034	6,032,047	**11,109,185**
6. Financial assets							
at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives							
Total 31 December 2014	**2,104,903**	**2,078,908**	**322,134**	**227,451**	**344,591**	**37,229,703**	**42,307,690**
Total 31 December 2013	**2,091,879**	**1,052,110**	**312,402**	**867,564**	**711,826**	**37,232,684**	**42,268,465**

Note:
the financial assets held for trading, classified in the "non-performing" category comprise investments in debt securities issued by Lehman Brothers Holdings Inc., the Argentine government, and Cirio. For additional details, please see the notes at the bottom of the table 2.1 "Financial assets held for trading: breakdown by type", section 2 of the balance sheet assets.

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

Portfolios / Quality	Impaired assets			Performing			
	Gross exposure	Specific Adjustments	Net exposure	Gross exposure	Portfolio value adjustments	Net exposure	**Total (net exposure)**
1. Financial assets held for trading	69,823	(69,531)	292			21,285,031	**21,285,323**
2. Financial assets available for sale				70,054		70,054	**70,054**
3. Financial assets held to maturity							
4. Due from banks				9,843,908	(780)	9,843,128	**9,843,128**
5. Loans to customers	7,715,443	(2,982,338)	4,733,105	6,472,628	(96,548)	6,376,080	**11,109,185**
6. Financial assets at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives							
Total 31 December 2014	**7,785,266**	**(3,051,869)**	**4,733,397**		**(97,328)**	**37,574,293**	**42,307,690**
Total 31 December 2013	**6,159,544**	**(1,835,590)**	**4,323,954**		**(66,664)**	**37,944,511**	**42,268,465**

It is hereby revealed that:
- the partial cancellations made by the Bank during the year on impaired financial assets amount to €16,193 thousand (€35,270 thousand in 2013);
- the positive difference between the nominal value of the impaired financial assets acquired (all relating to bonds) and the purchase price of certain assets amounts to €3,233 thousand.

Details for performing exposure portfolios

Portfolio / Exposure category	Subject to renegotiation collective agreements	Subject to renegotiation other	Other exposures	Total
1. Financial assets held for trading		874	21,284,157	**21,285,031**
2. Financial assets available for sale			70,054	**70,054**
3. Financial assets held to maturity				
4. Due from banks			9,843,128	**9,843,128**
5. Loans to customers	269,577	429,842	5,676,661	**6,376,080**
6. Financial assets at fair value				
7. Financial assets pending disposal				
8. Hedging derivatives				
	269,577	**430,716**	**36,874,000**	**37,574,293**

Details of performing loans: seniority of past due items

Type of exposure / Balances	*Gross exposure*			*Value adjustments*	*Net exposure*
	past due	*yet to expire*	*total*		
A. Exposures subject to renegotiation for collective agreements					
- without past due amounts		225,639	225,639	(3,418)	222,221
- with amounts past due up to 3 months	92	8,203	8,295	(126)	8,169
- with amounts past due up to 6 months	275	17,085	17,360	(266)	17,094
- with amounts past due up to 1 year	639	16,650	17,289	(277)	17,012
- with amounts past due beyond 1 year	241	4,925	5,166	(85)	5,081
Total	**1,247**	**272,502**	**273,749**	**(4,172)**	**269,577**
A. Exposures subject to renegotiation outside collective agreements					
- without past due amounts		386,257	386,257	(5,841)	380,416
- with amounts past due up to 3 months	343	12,587	12,930	(166)	12,764
- with amounts past due up to 6 months	405	11,354	11,759	(185)	11,574
- with amounts past due up to 1 year	914	25,468	26,382	(420)	25,962
- with amounts past due beyond 1 year			0		0
Total	**1,662**	**435,666**	**437,328**	**(6,612)**	**430,716**
C. Other exposures					
- without past due amounts		36,709,481	36,709,481	(82,416)	36,627,065
- with amounts past due up to 3 months	39,425	91,957	131,382	(2,266)	129,116
- with amounts past due up to 6 months	1,514	58,475	59,989	(931)	59,058
- with amounts past due up to 1 year	1,759	51,189	52,948	(824)	52,124
- with amounts past due beyond 1 year	231	6,513	6,744	(107)	6,637
Total	**42,929**	**36,917,615**	**36,960,544**	**(86,544)**	**36,874,000**
Total A+B+C	**45,838**	**37,625,783**	**37,671,621**	**(97,328)**	**37,574,293**

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

Type of exposure / Balances	*Gross exposure*	*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
A. Cash exposures				
a) non-performing				
b) watch-list				
c) restructured exposures				
d) past due exposures				
e) other assets	14,333,546		(780)	14,332,766
Total A	**14,333,546**	**0**	**(780)**	**14,332,766**
B. Off-balance sheet exposures				
a) Impaired				
b) Other	5,881,200			5,881,200
Total B	**5,881,200**			**5,881,200**
Total A+B	**20,214,746**	**0**	**(780)**	**20,213,966**

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

No cash lending exposures vis-à-vis banks have been classified under impaired exposures in the financial statements as of 31 December 2014 or the financial statements as of 31 December 2013.

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

No value adjustments on cash exposures to banks are present in the financial statements as of 31 December 2014 or the financial statements as of 31 December 2013.

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

Type of exposure / Balances	*Gross exposure*	*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
A. Cash exposures				
a) non-performing	4,194,449	(2,089,546)		2,104,903
b) watch-list	2,816,363	(737,454)		2,078,909
c) restructured exposures	440,660	(118,526)		322,134
d) past due exposures	264,263	(36,812)		227,451
e) other assets	16,166,866		(96,548)	16,070,318
Total A	**23,882,601**	**(2,982,338)**	**(96,548)**	**20,803,715**
B. Off-balance sheet exposures				
a) Impaired	407,608	(84,391)		323,217
b) Other	15,228,669		(2,090)	15,226,579
Total B	**15,636,277**	**(84,391)**	**(2,090)**	**15,549,796**
Total A+B	**39,518,878**	**(3,066,729)**	**(98,638)**	**36,353,511**

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

	Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A.	**Initial gross exposure**	**3,602,864**	**1,248,045**	**332,202**	**935,100**
	- of which: exposures sold				
	but not derecognised				
B.	**Increases**	**665,431**	**2,111,979**	**331,401**	**233,440**
B.1	Transfers from performing loans	49,182	1,166,901	51,528	228,769
B.2	Transfers from other categories of				
	impaired exposures	431,283	794,206	190,828	
B.3	Other increases	184,966	150,872	89,045	4,671
C.	**Decreases**	**73,846**	**543,661**	**222,943**	**904,277**
C.1	Transfers to performing loans		7,626		30,213
C.2	Cancellations	14,793	16,237	227	7,997
C.3	collections	49,325	110,390	24,506	50,646
C.4	disposals	6,264	4,224		2,941
C.4 *bis*	losses on disposals				
C.5	transfers to other categories of				
	impaired exposures	444	405,184	198,210	812,480
C.6	Other decreases	3,020			
D.	**Gross closing balance**	**4,194,449**	**2,816,363**	**440,660**	**264,263**
	- of which: exposures sold				
	but not derecognised				

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

	Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A.	**Initial value adjustments**	**1,510,985**	**195,936**	**19,800**	**67,536**
	- of which: exposures sold				
	but not derecognised				
B.	**Increases**	**720,378**	**609,323**	**103,856**	**841**
B.1	value adjustments	689,934	601,112	103,841	705
B.1 *bis*	losses on disposal	2,853			
B.2	Transfers from other categories of				
	impaired exposures	27,425	7,297	15	
B.3	Other increases	166	914		136
C.	**Decreases**	**141,817**	**67,805**	**5,130**	**31,565**
C.1	write-backs from valuation	117,573	17,685	1,588	18,750
C.2	write-backs from collection	5,943	6,690	15	572
C.2 *bis*	gains on disposal	655			
C.3	cancellations	14,793	16,237	227	7,997
C.4	transfers to other categories of				
	impaired exposures		27,193	3,300	4,243
C.5	other decreases	2,853			3
D.	**Closing balance of overall**				
	value adjustments	**2,089,546**	**737,454**	**118,526**	**36,812**
	- of which: exposures sold				
	but not derecognised				

EXPOSURE TO SOVEREIGN RISK

As envisaged by the international accounting standards (in particular IAS 1 and IFRS 7) with regard to the information to be reported on the 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 on the exposures of the Bank as of 31 December 2014 are provided

Overall, the exposure to sovereign credit risk, in net nominal values, amounts €2,529 million (€3,866 million as of 31 December 2013), and includes €2,470 million in relation to a net long position vis-à-vis the Italian Republic (€4,025 million as of 31 December 2013) and €59 million relating to a long position with the rest of the world (short position for €159 million as of 31 December 2013).

The exposures indicated in the following table, inclusive of the accruals matured at year end, include the short positions of the HFT book. The net amount (long or short) of the notional values underlying the purchases and sales of protection is indicated for credit derivatives. The column "total exposure" expresses the net total assets/liabilities, at nominal value, attributable to the individual Sovereign Country and included in the balance sheet balances at the end of each year. Any derivative contracts listed on organised markets are excluded since the economic effects determined by the same are directly recognised as an offset entry to the cash and cash equivalents, due to the settlement of the variation margins on a daily basis.

Exposure to sovereign risk

Country	*Debt securities*							*Loans*			*Credit derivatives*	*31/12/2014*
	Financial assets held for trading		*Financial assets available for sale*		*Receivables*			*Receivables*			*Financial assets held for trading*	*Total*
	Nominal	*Market value book value*	*Nominal*	*Market value book value*	*Nominal*	*Market value*	*Book value*	*Nominal*	*Market value*	*Book value nominal*	*Nominal*	*Nominal*
Argentina	454	253										454
Austria	(12,936)	(13,305)									12,355	(581)
Belgium	(9,921)	(10,561)									12,355	2,434
China											(3,583)	(3,583)
Denmark											15,650	15,650
Finland											37,066	37,066
France	(9,442)	(9,902)									12,355	2,913
Germany	(83,469)	(88,930)									12,355	(71,114)
Ireland	2	2									12,355	12,357
Italy	1,950,069	1,999,426						18,890	18,890	18,890	500,875	2,469,834
Mexico	947	1,212										947
Norway											12,355	12,355
Netherlands	75	81									16,474	16,549
Portugal	(2,500)	(2,846)									12,355	9,855
United Kingdom	54	74									12,355	12,409
Romania	270	284										270
Spain	(13,070)	(13,566)									12,355	(715)
United States	181	209										181
Sweden											12,355	12,355
Turkey	(229)	(421)										(229)
Venezuela	(200)	(102)										(200)
Assets from others	102	163										102
Liabilities from others	(1)	(7)										(1)
TOTAL	**1,820,386**	**1,862,064**						**18,890**	**18,890**	**18,890**	**690,032**	**2,529,308**

OTHER INFORMATION

The bank does not have exposures to government issuers in the "Financial assets available for sale" portfolio.

Credit derivatives on Italy	*31/12/2014*	*31/12/2013*
Protection purchases		
- Nominal	3,791,284	4,637,103
- Positive fair values	*285,652*	*773,427*
- Negative fair values	*145*	
Protection sales		
- Nominal	4,292,158	5,514,137
- Positive fair values	*157*	*58*
- Negative fair values	*357,374*	*970,282*

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

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

Restructured	External rating classes						Unrated	Total
	AAA/AA- Class 1	A+/A- Class 2	BBB+/BBB- Class 3	BB+/BB- Class 4	B+/B- Class 5	Lower than B- Class 6		
A. **Cash exposures**	107,855	595,799	19,268,664	293,284	136,531	92,993	14,645,830	**35,140,956**
B. **Derivatives**	359,048	3,764,744	2,295,282	240,095	46,812	3,437	8,677,108	**15,386,526**
1. Financial derivatives	*17,258*	*674,341*	*246,093*	*450*			*1,319,439*	***2,257,581***
2. Credit derivatives	*341,790*	*3,090,403*	*2,049,189*	*239,645*	*46,812*	*3,437*	*7,357,669*	***13,128,945***
C. **Guarantees given**			4,917				252,728	**257,645**
D. **Irrevocable commitments to grant finance**	6,959	8,904	3,274,569	31,644	2,447	5,324	1,034,230	**4,364,077**
E. **Other**	23,493	243,607	995,655	387	4		159,603	**1,422,749**
Total	**497,355**	**4,613,054**	**25,839,087**	**565,410**	**185,794**	**101,754**	**24,769,499**	**56,571,953**

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), inclusive of the collective investment undertakings (excluding equities).
The exposures in financial derivatives are stated net of the liability positions for the counterparties with whom netting agreements are in force.
The commitments to grant finance mainly refer to mortgage loans entered into to be disbursed, endorsement credits and commitments to subscribe 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, trans-coding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

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

Exposures	Internal rating classes					Administrative default	Unrated	Total
	High quality	*Good quality*	*Sufficient quality*	*Mediocre quality*	*Weak quality*			
A. **Cash exposures**	115,919	996,122	2,589,565	1,802,993	194,288	4,694,964	24,742,629	**35,136,480**
B. **Derivatives**	8,636	175,927	110,708	39,670	0	2,215	15,049,369	**15,386,525**
1. Financial derivatives	*1,425*	*19,591*	*89,733*	*39,670*		*2,215*	*2,104,947*	***2,257,581***
2. Credit derivatives	*7,211*	*156,336*	*20,975*				*12,944,422*	***13,128,944***
C. **Guarantees given**		40,639	76,872	13,184		114,483	12,467	**257,645**
D. **Irrevocable commitments to grant finance**	6,860	46,101	130,834	110,908		160,636	3,908,740	**4,364,079**
E. **Other**	36						1,422,712	**1,422,748**
Total	**131,451**	**1,258,789**	**2,907,979**	**1,966,755**	**194,288**	**4,972,298**	**45,135,917**	**56,567,477**

The table describes the breakdown of the Bank's customer by risk classes attributed according to the rating assigned by internal models. For this purpose, only the exposures (counterparties) whose internal rating is periodically determined (Corporate and Private customers) without any trans-coding from official rating to internal rating concerning instead sectors such as "banks", "non banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the positions referred to these latter segments - while provided with official ratings - were indicated as "unrated" in internal rating models. As per the Bank of Italy instructions, the cash exposures, other than external ratings, not units of collective investment undertaking for € 20,804 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								
	Value of net exposure	*properties mortgages*	*properties under financial lease*	*securities*	*Other secured guarantees*	*Credit linked notes*	*Governments and Central Banks*	*Other public entities*	*Banks*	*Other operators*	*Governments and Central Banks*	*Other public entities*	*Banks*	*Other operators*	***Total (1)+(2)***
1. Guaranteed cash exposures	**2,865,214**			**3,195,114**											**3,195,114**
1.1 Fully guaranteed	2,865,214			3,195,114											**3,195,114**
- of which impaired															
1.2 Partially guaranteed															
- of which impaired															
2. Guaranteed "off-balance sheet" exposures	**1,886,846**			**1,251,040**	**635,924**										**1,886,964**
2.1 Fully guaranteed	1,479,178			1,251,040	263,517										**1,514,557**
- of which impaired															
2.2 Partially guaranteed	407,668				372,407										**372,407**
- of which impaired															

The exposures guaranteed by securities are represented by loan transactions such as, for example, repurchase agreements, with exchange of cash collateral fully available to the counterparty.

The "secured guarantees" safeguarding the "off balance sheet" exposures refer to the net counterparty risk, i.e. determined on the basis of netting defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods contained in the CSA arrangements, entered into between the parties. These guarantees are indicated at fair value estimated as of the financial statement reference date, or in the absence of this information 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								
	Value of net exposure	*properties mortgages*	*properties under financial lease*	*securities*	*Other secured guarantees*	*Credit linked notes*	*Governments and Central Banks*	*Other public entities*	*Banks*	*Other operators*	*Governments and Central Banks*	*Other public entities*	*Banks*	*Other operators*	***Total** (1)+(2)*
1. Guaranteed cash exposures	**13,412,682**	**21,685,083**		**4,142,179**	**239,115**					**3,816**	**71,015**		**31,671**	**6,689,461**	**32,862,340**
1.1 Fully guaranteed	11,741,263	21,308,789		3,954,630	218,844					3,743	69,109		26,270	6,412,648	**31,994,033**
- of which impaired	*4,184,881*	*11,613,444*		*127,205*	*18,879*					*3,433*	*35,562*		*24,360*	*4,261,118*	***16,084,001***
1.2 Partially guaranteed	1,671,419	376,294		187,549	20,271					73	1,906		5,401	276,813	**868,307**
- of which impaired	*396,613*	*346,770*		*50,074*							*1,274*		*3,173*	*61,987*	***463,278***
2. Guaranteed "off-balance sheet" exposures	**1,900,957**	**405,493**		**560,478**	**1,123,233**									**77,479**	**2,166,683**
2.1 Fully guaranteed	1,505,222	403,732		553,673	781,513									70,348	**1,809,266**
- of which impaired	*185,021*	*313,207*			*250*									*15,725*	***329,182***
2.2 Partially guaranteed	395,735	1,761		6,805	341,720									7,131	**357,417**
- of which impaired	*1,718*	*1,761*												*481*	***2,242***

The exposures guaranteed by securities are represented by loan transactions such as, for example, repurchase agreements, with exchange of cash collateral fully available to the counterparty.

The "secured guarantees" safeguarding the "off balance sheet" exposures refer to the net counterparty risk, i.e. determined on the basis of netting defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods contained in the CSA arrangements, entered into between the parties. These guarantees are indicated at fair value estimated as of the financial statement reference date, or in the absence of this information at the contractual value of the same.

B. EXPOSURE DISTRIBUTION AND CONCENTRATION

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

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Governments							
- Net exposure	269				5,147,633	**5,147,902**	**5,939,547**
- Specific value adjustments							
- Portfolio value adjustments					(4)	**(4)**	**(4)**
Other public entities							
- Net exposure	1	1,191		171	12,892	**14,255**	**14,786**
- Specific value adjustments		649		(30)		**(679)**	
- Portfolio value adjustments					(180)	**(180)**	**(96)**
Finance companies							
- Net exposure	3,962	44,733			4,940,079	**4,988,774**	**4,400,538**
- Specific value adjustments	7,039	14,993				**(22,032)**	**(4,126)**
- Portfolio value adjustments					(6,247)	**(6,247)**	**(4,344)**
Insurance companies							
- Net exposure					34,001	**34,001**	**49,323**
- Specific value adjustments							
- Portfolio value adjustments							
Non-financial companies							
- Net exposure	2,045,703	2,012,083	315,676	219,682	5,759,885	**10,353,029**	**11,986,031**
- Specific value adjustments	(2,006,520)	(713,519)	(115,824)	(35,467)		**(2,871,330)**	**(1,754,974)**
- Portfolio value adjustments					(87,413)	**(87,413)**	**(60,471)**
Other operators							
- Net exposure	54,968	20,902	6,458	7,598	175,828	**265,754**	**197,753**
- Specific value adjustments	(75,987)	(8,293)	(2,702)	(1,315)		**(88,297)**	**(35,156)**
- Portfolio value adjustments					(2,704)	**(2,704)**	**(968**

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Governments						
- Net exposure				8,771,157	**8,771,157**	**10,852,715**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				156,660	**156,660**	**224,373**
- Specific value adjustments						
- Portfolio value adjustments						
Finance companies						
- Net exposure		352		2,623,563	**2,623,915**	**3,002,450**
- Specific value adjustments		(2,284)			**(2,284)**	**(1,500)**
- Portfolio value adjustments				(41)	**(41)**	**(51)**
Insurance companies						
- Net exposure				508,245	**508,245**	**923,698**
- Specific value adjustments						
- Portfolio value adjustments						
Non-financial companies						
- Net exposure	43	309,290	13,428	3,046,194	**3,368,955**	**5,494,946**
- Specific value adjustments	(22,812)	(56,837)	(2,458)		**(82,107)**	**(41,588)**
- Portfolio value adjustments				(2,049)	**(2,049)**	**(5,068)**
Other operators						
- Net exposure		104		120,595	**120,699**	**18,254**
- Specific value adjustments						
- Portfolio value adjustments						**(325)**

The figures stated above differ from the quantitative information indicated in the previous table A.1.6 "Cash and off-balance sheet exposures to customers: gross and net values" due to the total of the exposures associated with the counterparty risk relating to the transactions for the granting or undertaking of securities or goods under loan.

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

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Italy							
- Net exposure	2,100,289	2,062,984	315,935	227,280	15,509,814	**20,216,302**	**21,838,073**
- Total value adjustments	(2,076,052)	(733,039)	(116,108)	(36,782)	(94,814)	**(3,056,795)**	**(1,844,523)**
Other European countries							
- Net exposure	4,344	15,925	6,199		520,931	**547,399**	**718,308**
- Total value adjustments	(13,494)	(4,415)	(2,418)		(1,667)	**(21,994)**	**(15,575)**
America							
- Net exposure	270			171	38,987	**39,428**	**31,483**
- Total value adjustments				(30)	(67)	**(97)**	**(44)**
Asia							
- Net exposure					481	**481**	**61**
- Total value adjustments							
Rest of world							
- Net exposure					105	**105**	**56**
- Total value adjustments							

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Italy						
- Net exposure	43	309,642	13,428	7,632,836	**7,955,949**	**9,050,840**
- Total value adjustments	(22,542)	(59,121)	(2,458)	(2,032)	**(86,153)**	**(48,187)**
Other European countries						
- Net exposure		104		6,784,365	**6,784,469**	**9,875,209**
- Total value adjustments	(270)			(58)	**(328)**	**(346)**
America						
- Net exposure				696,158	**696,158**	**1,380,656**
- Total value adjustments						
Asia						
- Net exposure				38,868	**38,868**	**83,173**
- Total value adjustments						
Rest of world						
- Net exposure				74,187	**74,187**	**126,559**
- Total value adjustments						

The figures stated above differ from the quantitative information indicated in the previous table A.1.6 "Cash and off-balance sheet exposures to customers: gross and net values" due to the total of the exposures associated with the counterparty risk relating to the transactions for the granting or undertaking of securities or goods under loan.

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

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Italy							
- Net exposure	13,781,310					**13,781,310**	**10,279,208**
- Total value adjustments	(678)					**(678)**	**(577)**
Other European countries							
- Net exposure	335,775					**335,775**	**310,407**
- Total value adjustments	(102)					**(102)**	**(166)**
America							
- Net exposure	215,681					**215,681**	**190,116**
- Total value adjustments						**0**	**(37)**
Asia							
- Net exposure							
- Total value adjustments							
Rest of world							
- Net exposure							
- Total value adjustments							

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/14*	*Total 31/12/13*
Italy						
- Net exposure				2,248,918	**2,248,918**	**2,435,946**
- Total value adjustments						
Other European countries						
- Net exposure				2,451,774	**2,451,774**	**4,119,427**
- Total value adjustments						
America						
- Net exposure				312,569	**312,569**	**480,209**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure				3,552	**3,552**	**19,110**
- Total value adjustments						

The figures stated above differ from the quantitative information indicated in the previous table A.1.3 "Cash and off-balance sheet exposures to banks: gross and net values" due to the total of the exposures associated with the counterparty risk relating to the transactions for the granting or undertaking of securities or goods under loan.

B.4 Significant exposures

	31/12/2014	*31/12/2013*
a) amount (carrying value)	44,032,173	33,741,966
b) amount (weighted value)	3,213,852	3,797,240
c) number	33	24

Supervisory legislation defines a position as a "significant exposure" on the basis of the un-weighted exposure for the credit risk. A position is considered to be a "significant exposure" if the amount is equal to or greater than 10% of the supervisory capital.
As envisaged by the afore-mentioned legislation, the exposures in Government securities have also be considered.
Due to the loss for the year, the Bank reported a significant reduction in capital also for regulatory purposes. The capital reduction led, with reference to one position, to the exceeding of the limits on Significant Exposures. In this connection, suitable initiatives for bringing the value of the exposure concerned back within the envisaged limits have already been adopted.

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 organizational 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 who have invested in the securitisations of the Group. For such purposes, ongoing and structured analysis on the underlying flows of these transactions was used, principally attributable to residential mortgage loans and consumer credit disbursement activities of the Parent Company or in any event attributable to the collateral accepted by the ECB in its monetary policy transactions.
In relation to deals originated outside the MPS Group, the Desk activities are oriented at seizing the various opportunities which the market offers, so as to maximize the portfolio's returns in terms of profit, in the capacity of investor on this segment also and mainly in light to the transactions put together by the Central Bank further to the 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 care of the Risk Management Department of the Parent Company BMPS within the scope of market risk measurement. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows, all of which via use of advanced models.
During 2014, the operating activities were carried out both via the trading channel on the secondary market and using lines of funding available via the ECB (these are primarily in fact securities with a high rating eligible for transactions with central banks).
The amount held in the trading book (asset item 20 "Financial assets held for trading") comes to €880.2 million with an almost complete exposure on the senior part of the capital structure.
The Bank only holds cash exposures and has not issued any guarantees or credit facilities to special purpose entities for securitisation.

QUANTITATIVE INFORMATION

C.1 Exposures deriving from securitisations broken down by quality of underlying assets

Quality of underlying assets / Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Gross exposure	*Net exposure*	*Gross exposure*	*Net exposure*	*Gross exposure*	*Net exposure*
A. Own underlying assets:						
a) Impaired						
b) Other						
B. Third party underlying assets	**754,207**	**761,372**	**97,790**	**118,070**	**1,538**	**773**
a) Impaired						
b) Other	*754,207*	*761,372*	*97,790*	*118,070*	*1,538*	*773*
Total 31 December 2014	**754,207**	**761,372**	**97,790**	**118,070**	**1,538**	**773**
Total 31 December 2013	**376,474**	**376,474**	**94,193**	**94,193**	**1,608**	**1,608**

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

C.2 Exposures deriving from the Bank's main securitisations broken down by type of asset securitised and type of exposure

Nothing to report.

C.3 Exposures deriving from main "third party" securitisations broken down by type of asset securitised and type of exposure

Type of underlying assets / Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Value Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments/ write-backs*
- residential mortgage loans	18,389					
- non-residential mortgage loans	658,208	3,260	115,796	20,283	773	(765)
- bonds	64,086	3,901				
- other assets	20,689	2	2,274	(1)		
Total 31 December 2014	**761,372**	**7,163**	**118,070**	**20,282**	**773**	**(765)**
Total 31 December 2013	**376,474**		**94,193**		**1,608**	

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

C.3.1 Type of securitisation assets: analysis of residential mortgage loans

Securitisation name / Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Value Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments/ write-backs*
SPOLETO MTG 04/35 TV	641	(2)				
CLARF-TV 11/60 A2	8,473	(10)				
CLAAB-TV 12/60	6,495	6				
BERICA-TV 09/48	2,780	6				
TOTAL	**18,389**	**0**				

C.3.2 Type of securitisation assets: analysis of non-residential mortgage loans

Securitisation name / Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	Value Adjustments/ write-backs	Carrying Amount	Adjustments/ write-backs	Carrying Amount	Value Adjustments/ write-backs
ATLSM 4 A-TV 14/43	1,647					
LOCAT SEC 06/28 TV			314	(45)		
CASAFORTE 10/40 CL A	656,561	3,260				
CASAFORTE CL B 10/40			115,482	20,328		
SMPER IF TV 07/46					773	(765)
TOTAL	**658,208**	**3,260**	**115,796**	**20,283**	**773**	**(765)**

As of 31 December 2014, transactions to be settled include purchases on the Casaforte 10/40 CL A security for a net nominal total of €337 thousand.

C.3.3 Type of securitisation assets: analysis of bonds

Securitisation name / Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	Value Adjustments/ write-backs	Carrying Amount	Adjustments/ write-backs	Carrying Amount	Value Adjustments/ write-backs
ATLSM 4 A-TV 14/43	1,647					
LOCAT SEC 06/28 TV			314	(45)		
CASAFORTE 10/40 CL A	656,561	3,260				
CASAFORTE CL B 10/40			115,482	20,328		
SMPER IF TV 07/46					773	(765)
TOTAL	**658,208**	**3,260**	**115,796**	**20,283**	**773**	**(765)**

C.1.3.4 Type of securitised assets: breakdown of other assets

Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	Adjustments/ write-backs	Carrying Amount	Adjustments/ write-backs	Carrying Amount	Adjustments/ write-backs
PATAGONIA F 1/80 ZC	64,086	3,901				
TOTAL	**64,086**	**3,901**				

C.3.4 Type of securitisation assets: analysis of other assets

Securitisation name / Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Value Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments/ write-backs*
COLOMBO 01/26 TV (*)			2,274	(1)		
SUNRI 1A-TV 14/31 (**)	5,680	2				
SUNRI 2014-2 A1 (**)	15,009					
TOTAL	**20,689**	**2**	**2,274**	**(1)**		

(*) underlying element: receivables due from public administration authorities; (**) underlying element: consumer credit.

C.4 Exposures deriving from securitisations broken down by portfolio and by type

Exposures / portfolio	*Financial assets held for trading*	*Financial assets-fair value option*	*Financial assets available for sale*	*Financial assets held to maturity*	*Receivables*	*Total 31/12/2014*	*Total 31/12/2013*
1. Cash exposures	**880,215**					**880,215**	**472,275**
- “Senior”	761,372					761,372	376,474
- “Mezzanine”	118,070					118,070	94,193
- “Junior”	773					773	1,608
2. Off-balance sheet exposures	**254**					**254**	**54,296**
- “Senior”	254					254	54,296
- “Mezzanine”							
- “Junior”							

C.5 Total amounts of securitised assets underlying junior securities or other forms of credit support

The overall amount of securitised assets underlying the junior security SMPER 1F TV 07/46 comes to €2,000 thousand, all related to past due exposures. This is a traditional securitisation with third party underlying assets**.**

C.6 Special purpose vehicle for securitisation

Securitisation name / Special purpose vehicle name	*Registered Offices*	*Consolidation*	*Assets*			*Liabilities*		
			Receivables	*Debt securities*	*Other*	*Senior*	*Mezzanine*	*Junior*
COLOMBO 01/26 TV/ Colombo SRL	Italy	NO	39,544			0	19,772	19,772
SUNRI 1A-TV 14/31/Sunrise SRl	Italy	NO	1,171,611			566,911	303,000	301,700
SUNRI 2014-2 A1/Sunrise SRL	Italy	NO	1,574,000			850,000	319,000	405,000
ATLSM 4 A-TV 14/43/ ATlantes SME	Italy	NO	845,192			382,792	55,000	407,400
LOCAT SEC 06/28 TV/ Locat Securitisation Vehicle SRL	Italy	NO	259,445			43,445	152,000	64,000
SMPER IF TV 07/46/ Semper Finance LTD	Italy	NO	18,088			0	8,323	9,765
SPOLETO MTG 04/35 TV/ Spoleto Mortgages SRL	Italy	NO	16,199			1,707	7,246	7,246
CLARF-TV 11/60 A2/ Claris Finance SRL	Italy	NO	944,123			740,935	203,188	0
CLAAB-TV 12/60/ Claris ABS	Italy	NO	1,949,995			1,295,463	654,532	0
BERICA-TV 09/48/ Berica Residential MBS SRL	Italy	NO	719,937			544,987	174,950	0
PATAGONIA F 1/80 ZC/ Patagonia Finance SA	Luxembourg	YES	0	249,800	19,870	280,930	0	4,580
CASAFORTE 10/40 CL A e B/ Casaforte SRL	Italy	YES	1,414,350			1,201,657	141,998	3,000
Total			8,952,484	249,800	19,870	5,908,827	2,039,009	1,222,463

The Bank owns no interests in special purpose vehicles relating to its own securitisations.
With reference to the securitisation subject to consolidation, you are hereby informed that:

- Patagonia is a special purpose entity regulated under Luxembourg law whose assets (collateral) mainly comprise Lower Tier II subordinated debt securities issued by Banca Monte dei Paschi di Siena SpA. The liabilities of the special purpose entity are by contrast represented by two zero coupon securities with the same maturity as the subordinated securities issued by MPS (30 December 2016) and held under the assets. The entity annually collects 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 involved the transfer to the vehicle entity “Casaforte Srl” of the receivable originated by the mortgage loan granted to the consortium company ‘Perimetro Gestione Proprietà Immobiliari’. The underlying receivable has been cancelled in full from the financial statements of the Parent Company, since the risks and the benefits associated with the same have been transferred to the special purpose entity both in form and also essence. The residual debt as of 31 December 2014 amounted €1,414.3 million. In December 2013, the Parent Company completed the complete repurchase of the Investment Financial Instruments PGPI 2010 and the associated Class Z Securities for an equivalent value of around €70 million. As a result of these purchases, the Bank undertook control over the Company, with consequent consolidation of the same in the financial statements.

C.7 Special purpose vehicle for securitisation (non-consolidated)

Items/Type of structured entity	*Asset accounting portfolios*	*Total assets (A)*	*Liability accounting portfolios*	*Total liabilities (B)*	*Net book value (C=A-B)*	*Maximum exposure to risk of loss (D)*	*Difference between exposure to risk of loss and book value (E=D-C)*
	Item 20 Financial assets held for trading		*Item 40 Financial liabilities held for trading*				
COLOMBO 01/26 TV	2,274		2,274			2,274	2,274
SUNRI 1A-TV 14/31	5,680		5,680			5,680	5,680
SUNRI 2014-2 A1	15,009		15,009			15,009	15,009
ATLSM 4 A-TV 14/43	1,647		1,647			1,647	1,647
LOCAT SEC 06/28 TV	314		314			314	314
SMPER IF TV 07/46	773		773			773	773
SPOLETO MTG 04/35 TV	641		641			641	641
CLARF-TV 11/60 A2	8,473		8,473			8,473	8,473
CLAAB-TV 12/60	6,495		6,495			6,495	6,495
BERICA-TV 09/48	2,780		2,780			2,780	2,780
TOTAL	**44,086**		**44,086**			**44,086**	**44,086**

COLOMBO 01/26 TV: vehicle established as per It. Law No. 130/1999. Originator Credito Fondiario. This is a portfolio of Italian loans due vis-à-vis the Italian public administration authorities. Specifically, these are 97 loans due vis-à-vis institutions such as the Italian regional authorities (52.7%), the Ministry of the Treasury (13.2%), Provincial and Municipal authorities (28.8%) and the Local Health Authority (5.3%).
SUNRI 1A-TV 14/31: vehicle established as per It. Law No. 130/1999. Originator Agos. This is a portfolio of personal consumer loans, all performing issued in favour of individuals resident in Italy. The portfolio comprises 308,473 positions.
SUNRI 2014-2 A1: vehicle established as per It. Law No. 130/1999. Originator Agos. This is a portfolio of personal consumer loans (75%), loans for the purchase of new vehicles (8.01%), loans for the purchase of second-hand vehicles /7.99%), furniture loans (5%) and special purpose loans (4%), all performing issued in favour of individuals resident in Italy. The portfolio comprises 264,416 positions.
ATLSM 4 A-TV 14/43: Portuguese receivables securitisation company. Portfolio comprising loans to Portuguese SMEs. These are performing loans granted to SMEs for a total of 7,766 positions.
LOCAT SEC 06/28 TV: vehicle established as per It. Law No. 130/1999. Originator Locat Spa. This is a portfolio made up of 24,919 lease agreements granted throughout Italy.
SMPER IF TV 07/46: vehicle subject to the law of the German Federal Republic. Originator Eurohypo AG. Portfolio referenced in a summary manner against commercial and residential mortgage loans originated in Germany.
SPOLETO MTG 04/35 TV: vehicle established as per It. Law No. 130/1999. Originator Banca Popolare di spoleto Spa. This is a portfolio made up of 700 contracts: 78% residential mortgage loans, 15% commercial loans and 7% industrial loans.

CLARF-TV 11/60 A2: vehicle established as per It. Law No. 130/1999. Originator Veneto banca Scpa. This is a portfolio of 12,406 residential mortgage loans issued in favour of individuals resident in Italy.
CLAAB-TV 12/60: vehicle established as per It. Law No. 130/1999. Originator Veneto Banca Group. This is a portfolio of 23,950 residential mortgage loans issued in favour of individuals resident in Italy.
BERICA-TV 09/48: vehicle established as per It. Law No. 130/1999. Originator Banca Popolare di Vicenza Spca. This is a portfolio of 13,209 residential mortgage loans issued in favour of residents in Italy.

The maximum exposure to risk of loss was determined to an extent equal to the book value. During the year in question, the Bank did not provide and does not intend to provide financial or any other type of support.
The Bank owns no interests in special purpose vehicles relating to its own securitisations.

C.8 Servicer activity - collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle for the securitisation

The Bank covered the role of servicer in its own securitisation created in November 2011 which was closed in advance in November 2014.
The figures included in the tables below all refer to this internal securitisation closed in November 2014, managed by the special purpose entity Siena SME 11-01.

Securitised assets (2014 period end data)		***Receivables collected in the year***		*Percentage of securities redeemed*					
				Senior		*Mezzanine*		*Junior*	
Impaired	*Performing*	*Impaired*	*Performing*	*Impaired assets*	*Assets performing*	*Impaired assets*	*Assets performing*	*Impaired assets*	*Assets performing*
-	-	596	174,955		57.83%	2.61%	97.39%	77.68%	-

Notes:
only assets classified as non-performing have been indicated under impaired assets;
the factored receivables were re-acquired by the Bank for a total of € 2,399,666 thousand, of which € 196,685 thousand relating to impaired receivables.

Securitised assets (2013 period end data)		***Receivables collected in the year***		*Percentage of securities redeemed*					
				Senior		*Mezzanine*		*Junior*	
Impaired	*Performing*	*Impaired*	*Performing*	*Impaired assets*	*Assets performing*	*Impaired assets*	*Assets performing*	*Impaired assets*	*Assets performing*
116,205	1,222,463	2,201	221,136	-	18.45%	-	-	-	-

Note:
only assets classified as non-performing have been indicated under impaired assets.

D. DISCLOSURE ON THE STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN THE SPECIAL PURPOSE VEHICLE FOR SECURITISATION)

QUALITATIVE/QUANTITATIVE INFORMATION

Items/Type of structured entity	*Asset accounting portfolios*			*Liability accounting portfolios*				
	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 book value (E=D-C)*
1. Special purpose vehicle								
2. Collective investment undertakings	1,444,938	1,553	1,446,492	867,431	867,431	579,061	3,169,450	2,590,389
3. Other								
TOTAL	**1,444,938**	**1,553**	**1,446,492**	**867,431**	**867,431**	**579,061**	**3,169,450**	**2,590,389**

The aggregate includes, in the column “Financial assets held for trading”:
- €2.9 million relating to the holdings held by the subsidiary MPSCS in units of Open-end investment funds and Exchange Traded Funds which invest in shares, bonds and derivatives. These units are acquired by MPSCS for hedging the risks generated by the structured bond issued on funds placed via the network by the Parent Company or with the purpose of repurchase on the secondary market of the structured funds whose original structuring has been seen to;
- €1,442.0 million relating to exposures, with positive fair value, of the subsidiary MPS Capital Service S.p.A. in credit and financial derivatives vis-à-vis the counterparties Rainbow for €1,287.0 million and certain foreign open-end investment funds (PRIMA PR 100 AZ, PRIMA SWE 3, etc.) managed by Anima Funds PLC for €155 million. Rainbow is an Irish fund managed by Anima Asset Management divided into segments which are acquired by MPS AXA Financial Limited and represent the funds to which the benefits of the Unit Linked polices placed care of their customers under the name of “AXA MPS Valore Performance”, are linked to. MPSCS operates with Rainbow in the capacity of counterparty with whom the derivatives included in the assets of the Funds are traded.

The column Financial assets available for sale includes:
- €1.5 million relating to the units, of a closed-end investment fund reserved for qualified investors (Cosimo I Fund), held by the subsidiary MPSCS. The objective of the fund is to maximise the profitability for its investors both via a rising dividend yield and via the development of the assets in the portfolio.

The column Financial liabilities held for trading includes:
- €177.5 million relating to the uncovered positions on units in collective investment undertakings, such as Anima Liquidity I, Prima Med Term BD I, Prima Sh Term BD I, Prima Fd Europe Eqt. These are Open-end Investment Funds which invest mainly in bonds denominated in € and with ratings higher than investment grade. MPSCS finances the short sales by borrowing securities, indirectly, from customers of the Parent Company, and at the same time enters into a Total Return Swap where it receives the performance of the securities and pays an interest rate;
- €689.9 million relating to the negative fair value of financial and credit derivatives of the subsidiary MPSCS vis-à-vis the counterparties Rainbow for €545.3 million and certain foreign open-end investment funds (PRIMA PR 100 AZ, PRIMA SWE 3, etc.) managed by Anima Funds PLC for €144.6 million.

The entities in question finance themselves using issues of units.
The maximum exposure to risk of loss was indicated to an extent equal to the book value for the exposures in units of collective investment undertakings other than financial and credit derivatives in relation to which the reference is to the notional value.
During the year in question, the Group did not provide and does not intend to provide financial or any other type of support to the non-consolidated structured entities indicated above.
There are no sponsored non-consolidated structured entities for which the Group, as of the financial statement reference date, holds interests.

E. SALES

A. Financial assets sold and not derecognised in full

QUALITATIVE INFORMATION

The assets indicated in the following tables are debt securities and equities in kind and have been assigned within the sphere of borrowing repurchase agreements and securities lending transactions with obligation to repurchase forward. The repurchase agreements, like the identical securities lending transactions described in section 7 of the Explanatory Notes - part B - Other transactions, are finalised, to a good extent, to hedge similar transactions within the sphere of the dynamic and complex management of the trading activities.
Considering the SFT (securities financing transactions) in their entirety, a total net funding position emerges, correlated to the financing of the long positions in securities, with the objective of optimising the cost of carry of the portfolios, benefiting from the relative value approach, in particular on the BTP market.
The underlying elements of the borrowing repurchase agreements are mainly Italian government securities, essentially BTPs. The own securities used for the borrowing repurchase agreements remain under the balance sheet assets in item 20, and the associated benefits and risks in any event remain with the Bank. The securities transferred emerge as "committed" but this status does not exclude the possibility of selling them, subject to coverage of the temporary lack of availability of the security via securities lending or lending repurchase agreements.

QUANTITATIVE INFORMATION

E.1 Financial assets sold not derecognised: book value and full value

Financial assets sold not derecognised, recognised in full and stated at their book value are presented below.

	Technical forms/ Portfolio	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Receivables due from banks*	*Loans to customers*	*Total 31/12/2014*	*Total 31/12/2013*
A.	**Cash assets**	**5,729,991**		**39,175**				**5,769,166**	**6,126,746**
1.	Debt securities	5,684,684		39,175				**5,723,859**	**6,050,162**
2.	Equities	45,307						**45,307**	**76,584**
3.	Collective investment undertakings								
4.	Loans								
B.	**Derivative instruments**								
	Total 31 December 2014	**5,729,991**		**39,175**				**5,769,166**	**x**
	of which impaired								
	Total 31 December 2013	**6,087,421**		**39,325**					**6,126,746**
	of which impaired								

Borrowing repurchase agreements carried out using own securities, indicated in the following table E.1.a, were entered into for 67.27% 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	*31/12/2014*	*31/12/2013*
Borrowing repurchase agreements	5,682,104	6,070,679
Securitisations		
Pooled securities lending	87,061	56,066
Sales		
Total	**5,769,165**	**6,126,745**

E.2 Financial liabilities with respect to sold and not derecognised financial assets: book value

Financial liabilities with respect to sold and not derecognised financial assets as per E.1 above, recorded in the liability item 40 "Financial liabilities held for trading", are broken down as follows:

	Liabilities / Asset portfolio	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Receivables due from banks*	*Loans to customers*	*Total*
1.	**Due to customers**	**1,482,417**						**1,482,417**
a)	for assets recognised in full	1,482,417						**1,482,417**
a)	for assets recognised partially							
2.	**Due to banks**	**3,989,527**		**28,645**				**4,018,172**
a)	for assets recognised in full	3,989,527		28,645				**4,018,172**
a)	for assets recognised partially							
	Total 31 December 2014	**5,471,944**		**28,645**				**5,500,589**
	Total 31 December 2013	**5,902,091**						**5,902,091**

E.3 Sale transactions with liabilities having exclusive recourse on assets sold: fair value

Nothing to report.

B. Financial assets sold and not derecognised in full with recognition of continuing involvement

Qualitative information

Nothing to report.

Quantitative information

Nothing to report.

E. 4 COVERED BOND TRANSACTIONS

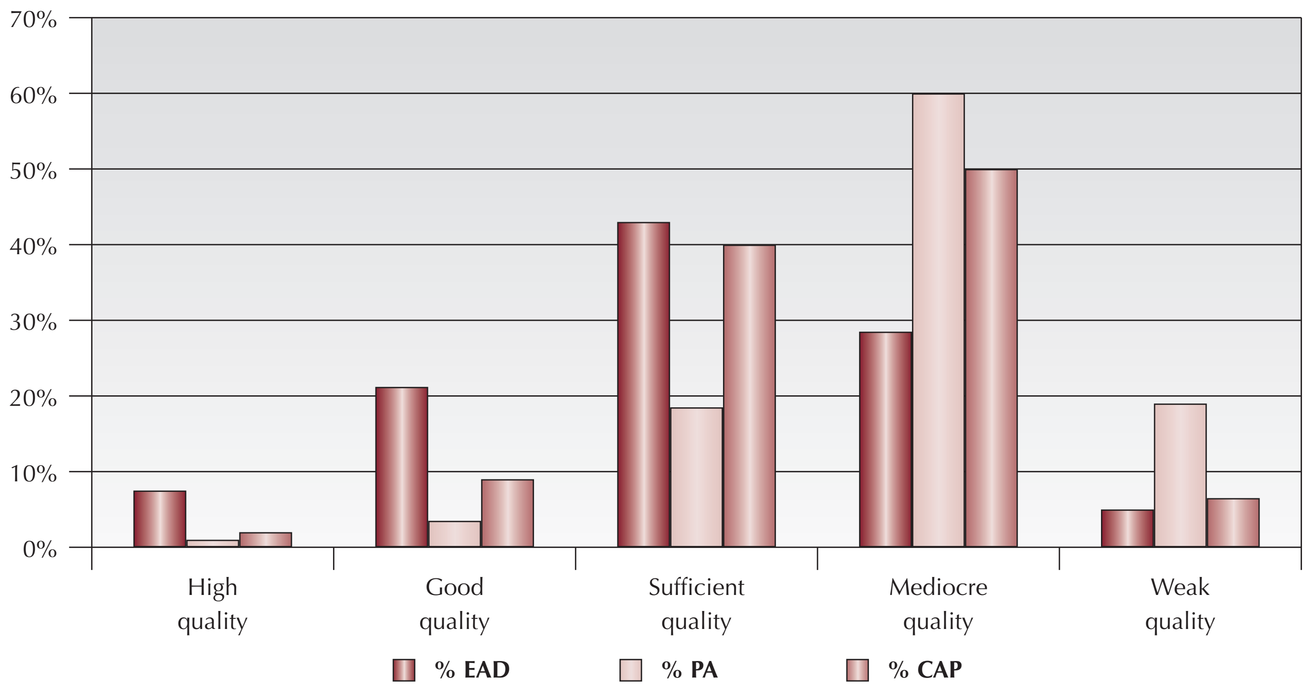
The Bank issued no covered bank bonds.

F. CREDIT RISK GAUGING MODELS

Analysis of the credit risk is carried out by means of the use of the Loan Portfolio Model developed internally by the Parent Company; as analytical output it produces the classic risk measurements of the Estimated Loss, Unestimated Loss and Economic Capital diversified intra-risk, with a timeframe of one year and a confidence interval gauged to the target rating of said Group. The inputs are numerous: probability of default (PD), LGD rates, number and types of guarantees which assist the loan transaction, internal operating EAD ratios.
The Loan Portfolio Model developed within the Monte dei Paschi di Siena Group uses a "Merton" approach to describe the insolvency of each counterparty present in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable that expresses its credit worthiness falls below a pre-set threshold value, along a reference time frame (usually, one year). The synthetic variable expressing the counterparty's credit worthiness is defined Credit Worthiness Index (CWI) and it incorporates both the specific risk component and the systemic component. The sensitivity of the credit worthiness of each counterparty to changes in macroeconomic factors is estimated with a multi-varied regression econometric model between the variable expressing the solvency of a counterparty (PD) and the selected credit drivers. Loss distribution is estimated with appropriate statistical functions that approximate loss distribution for each counterparty through the use of conditioned default probabilities.
The output of the portfolio provides detailed measurements for individual positions as well as the component of absorbed management capital with the indication of the impact of diversification present within the portfolio.
The model enables to highlight the time dynamics of credit risk according to various possibilities of aggregation of the analysed variables, by legal entity, by type of customer, by geographical area, by industry, by rating class, by continental areas. Further indications deriving from the Loan Portfolio Model refer to the "what-if" analysis produced on certain discriminating variables such as the probabilities of default, the LGD rates, the performance of the value of the guarantees and the available margins on credit facilities, so as to quantify levels of Estimated Loss and Economic Capital should the underlying hypothesis (both discretional and historic) occur.
The bank, also in relation to the provisions of the Second Pillar of Basel Legislation, is involved together with the Parent Company in the continuous evolution of the methods and models in order to assess the impacts on the credit portfolio of stress conditions, obtained both through sensitivity analysis to individual risk factors and through scenario analysis.
In this connection, please see the section "Adjustment of the previous year's balances and changes in the accounting estimates in compliance with the provisions of IAS 8 (Accounting standards, changes in accounting estimates and errors)" in the explanatory notes, for an illustration of the method-based review of the calculation of the collective write-down made further to the conclusion of the Asset Quality Review.
The comparison between estimated losses and realised losses is carried out annually within the sphere of the backtesting procedures on the PD and LGD parameters by the first and second level internal control units.

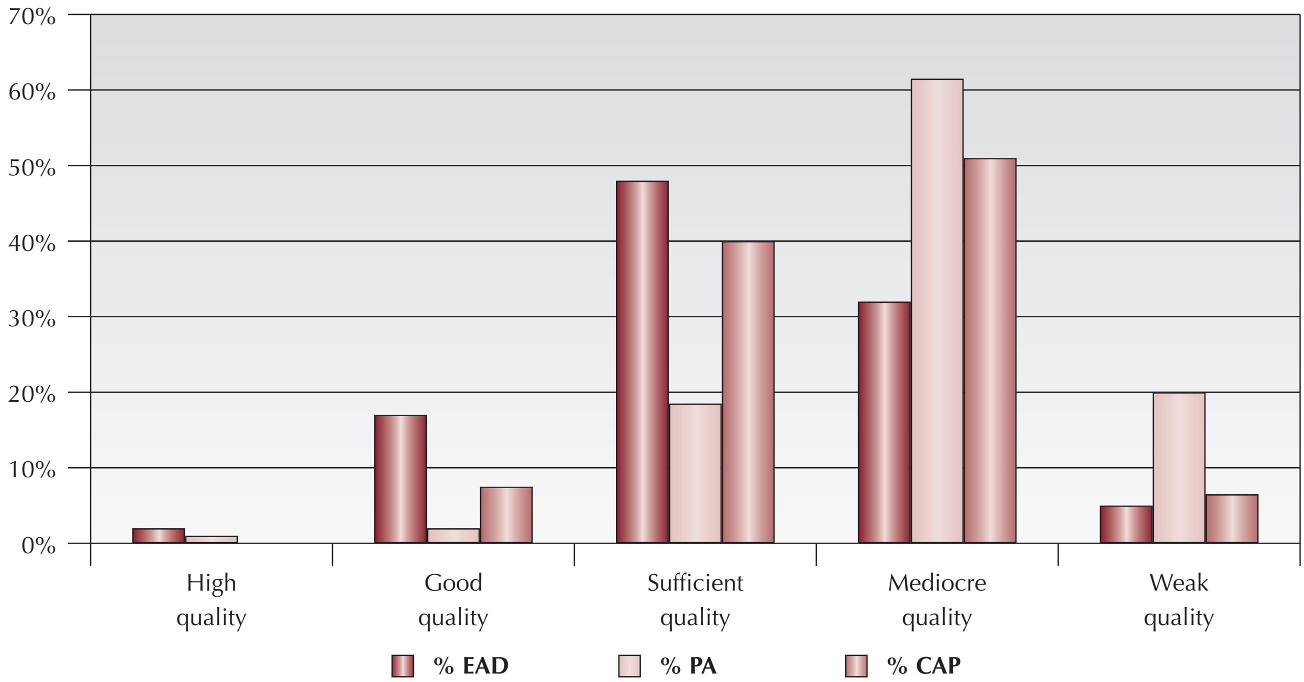
The chart below indicates the distribution of the loan quality of MPSCS's loan portfolio as of 31 December 2014 (excluding positions in financial assets). The graphic representation shows that around 28% of the exposures at risk are granted to high and good quality customers. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking institutions, not included in AIRB model. For such counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

QUALITY DISTRIBUTION OF THE PERFORMING LOANS BOOK
BANCA MPS CAPITAL SERVICES - 31/12/2014



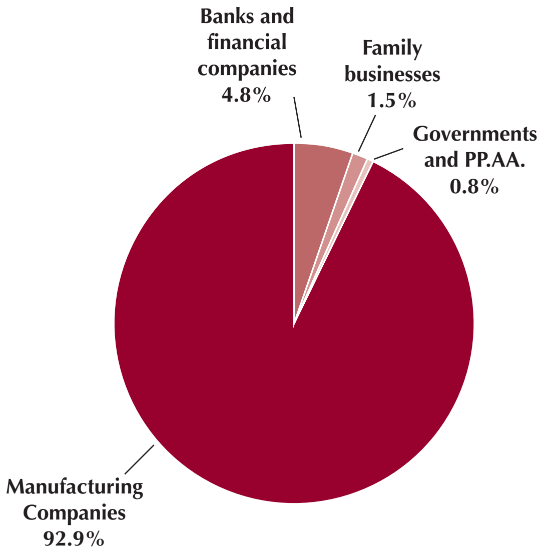
The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate and Retail portfolios (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). Note that the incidence of exposures with high and good quality as of 31 December 2014 is about 18% of total exposures.

QUALITY DISTRIBUTION OF THE PERFORMING LOANS BOOK
CORPORATE & RETAIL SEGMENTS
BANCA MPS CAPITAL SERVICES - 31/12/2014



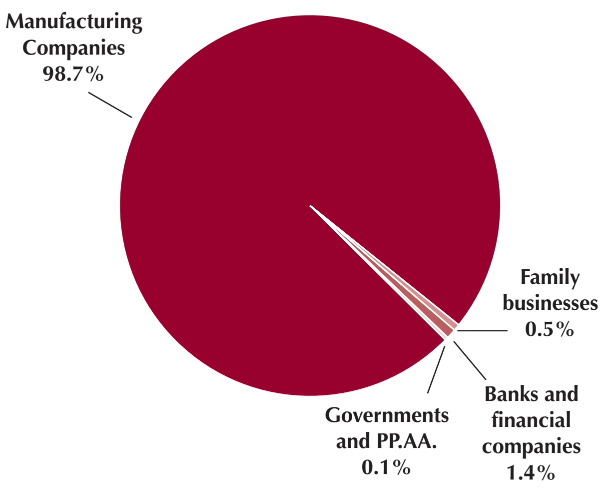
The surveys carried out at the end of 2014 disclose that the exposures to risk of MPSCS are mainly directed at "Production Companies" customers (92.9% of total disbursements) and "Banks and Financial Firms" (4.8%). The remaining portion is subdivided among "Households" and "Governments and Public Administration", respectively amounting to 1.5% and 0.8%.

RISK EXPOSURE
MPS CAPITAL SERVICES - 31/12/2014

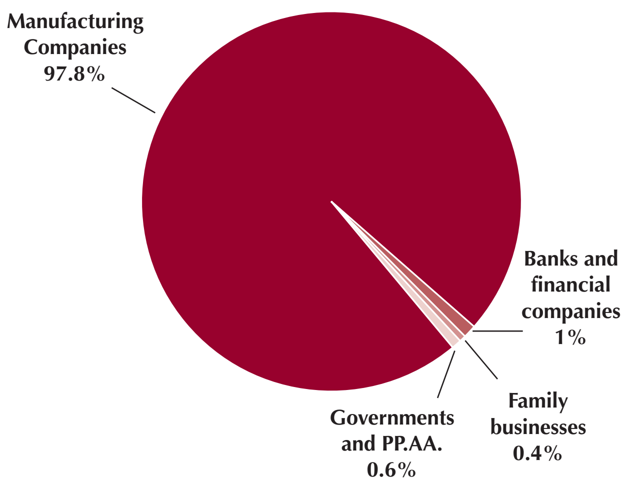


In terms of risk measurements, it is apparent that the "Production Companies" customer segment absorbs 98% of both Expected Loss and Economic Capital.

EXPECTED LOSS
MPS CAPITAL SERVICES - 31/12/2014

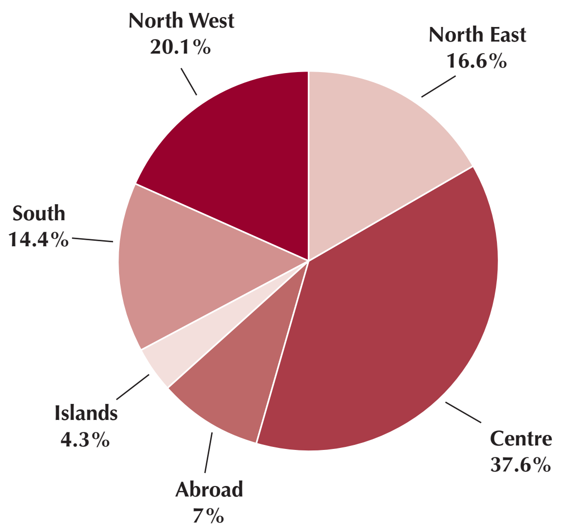


ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31/12/2014



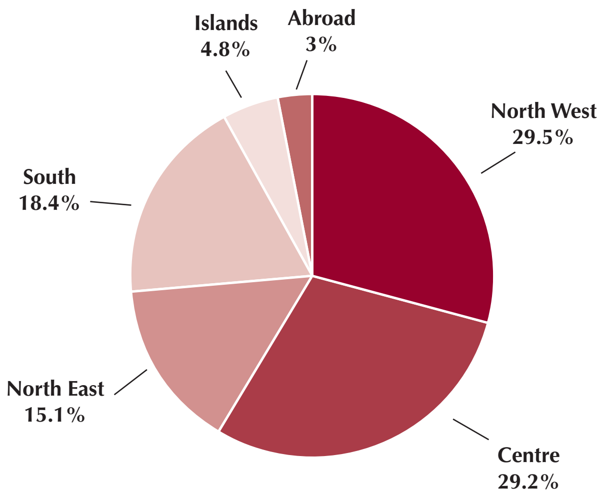
The analysis of the geographic distribution of MPCSC customers shows that risk exposures are mainly concentrated in regions of central Italy (37.6%); next are exposures in the North West and North East (respectively 20.1% and 16.6%), in the South (14.4%), Abroad 7% and the Islands (4.3%).

EXPOSURE TO RISK
MPS CAPITAL SERVICES - 31 December 2014



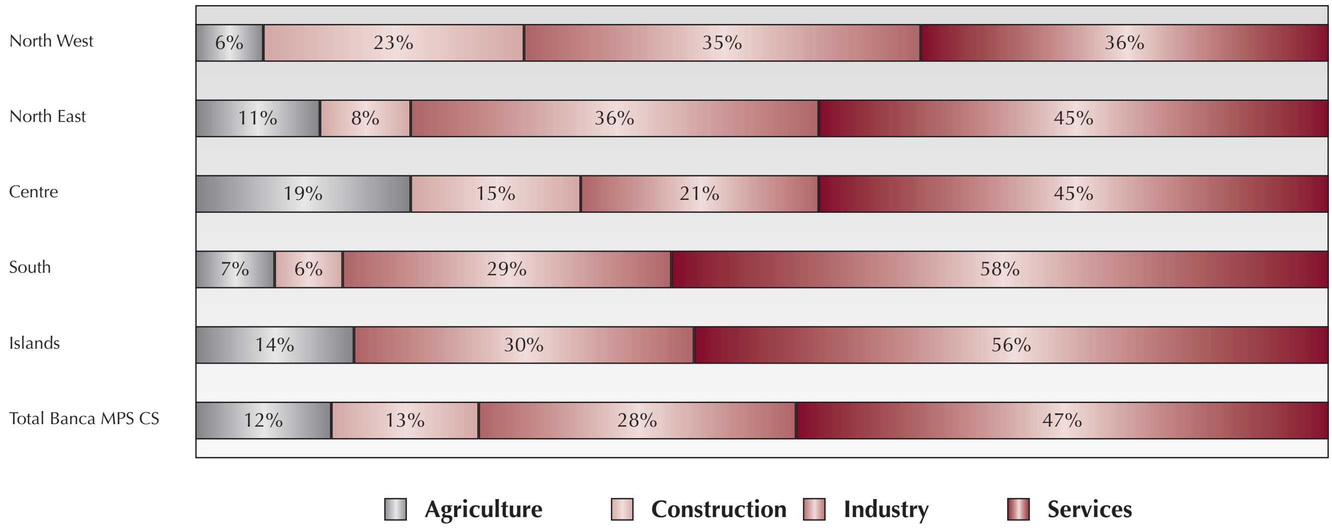
Total risk measurements (Expected Loss + Economic Capital) are best explained in the composition of the loans more heavily present in the North West (29.5%) and in Central Italy (29.2%). These are followed by the South (18.4%), the North East (15.1%), the Islands (4.8%) and Abroad (3%).

EXPECTED LOSS + ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31 December 2014



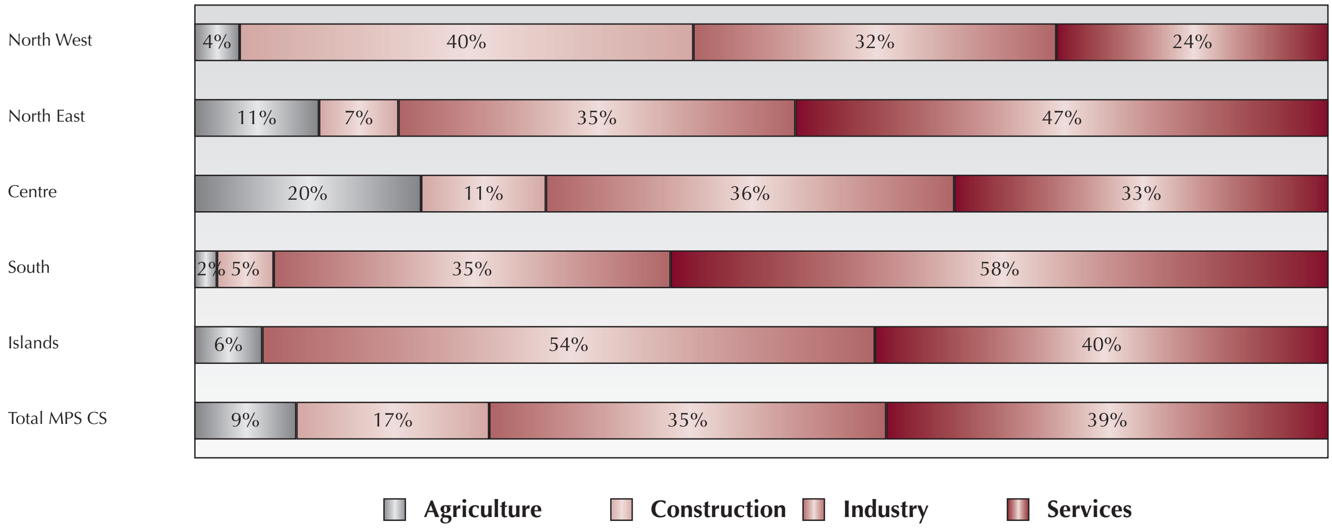
In conclusion, the following diagrams show, for just Corporate customers in Italy, the percentage distribution by individual Geographic Area of the Exposure at Default and the extents of the overall risk (Expected Loss + Economic Capital) by branch of business.
The greatest portion of Exposure at default of the Companies in all the Geographic Areas is concentrated in the Services sector. Out of the MPSCS total, this concentration is equal to 47% and is followed by that of the Industry category (28%), Construction (13%) and in conclusion Agriculture (12%).

BANCA MPS CAPITAL SERVICES
PERFORMING CORPORATE ITALIA CUSTOMER ITALY AS OF 31/12/2014
Distribution of Exposure to Default (EAD) by geographic area and business segment



With regard to the overall risk measures, defined as the sum of the Expected Loss (EL) and Economic Capital (CAP), the greatest concentration in total relates to the Services sector. In the North West, a predominance is noted of the Construction Sector (40%) while in the Islands and Central Italy a predominance is seen of the Industry Sector (respectively 54% and 36%).

BANCA MPS CAPITAL SERVICES
PERFORMING CORPORATE ITALIA CUSTOMER ITALY AS OF 31/12/2014
Distribution of the extents of risk (Expected loss + Economic Capital)
by geographic area and business segment



SECTION 2 - MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK - SUPERVISORY TRADING BOOK

The model for the management of market risks pertaining to the Trading Book

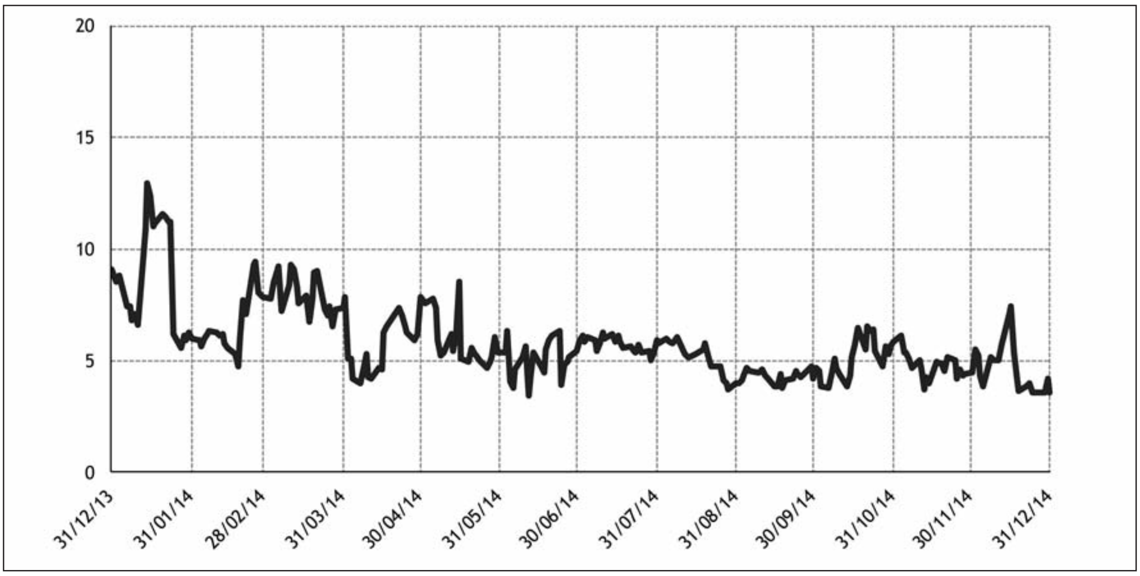
The Supervisory Trading Book (Portafoglio di Negoziazione di Vigilanza, PNV) of the Montepaschi Group comprises the set of Supervisory Trading Books managed by the Parent Company (BMPS) and by MPSCS. The PNVs of the other subsidiaries are closed to market risk. The derivative transactions, brokered in favour of the same customers, envisage the centralisation of and protection against risks by MPSCS.
The market risks of the trading book are monitored for management purposes in terms of Value-at-Risk (VaR), with regard to both the Parent Company and the other Group entities which are important as autonomous market risk taking centres. The Group Finance and Liquidity Committee is tasked with directing and coordinating the overall process for the management of the proprietary finance of the Group, ensuring consistency between the management actions of the different business units.
The Trading Book of the Group is subject to daily monitoring and reporting by the Parent Company's Risk Management Department, on the basis of proprietary systems. The operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Department itself, in line with the leading international best practices. Solely for signalling purposes, on the subject of Market Risks the Group employs the standardised methodology.
The operating limits on trading activities, resolved by the Parent Company's Board of Directors, are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios, monthly and annual Stop Loss and Stress. Furthermore, the trading book's credit risk, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings by type of guarantor and rating classes.
The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors.
From the standpoint of the method-related adjustment, during the last quarter of 2014 the commodity risk factor was introduced in the internal management model, completing the representation of the risk on the Group's financial portfolios.
Periodically, the management reporting flow on market risks is forwarded to the Risk Committee, to the Managing Director, to the Chairman and to the Board of Directors of the Parent Company within the Risk Management Report, the instrument through which Senior Management and the Governing Bodies are informed about the Group's overall risk profile (part of the disclosure is also made available to MPSCS).

The macro-types of risk factors considered within the Internal Market Risks Model are IR, EQ, CO, FX, CS, as illustrated below:
• IR: interest rates on all the relevant curves, inflationary curves and related volatility;
• EQ: share prices, indexes and baskets and related volatility;

• CO: prices of commodities, indexes and baskets 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:
• organization/operations of the Portfolios;
• by Financial Instruments;
• by Risk Family.
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 analysis of the phenomena which affect the portfolios.
With particular reference 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, likewise with regard to the choice made at Group level, at present does not use the internal model based on the VaR in the calculation of the capital requirements on 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 sizable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.
Stress tests are computed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what historically was realised in the identified stress period.
Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.
The VaR method described above is applied for management purposes also to that portion of the banking book made up of financial instruments similar to trading ones (e.g. shares/bonds AFS).

In 2014, the market risks of the MPSCS Supervisory Trading Book disclosed, in terms of average VaR, a trend characterised by a drop in volatility and the absolute level of the risk with respect to the previous year. The variability in the VaR was above all else influenced by the IR segment for trading activities, mainly in Long Futures and Interest Rate Future Options and by activities linked to the structuring and hedging of policies.

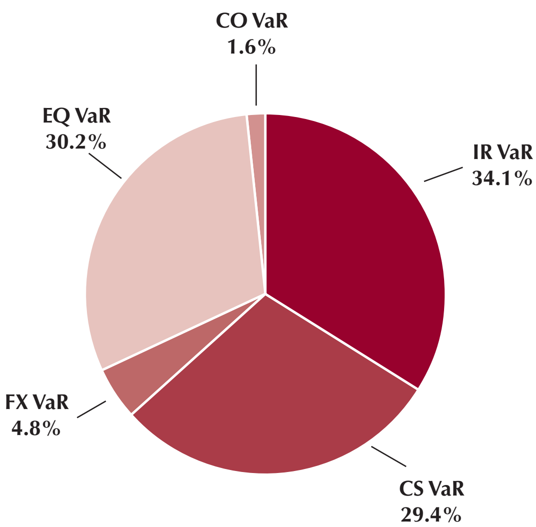
MPS CAPITAL SERVICES: SUPERVISORY TRADING BOOK
- VaR 99% 1 day in €/mln -



In terms of VaR composition by risk factors, as of 31 December 2014 the MPSCS portfolio is mainly absorbed by the interest rate risk factor (IR VaR, 34.1%). This is followed by the Credit Spread risk factor (CS VaR, 29.4%), the exchange risk factor (FX VaR, 4.8%), the equity risk factor (EQ VaR, 30.2%) and the commodity risk factor (CO VaR, 1.6%).

During the year, MPSCS's PNV VaR fluctuated between a minimum of €3.42 million as of 11 June 2014 and a maximum of €12.95 million as of 14 January 2013, disclosing an average value of €5.82 million. As of 31 December 2014, the PNV VaR was €3.60 million.

VaR MPS CAPITAL SERVICES
Supervisory Trading
VaR Breakdown by Risk Factor 31/12/2014



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

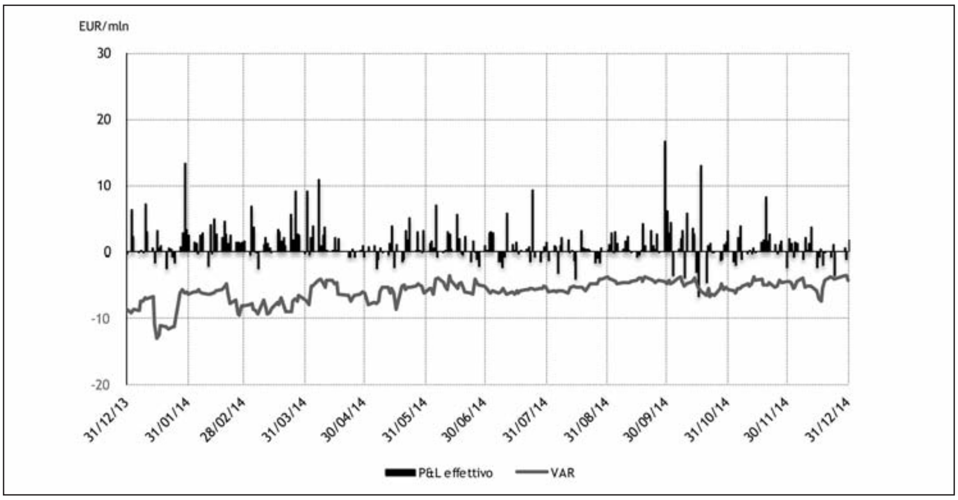
	VaR	Data
Period	3.60	31/12/2014
Minimu	3.42	11/06/2014
Maximu	12.95	14/01/2014
Averag	5.82	

Backtesting of the VaR Model

The MPS Group has implemented a backtesting structure compliant with current legislation for the Market Risks of its risk management system.
The backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the value of the portfolio, for the purpose of ascertaining the predictive ability of the model in terms of accuracy of the risk measures produced. If the model is sturdy, the periodic comparison of the daily estimate of the VaR with the daily losses of the trading activities relating to the next day should reveal that the effective losses are higher than the VaR with a frequency consistent with that defined by the confidence level.
In light of the legislative provisions (Bankit Circular No. 263/06 and subsequent additions), the Risk Management Unit has deemed it appropriate to carry out the test following the theoretical and effective backtesting methods and integrate the same in the Group's management reporting systems.
The first type of test (**theoretical backtesting**) has greater statistical significance in reference to the assessment of the accuracy of the VaR model ("uncontaminated test").
The second type of test (**effective backtesting**) complies with the need to check the forecast reliability of the VaR model with reference to the effective operations of the Bank (daily gains and losses from trading) cleared of the effect of accrual of the interest between day t-1 and t for the securities and the effect of the fees.
These "cleansed" P&L results are compared with the VaR for the previous day. In the event that the losses of greater than envisaged by the model, a so-called "exception" is recorded.

The diagram which follows shoes the results of the Effective Backtesting of the internal Model for the Market Risks, relating to MPS CS's Supervisory Trading Book for 2014:

MPS CAPITAL SERVICES: EFFECTIVE BACK TESTING OF THE SUPERVISORY TRADING BOOK EFFECTIVE P&L VAR



The retrospective test discloses just one overrun in the year on the MPS CS trading book, as follows:
- 16 October 2014: negative market day (spread BTP-Bund +9 bp; Eur Swap 10y +11bp).

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

A.2 Price Risk

B. INTEREST RATE RISK AND PRICE RISK MANAGEMENT PROCESSES AND GAUGING METHODS

With regard to the market risk management process pertaining to the handling and gauging methods for interest rate and price risk, reference should be made to the matters already specified previously in the section "The model for the management of market risks pertaining to the trading portfolio".

QUANTITATIVE INFORMATION

1. **Supervisory trading book: distribution by residual duration (re-pricing date) of cash financial assets and liabilities and financial derivatives**
   This table is not drawn up since analysis is provided of the sensitivity to interest rate and price risk of the supervisory trading books on the basis of internal models.
2. **Supervisory trading book: breakdown of exposures in equities and share indexes for the main countries of the listing market**
   This table is not drawn up since analysis is provided of the sensitivity to interest rate and price risk of the supervisory trading books on the basis of internal models.
3. **Supervisory trading book: internal models and other methods for sensitivity analysis**
   The rate and price risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis.

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 the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The positions pertaining to the Trading Book are all classified as HFT in the accounts and offload the Market Value changes directly to the income statement.
The simulated interest rate scenarios are:
• parallel shift of +100bp on all the interest rate curves and inflationary curves
• parallel shift of -100bp on all the interest rate curves and inflationary 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 Book
in €/mln

Risk Family	Scenario	Total Effect
Interest	+ 100bp on all curves	(11.83)
Interest	- 100bp on all curves	(66.94)
Interest	+1% Interest Rate	0.0

The asymmetry relating to the +100bp and -100bp interest rate scenarios is mainly attributable to the effect of the floor applied to the curves, by virtue of the low level reached by the interests rates of the Euro Zone at year end.

Completing the analysis of the interest rate risk, the sensitivity analysis of the credit spread risk of the MPSCS Trading Book linked to the volatility of the credit spreads of the issuers is also indicated. For the purposes of the sensitivity analysis, the simulated scenario is:
• parallel shift of +1bp of all the credit spreads.

MPS CAPITAL SERVICES Trading Book
in €/mln

Risk Family	Scenario	Total Effect
Credit	+ 1bp on all curves	(0.77)

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, basket price;
• -1% of each equity, commodity, index, basket price;
• +1% of all the volatility surfaces of all the equity and commodity risk factors.
The positions pertaining to the Trading Book are all classified as HFT in the accounts and offload the Market Value changes directly to the income statement. The overall effect of the scenario analyses is presented below (contribution of the Commodity segment more or less nil):

MPS CAPITAL SERVICES Trading Book
in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes, basket)	0.58
Equity	- 1% Equity Prices (prices, indexes, basket)	(0.64)
Equity	+ 1% Equity	(0.02)

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

A.1 Interest Rate Risk

In accordance with the best international practices, the Banking Book includes the commercial operations of the Bank associated with the transformation of the financial statement asset and liability, Cash Management, the foreign branches and reference hedging derivative maturities. The definition of the perimeter of the Banking Book (aligned with that of the Supervisory Banking Book) and the process for centralising the ALM operations are disciplined by the Parent Company's Board of Directors, consistently with the setup outlined by the supervisory regulations (Bank of Italy Circular No. 285). The framework envisages the centralisation of the Asset & Liability Management in the Parent Company's Finance, Cash and Capital Management Department (AFTCM) and the definition and monitoring of the operating limits in view of the interest rate risk of the Montepaschi 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 Risks Committee, are based first of all on exposure to the interest rate risk for a change in the economic value of the assets and liabilities of the Banking Book, applying a parallel shift of 25bp, 100bp and 200bp, the latter in accordance with the provisions of the "second pillar" of Basel 2.

The ALM model of the Montepaschi Group, incorporates in the measurements of the exchange rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk).

The Group has adopted a system for governing and managing the rate risk which, in accordance with the provisions of the Supervisory Authority, employs:

- a quantitative model, on the basis of which the exposure of the Group and of its individual companies/organisations to the 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 Companies of the Group 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 cognisant 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 AFTCM, the Risk Strategic Governance Service handles the short-term rate risk and structural rate risk. The Department also monitors and manages hedges in accordance with accounting policies, joint protection for the formation of the internal rates of the "network" (BMPS and other Group companies) for the Euro and the currency

for all the concerned transactions with due dates beyond the short-term.
In relation to the handling of the rate risk, the Montepaschi Group uses IAS compliant hedges. The main types outstanding are as follows:

- Micro Fair Value Hedge: hedging of the commercial assets (loans/mortgages), the securities portfolio and the bond funding;
- Macro Fair Value Hedge: hedging of the commercial assets (loans/mortgages);
- Micro Cash Flow Hedge: hedging of floating rate items.

In additional to this type of transaction, the Montepaschi Group adopts the Fair Value Option for certain types. Specifically, the Fair Value Option has been adopted for the debt securities (structured and fixed-rate), in relation to which the following characteristics apply:

- the hedging of the risk from fair value changes has been entered into at the time of issue, with the desire of maintaining the hedge for the entire contractual duration and for the entire amount of the hedged item;
- as a rule, for the issues in relation to which the Group has undertaken the commitment to repurchase at issue spread.

Price Risk
The gauging of the price risk on the MPSCS Banking Book is carried out on equity positions held for mainly strategic or institutional/instrumental purposes. The relevant portfolio for these purposes is mainly constituted by equity investments and AFS shares.
The instrument used for gauging the price risk for the equity investment portfolio is the Value-at-Risk (VaR), which represents the loss which the portfolio in question, valued at Fair Value, could undergo over the duration of a quarter of a year (holding period), considering a confidence interval of 99%. The VaR model used (different from that employed for the Trading Book) is simulative in type and uses a Monte Carlo approach which is based on the times series of the market returns for listed companies and on the time series of sector indexes for those unlisted.
The Parent Company's Risk Management Department - which develops and maintains the internal gauging system - periodically reports on the size of the risks on the equity investment portfolio and their evolution over time.
The Parent Company's Risk Management Department develops and maintains the internal measurement system also with reference to the alternative funds component and for the purposes of determining the Economic Capital it uses a measurement derived from the Supervisory approach.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual duration (by re-pricing date) of financial assets and liabilities

This table is not drawn up since analysis is provided of the sensitivity to interest rate and price risk of the banking book on the basis of internal models.

2. Banking book: internal models and other sensitivity analysis methods

2.1 Interest Rate Risk

The sensitivity of MPSCS at the end of 2014 presents a risk exposure profile due to a reduction in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to €15,1 million (-€1.7 million for a shift of -100bp).

2.2 Price Risk

MPSCS's equity investment portfolio comprises around 19 equity investments in companies outside the Group, or rather in companies not consolidated at Group level either line-by-line or proportionally, and its value is around 87% concentrated on 5 investments.
The VaR of the equity investment portfolio (99%, holding period of 1 quarter) amounts at year end to around 19% of the portfolio's Fair Value, with a concentration of the risk on the 5 most significant equity investments.
A scenario analysis is provided below; it contemplates all equity investments.

MPS CAPITAL SERVICES Banking Book
in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes, basket)	0.15
Equity	- 1% Equity Prices (prices, indexes, basket)	- 0.15
Equity	+ 1% Equity Volatility	0.00

2.3 EXCHANGE RISK

QUALITATIVE INFORMATION

A. General aspects, management procedures and gauging methods for exchange risk. Exchange rate hedging activities.

A.1 Supervisory trading portfolio

The exposure to exchange rate risk is essentially of a limited extent and mainly derives from the role performed by the Bank in i) trading activities on structured products, and the related hedging carried out, which due to the features involved lead to exposure on non-Euro currencies; ii) market maker activities for derivatives made for the purpose of hedging the MPS Group's corporate customers. Operations are in fact concentrated mainly on the cross of the main G7 currencies. The activity is essentially based on trading and on the aggregate management of risks with a short-term view and with substantially balance of the risks originated from commercial transactions. As a risk mitigation strategy, the Bank carries out funding in the same currency as the assets, through disbursements from the Parent Company (when necessary) or through the synthetic transformation of funding in Euro. The main financial instruments used in this segment are spot forwards, options, futures. The risks are gauged and monitored, as in the other segments, via sensitivities and VaR, consequently reference should be made to the matters already described previously. Handling of this risk takes place by aggregating all the risk factors indicated above by means of use of the Risk Management system of the Murex application. The activity is carried out mainly by the Global Markets Division, through its own desks that manage their own exposure individually within the delegated limits and in any case in view of currency risk minimisation.

A.2 Banking book

With regard to this type of portfolio, the exchange risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be perfectly balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any exchange rate risk. In fact, as of the close of these financial statements the Bank had an essentially balanced foreign exchange position for the banking book.

QUANTITATIVE INFORMATION

1. Breakdown of assets and liabilities and derivatives by currency

Items / Currency	*US Dollar*	*Yuan Renminbi*	*Yen*	*Pounds sterling*	*New Turkish Lira*	*Other currencies*
A. Financial assets	**457,909**		**6,416**	**4,949**	**8,251**	**47,499**
A.1 Debt securities	32,336			3,394	387	
A.2 Equities	6,058		42	1		530
A.3 Loans to banks	67,354		2,335	437	7,864	33,798
A.4 Loans to customers	352,161		4,039	1,117		13,171
A.5 Other financial assets						
B. Other assets	65		225			156
C. Financial liabilities	**(425,391)**		**(235)**	**(30,155)**		**(27,780)**
C.1 Due to banks	(407,822)			(30,155)		(22,924)
C.2 Due to customers	(17,569)		(235)			(4,856)
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	(38)					(1,002)
E. Financial derivatives						
- Options						
+ long positions	412,480		82,085	54,679		30,852
+ short positions	616,641	7,249	227,585	34,827		146,588
- Other derivatives						
+ long positions	1,382,986	342,850	21,834	70,356	115,728	107,383
+ short positions	1,789,930	335,009	7,044	119,241	86,765	18,361
Total assets	457,975		6,641	4,949	8,251	47,655
Total liabilities	(425,429)		(235)	(30,155)		(28,782)
Imbalance (+/-)	**32,546**		**6,406**	**(25,206)**	**8,251**	**18,873**

Subsequent to the end of the year, no significant economic effects emerged further to the changes in the exchange rates. The following table summarises the exchange rates vis-à-vis the € for the main currencies in which the assets and liabilities are denominated, respectively at year end and 24 February 2015 (last up-date of the Explanatory Notes).

Currency	*Code*	*31/12/2014*	*24/02/2015*	*Change*
UNITED STATES Dollar	USD	1.2141	1.1328	-6.70%
CHINA Yuan renminbi	CNY	7.5358	7.0842	-5.99%
JAPAN Yen	JPY	145.23	135.36	-6.80%
UNITED KINGDOM Sterling	GBP	0.7789	0.7344	-5.71%
TURKEY New Lira	TRY	2.8320	2.8082	-0.84%

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 model for the management of market risks pertaining to the trading portfolio").

The simulated scenarios on exchange rates are:
- +1% of all the exchange rates against EUR
- -1% of all the exchange rates against EUR
- +1% of all the volatility surface areas of all the exchange rates

The effect on the net interest and other banking income and the result for the year has been estimated considering only the positions classified in the accounts as HFT, which offload the Market Value changes directly to the income statement. The effect on the shareholders' equity is by contrast estimated with reference to the positions classified in the accounts as AFS and to the related Fair Value Hedges (FVH). 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 Shareholders' Equity	Total Effect
Forex	+1% exchange rates against EUR	(0.29)	0.07	(0.22)
Forex	-1% exchange rates against EUR	0.39	(0.07)	0.32
Forex	+1 Forex volatility	0.00	0.00	0.00

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

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

Underlying assets / Type of derivatives	*31/12/2014*		*31/12/2013*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**133,649,691**	**509,208**	**169,962,266**	**103,860,540**
a) options	29,658,080		59,861,036	26,935,082
b) swaps	103,700,057		110,101,230	76,022,525
c) forwards	291,554			
d) futures		509,208		902,933
e) others				
2. Equity securities and stock indexes	**13,596,871**	**6,944,879**	**12,376,016**	**8,735,455**
a) options	13,151,667	5,172,659	11,621,317	6,708,083
b) swaps	445,204		754,699	
c) forwards				
d) futures		1,772,220		2,027,372
e) others				
3. Currency and gold	**5,128,759**		**4,431,247**	**11,752**
a) options	1,577,486		2,188,163	
b) swaps	1,730,358		1,213,543	
c) forwards	1,820,915		1,029,541	
d) futures				11,752
e) others				
4. Goods	**505,136**	**381,846**	**240,343**	**329,528**
5. Other underlying				
Total	**152,880,457**	**7,835,933**	**187,009,872**	**112,937,275**
Average values	**208,659,041**	**2,311,768**	**192,327,587**	**129,673,446**

Note:
for the sake of complete disclosure, complex contracts such as collar, strangle, straddle, etc. are represented breaking the instruments down into the elementary options.

A.2 Banking book: period-end and average notional values

A.2.1 Hedging

Underlying assets / Type of derivatives	*31/12/2014*		*31/12/2013*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**37,500**		**37,500**	
a) options				
b) swaps	37,500		37,500	
c) forwards				
d) futures				
e) others				
2. Equity securities and stock indexes				
a) options				
b) swaps				
c) forwards				
d) futures				
e) others				
3. Currency and gold				
a) options				
b) swaps				
c) forwards				
d) futures				
e) others				
4. Goods				
5. Other underlying				
Total	**37,500**		**37,500**	
Average values	**37,500**		**37,500**	

A.2.2 Other derivatives

There were no outstanding agreements as of 31 December 2014 and 31 December 2013.

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

Underlying assets / Type of derivatives	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Supervisory trading book	**6,903,689**	**281,562**	**7,614,884**	**679,838**
a) options	868,175	279,980	1,276,531	233,045
b) interest rate swaps	5,842,647		6,218,572	446,230
c) cross currency swaps	74,602		34,104	
d) equity swaps	15,484		24,133	
e) forwards	70,747		11,088	
f) futures		1,582		563
g) others	32,034		50,456	
2. Banking book - hedging				
a) options				
b) interest rate swaps				
c) cross currency swaps				
d) equity swaps				
e) forwards				
f) futures				
g) others				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) others				
Total	**6,903,689**	**281,562**	**7,614,884**	**679,838**

Note:
for the sake of complete disclosure, 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	*31/12/2014*		*31/12/2013*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading book	**5,233,809**	**149,317**	**5,829,517**	**639,328**
a) options	1,106,245	147,932	1,613,644	181,796
b) interest rate swaps	3,962,601		4,101,890	457,363
c) cross currency swaps	62,172		43,854	
d) equity swaps	14,087		10,266	
e) forwards	62,138		7,601	
f) futures		1,385		169
g) others	26,566		52,262	
2. Banking book - hedging	**804**		**1,369**	
a) options				
b) interest rate swaps	804		1,369	
c) cross currency swaps				
d) equity swaps				
e) forwards				
f) futures				
g) others				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) others				
Total	**5,234,613**	**149,317**	**5,830,886**	**639,328**

Note:
for the sake of complete disclosure, 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 - agreements not included in offset agreements

Agreements not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others operators*
1. Debt securities and interest rates							
- notional value			2,178,212	249,255		2,357,400	98,680
- positive fair value			26,610	6,421		156,853	73
- negative fair value				639		10,641	295
- future exposure			17,940	509		14,446	4
2. Equities and stock indexes							
- notional value	49		29,506	21,488			
- positive fair value	36		33,235	21,934			
- negative fair value							
- future exposure	5		2,126	1,503			
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - supervisory trading book: notional values, positive and negative gross fair values by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others operators*
1. Debt securities and interest rates							
- notional value			78,525,706	47,538,296	2,702,142		
- positive fair value			3,617,107	2,054,525	207,251		
- negative fair value			3,291,900	893,944	44,301		
2. Equities and stock indexes							
- notional value			7,402,506	4,659,425	1,483,897		
- positive fair value			487,490	113,874	1,892		
- negative fair value			264,301	315,314	250,924		
3. Currency and gold							
- notional value			4,517,379	611,381			
- positive fair value			122,508	21,846			
- negative fair value			125,285	9,661			
4. Other values							
- notional value			381,209	123,926			
- positive fair value			28,705	3,329			
- negative fair value			17,013	9,592			

A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - agreements not included in offset agreements

A number of agreements not included in offset agreements were present as of 31 December 2013.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others operators*
1. Debt securities and interest rates							
- notional value			37,500				
- positive fair value							
- negative fair value			804				
2. Equities and stock indexes							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other values							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A. Supervisory trading book	**24,805,468**	**74,382,318**	**53,692,672**	**152,880,458**
A.1 Financial derivatives on debt securities and interest rates	18,972,866	66,265,440	48,411,385	**133,649,691**
A.2 Financial derivatives on equity securities and stock indexes	2,801,659	6,349,930	4,445,283	**13,596,872**
A.3 Financial derivatives on exchange rates and gold	2,600,546	1,692,209	836,004	**5,128,759**
A.4 Financial derivatives on other values	430,397	74,739		**505,136**
B. Banking book	**37,500**	**0**		**37,500**
B.1 Financial derivatives on debt securities and interest rates	37,500			**37,500**
B.2 Financial derivatives on equity securities and stock indexes				
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other values				
Total 31 December 2014	**24,842,968**	**74,382,318**	**53,692,672**	**152,917,958**
Total 31 December 2013	**41,599,651**	**86,694,666**	**58,753,055**	**187,047,372**

In this table, the residual life is determined referring to the contractual maturity of the derivatives, except for the interest rate swaps (IRS) with variable notional capital in relation to which the residual life has been calculated with reference to each of the individual IRS into which they can be split.

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

The Bank, like the MPS Group, is not currently provided with EPE models, either for internal management purposes or for signalling purposes.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: period-end and average notional values

Transaction categories	Supervisory trading book		Banking book	
	on one party	on several parties (basket)	on one party	on several parties (basket)
1. Protection purchases				
a) credit default products	*8,317,951*	*4,535,845*		
b) credit spread products				
c) total rate of return swap				
d) other				
Total 31 December 2014	**8,317,951**	**4,535,845**		
Average values 31/12/2014	**10,317,568**	**7,873,465**		
Total 31 December 2013	**12,133,057**	**9,621,900**		
2. Protection sale				
a) credit default products	*8,865,681*	*4,607,931*		
b) credit spread products				
c) total rate of return swap	*114,385*			
d) other				
Total 31 December 2014	**8,980,066**	**4,607,931**		
Average values 31/12/2014	**10,530,550**	**7,921,739**		
Total 31 December 2013	**12,777,473**	**9,724,054**		

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

Portfolio / Type of derivative	*31/12/2014*	*31/12/2013*
A. Supervisory trading book	**525,590**	**1,233,078**
a) credit default products	*406,715*	*1,053,463*
b) credit spread products		
c) total rate of return swap	*118,875*	*179,615*
d) other		
B. Banking book		
a) credit default products		
b) credit spread products		
c) total rate of return swap		
d) other		
Total	**525,590**	**1,233,078**

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

Portfolio / Type of derivative	*31/12/2014*	*31/12/2013*
A. Supervisory trading book	**487,410**	**1,260,146**
a) credit default products	*487,410*	*1,260,146*
b) credit spread products		
c) total rate of return swap		
d) other		
B. Banking book		
a) credit default products		
b) credit spread products		
c) total rate of return swap		
d) other		
Total	**487,410**	**1,260,146**

B.4 OTC credit derivatives: (positive and negative) fair values by counterparty - agreements not included in offset agreements

All OTC derivative contracts are included in offset agreements.

B.5 OTC credit derivatives: (positive and negative) fair values by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others operators*
1. Protection purchase							
- notional value			7,216,993	4,686,916	949,886		
- positive fair value			7,460	233,726	58,306		
- negative fair value			88,074	26,494			
- future exposure							
2. Protection sale							
- notional value			7,115,129	5,017,988	1,454,879		
- positive fair value			82,965	143,132			
- negative fair value			11,467	283,101	78,274		
- future exposure							
Banking book							
1. Protection purchase							
- notional value							
- positive fair value							
- negative fair value							
2. Protection sale							
- notional value							
- positive fair value							
- negative fair value							

B.6 Residual life of credit derivative: notional values

Underlying elements / Residual life	*Uo tp 1 year*	*Between 1 and 5 years*	*Over 5 years*	*Total*
A. Supervisory trading book	**9,012,900**	**11,053,666**	**6,375,226**	**26,441,792**
A.1 Credit derivatives with				
“qualified reference obligation”	7,359,248	8,834,247	6,318,426	22,511,921
A.2 Credit derivatives with				
“unqualified reference obligation”	1,653,652	2,219,419	56,800	3,929,871
B. Banking book				
B.1 Credit derivatives with				
“qualified reference obligation”				
B.2 Credit derivatives with				
“unqualified reference obligation”				
Total 31 December 2014	**9,012,900**	**11,053,666**	**6,375,226**	**26,441,792**
Total 31 December 2013	**8,517,344**	**28,453,950**	**7,285,191**	**44,256,485**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

B.7 Credit derivatives: counterparty risk/financial risk - Internal models

The Bank, like the MPS Group, is not currently provided with EPE models, either for internal management purposes or for signalling purposes.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparties

	Governments and Central Banks	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others operators*
1. Bilateral agreements							
financial derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
2. Bilateral agreements							
credit derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3. "Cross product" agreements							
- positive fair value			846,780	1,032,415			
- negative fair value			298,584	892	106,051		
- future exposure			1,106,721	873,914	98,252		
- net counterparty risk			1,318,607	833,997	98,252		

The item "net counterparty risk" indicates the algebraic balance between the positive fair value increased by the future exposure and the current value of the collateral received.

SECTION 3 - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. Generals aspects, management procedures and gauging methods for liquidity risk

Within the sphere of the periodic review of the models and processes, the Montepaschi Group has carried out the review of the approach for identification, measurement and management of the Liquidity Risk (Group Liquidity Risk Framework).

Group Liquidity Risk Framework

The **Group Liquidity Risk Framework** is understood to be the series of instruments, methods, organisational and governance set-ups which ensures both compliance with the Italian and international regulations and a suitable governance of the liquidity risk over the short-term and the medium/long-term, under normal business and turbulence conditions.

The management of the Group's **Operational Liquidity** has the aim of ensuring the Group's ability to deal with the cash payment commitments over the short-term. An essential condition for the normal operating continuity of the banking activities is the maintenance of a sustainable imbalance between incoming and outgoing flows of liquidity over the short-term. The reference metric in this sphere is the difference between the cumulative net flow of cash and the Counterbalancing Capacity, or the liquidity reserve which makes it possible to deal with short-term stress conditions.

The management of the Group's **structural liquidity** aims to ensure the financial balance of the structure by maturities over a time period of more than one year, both at Group and individual company level. The maintenance of a suitable dynamic ratio between medium/long-term assets and liabilities has the aim of avoiding pressure on short-term sources of funding, both current and forecast. The reference metrics, to which the mitigation system is applied by means of specific internal operating limits established by the Board of Directors, are gap ratios which measure both the ratio between the total loans and funding with a maturity beyond 1 year and beyond 5 years and the ratio between commercial loans and funding irrespective of the maturities.

The liquidity position is monitored both under normal business conditions and with regard to **Stress Scenarios.** The exercises have the twofold objective of promptly highlighting the main vulnerabilities of the Bank to liquidity risk and of permitting a prudent calculation of the supervisory levels in terms of Counterbalancing Capacity (liquidity buffer).

The **Contingency Funding Plan**, whose drafting is seen to by the Finance, Cash and Capital Management Unit, is the document which describes the array of instruments, policies and processes to be activated in the event of stress or liquidity crisis.

System of limits

Within the sphere of the budget process, and in particular in the Risk Appetite, the Liquidity Risk Framework envisages the identification of the liquidity risk tolerance thresholds, understood to be the maximum exposure to risk deemed sustainable in a context of normal business and integrated by stress situations. The short-term and medium/long-term limits for the liquidity risk stem from the definition of these risk propensity thresholds.

The system of short-term limits is divided into three different levels which make it possible to promptly indicate the vicinity to the operating limit, or the maximum propensity to liquidity risk defined in the annual Risk Tolerance process.

For the prompt identification of the occurrence of vulnerability in the position of the Bank, the Group has prepared a set of **Early Warnings**, categorising them as generic and specific depending on whether the aim of the individual indicators is that of detecting possible problematic issues which concern the entire reference context or the Group situation. The activation of one or more Early Warning signs represents a first alert level and contributes to the overall evaluation of the short-term liquidity position of the Group.

QUANTITATIVE INFORMATION

The quantitative information relating to the liquidity risk is illustrated below, grouped by exposures in €, US$, GBP, Yen and other currencies.

1.1.A Breakdown by contractual residual maturity of financial assets and liabilities - EURO

Items / Maturities	*On demand*	*By over 1 day to 7 days*	*By over 7 days to 15 days*	*By over 15 days to 1 month*	*By over 1 month to 3 months*	*By over 3 months to 6 months*	*By over 6 months up to 1 year*	*By over 1 year to 5 years*	*Over 5 years*	*Unspeci-fied duration*
Cash assets	**9,717,543**	**1,536,141**	**3,303,846**	**1,515,739**	**615,805**	**537,487**	**1,971,702**	**6,370,669**	**8,951,184**	**27,602**
A.1 Government securities		51	10,400	22,500	86,474	25,619	991,184	1,380,494	2,178,939	
A.2 Other debt securities	54	29,508	4,482	82,568	95,833	101,670	193,638	1,140,417	1,025,149	24,479
A.3 Units in collective										
investment undertakings	3,202									
A.4 Loans	9,714,287	1,506,582	3,288,964	1,410,671	433,498	410,198	786,880	3,849,758	5,747,096	3,123
- banks	*8,933,287*	*317,125*	*2,396,149*	*24,296*	*127,922*	*2,250*	*24,400*	*766,374*	*1,790*	*3,123*
- customers	*781,000*	*1,189,457*	*892,815*	*1,386,375*	*305,576*	*407,948*	*762,480*	*3,083,384*	*5,745,306*	
Cash liabilities	**1,324,540**	**4,565,631**	**7,470,798**	**2,560,874**	**1,115,612**	**665,592**	**5,144,279**	**5,772,261**	**4,356,730**	
B.1 Current accounts										
and deposits	317,265	350,000		1,750,000	260,000	650,000	5,067,688	5,744,860	3,829,753	
- banks	*314,095*	*350,000*		*1,750,000*	*260,000*	*650,000*	*5,067,688*	*5,744,860*	*3,829,753*	
- customers	*3,170*									
B.2 Debt securities				3,878	7,113	10,000	10,991		450,000	
B.3 Other liabilities	1,007,275	4,215,631	7,470,798	806,996	848,499	5,592	65,600	27,401	76,977	
Off-balance sheet transactions										
C.1 Financial derivatives										
with exchange of capital										
- long positions		1,364,725	224,567	178,676	2,107,782	1,207,489	1,115,609	1,791,442	954,694	172,510
- short positions		2,056,096	364,431	109,370	844,451	590,126	844,073	2,151,134	2,005,325	164,625
C.2 Credit derivatives										
with exchange of capital										
- long positions		243,093			1,318,700	3,538,874	2,877,930	13,105,359	7,928,092	
- short positions		486,186			1,509,250	3,549,074	2,850,030	12,725,138	7,986,011	
C.3 Financial derivatives										
without exchange of capital										
- long positions	5,787,692					818				
- short positions	3,944,402						1,621			
C.4 Credit derivatives										
without exchange of capital										
- long positions	118,875									
- short positions										
C.5 Deposits and loans										
to be received										
- long positions			200,000							
- short positions			200,000							
C.6 Irrevocable commitments										
to grant finance										
- long positions	18,516	750,107	1,004,365			5,543	11,466	197,265	250,805	204,657
- short positions	2,238,025			41						204,657
C.7 Financial guarantees given	9,319							374	104,554	
C.8 Financial guarantees received										

1.1.B Breakdown by contractual residual maturity of financial assets and liabilities - US dollars

Items / Maturities	*On demand*	*By over 1 day to 7 days*	*By over 7 days to 15 days*	*By over 15 days to 1 month*	*By over 1 month to 3 months*	*By over 3 months to 6 months*	*By over 6 months up to 1 year*	*By over 1 year to 5 years*	*Over 5 years*	*Unspeci-fied duration*
Cash assets	**93,719**	**150**	**1,381**	**579**	**4,971**	**9,259**	**18,020**	**203,907**	**136,387**	**4,127**
A.1 Government securities				19	2	11	22	16	499	
A.2 Other debt securities		4		10	333	44	1,859	14,780	23,530	4,127
A.3 Units in collective										
investment undertakings	1,274									
A.4 Loans	92,445	146	1,381	550	4,636	9,204	16,139	189,111	112,358	
- banks	*63,587*			*53*	*1,857*		*1,973*			
- customers	*28,858*	*146*	*1,381*	*497*	*2,779*	*9,204*	*14,166*	*189,111*	*112,358*	
Cash liabilities	**21,673**	**4,648**	**25,531**	**27,521**	**158,613**	**185,907**	**39**	**4,095**		
B.1 Current accounts and deposits	149	2,082	25,517	27,521	158,599	185,905				
- banks	*149*	*2,082*	*25,517*	*27,521*	*158,599*	*185,905*				
- customers										
B.2 Debt securities										
B.3 Other liabilities	21,524	2,566	14		14	2	39	4,095		
Off-balance sheet transactions										
C.1 Financial derivatives										
with exchange of capital										
- long positions		22,059	399,014	101,100	540,382	364,328	270,193	186,326	4,254	29,569
- short positions		253,132	114,955	166,914	759,718	249,672	160,255	31,271	32,623	29,734
C.2 Credit derivatives										
with exchange of capital										
- long positions					932,986	2,221,718	2,386,862	3,614,381	1,394,370	
- short positions					1,258,986	2,129,718	2,387,062	3,651,455	1,389,170	
C.3 Financial derivatives										
without exchange of capital										
- long positions	320,401									
- short positions	231,895									
C.4 Credit derivatives without										
exchange of capital										
- 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										4,077
- short positions										4,077
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.C Breakdown by contractual residual maturity of financial assets and liabilities - GBP

Items / Maturities	*On demand*	*By over 1 day to 7 days*	*By over 7 days to 15 days*	*By over 15 days to 1 month*	*By over 1 month to 3 months*	*By over 3 months to 6 months*	*By over 6 months up to 1 year*	*By over 1 year to 5 years*	*Over 5 years*	*Unspeci-fied duration*
Cash assets	**1,572**		**19,949**		**1**	**8**	**29**	**1,870**	**208**	**1,200**
A.1 Government securities					1		29	3	35	
A.2 Other debt securities						8		1,867	173	1,200
A.3 Units in collective										
investment undertakings										
A.4 Loans	1,572		19,949							
- banks	*455*		*19,949*							
- customers	*1,117*									
Cash liabilities	**30,155**									
B.1 Current accounts										
and deposits	30,155									
- banks	*30,155*									
- customers										
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives										
with exchange of capital										
- long positions		30	195	962	22,710	3,864	90,474	5,775		
- short positions		11	57,774			61,456	3,124	7,018		
C.2 Credit derivatives										
with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives										
without exchange of capital										
- long positions	1,010									
- short positions	568									
C.4 Credit derivatives										
without exchange of capital										
- 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										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.D Breakdown by contractual residual maturity of financial assets and liabilities - YEN

Items / Maturities	*On demand*	*By over 1 day to 7 days*	*By over 7 days to 15 days*	*By over 15 days to 1 month*	*By over 1 month to 3 months*	*By over 3 months to 6 months*	*By over 6 months up to 1 year*	*By over 1 year to 5 years*	*Over 5 years*	*Unspecified duration*
Cash assets	**6,374**									
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in collective										
investment undertakings										
A.4 Loans	6,374									
- banks	*2,335*									
- customers	*4,039*									
Cash liabilities	**235**									
B.1 Current accounts										
and deposits										
- banks										
- customers										
B.2 Debt securities										
B.3 Other liabilities	235									
Off-balance sheet transactions										
C.1 Financial derivatives										
with exchange of capital										
- long positions				167	22,843	557	65,956	115,837		
- short positions			144	754	12,619	2,038	46,840	80,606		
C.2 Credit derivatives										
with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives										
without exchange of capital										
- long positions	20,004									
- short positions	23,149									
C.4 Credit derivatives										
without exchange of capital										
- 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										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.E Breakdown by contractual residual maturity of financial assets and liabilities - OTHER CURRENCIES

Items / Maturities	*On demand*	*By over 1 day to 7 days*	*By over 7 days to 15 days*	*By over 15 days to 1 month*	*By over 1 month to 3 months*	*By over 3 months to 6 months*	*By over 6 months up to 1 year*	*By over 1 year to 5 years*	*Over 5 years*	*Unspeci-fied duration*
Cash assets	**47,297**	**14**		**20**		**106**	**662**	**6,150**	**1,157**	
A.1 Government securities								2		
A.2 Other debt securities				20		51	10	311		
A.3 Units in collective investment undertakings										
A.4 Loans	47,297	14				55	652	5,837	1,157	
- banks	*41,662*									
- customers	*5,635*	*14*				*55*	*652*	*5,837*	*1,157*	
Cash liabilities	**16,784**	**14**		**8,976**	**3**	**2,031**	**2**			
B.1 Current accounts and deposits	11,928	14		8,968		2,014				
- banks	*11,928*	*14*		*8,968*		*2,014*				
- customers										
B.2 Debt securities										
B.3 Other liabilities	4,856			8	3	17	2			
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		6,922	4,937	51,113	134,046	17,156	226,826	246,551	6,744	
- short positions		6,877	4,943	18,823	262,304	6,110	132,818	241,477	6,744	
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	27,026									
- short positions	34,779									
C.4 Credit derivatives without exchange of capital										
- 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										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.2 Self-securitisation transactions

The self-securitisation transaction (as per Italian Law No. 130/99) on part of the portfolio of performing loans granted to businesses by the Bank entitled SIENA SME 11-1, created in 2011, was closed in advance in November 2014.

2. Information on the committed assets recorded in the financial statements

Technical forms	*Committed*		*Uncommitted*			
	Carrying Amount	*Fair value*	*Carrying Amount*	*Fair value*	*Total 31/12/2014*	*Total 31/12/2013*
1. Cash and cash equivalents		**X**		**X**		
2. Debt securities	5,723,858	5,723,858	2,164,746	2,164,746	**7,888,604**	**8,212,819**
3. Equities	45,307	45,307	32,597	32,597	**77,904**	**123,953**
4. Loans	5,317,021	**X**	21,930,856	**X**	**27,247,877**	**25,154,892**
5. Other financial assets		**X**	7,175,685	**X**	**7,175,685**	**8,965,395**
6. Non-financial assets		**X**	540,437	**X**	**540,437**	**234,525**
Total 31 Dec. 2014	**11,086,186**	**5,769,165**	**31,844,321**	**2,197,343**	**42,930,507**	**X**
Total 31 Dec. 2013	**8,734,663**	**6,126,746**	**33,956,921**	**2,210,026**	**X**	**42,691,584**

3. Information on the Bank's committed assets not recorded in the financial statements

Technical forms	*Committed*	*Uncommitted*	*Total 31/12/2014*	*Total 31/12/2013*
1. Financial assets				
- securities	11,503,395	133,915	**11,637,310**	**13,772,900**
- other				
2. Non-financial assets				
Total 31 Dec. 2014	**11,503,395**	**133,915**	**11,637,310**	**X**
Total 31 Dec. 2013	**12,871,111**	**901,789**	**X**	**13,772,900**

SECTION 4 - OPERATING RISKS

QUALITATIVE INFORMATION

A. General aspects, management procedures and gauging methods for operational risks

General aspects and Framework Structure

By means of administrative measures dated 12 June 2008, the Montepaschi Group was authorized by the Bank of Italy to use internal models for determining the capital requirement to cover credit and operational risks.

The adoption of the advanced model (AMA) obliges the banks to:

- endow themselves with an internal organization which defines the roles of the bodies and the corporate departments involved in the operating risks management process;
- endow themselves with a control department for the gathering and storage of data, the calculation of the requirement, the assessment of the risk profile and the reporting;
- check on the quality of the management system and the adequacy of the legislative prescriptions an on-going basis;
- delegate the internal auditing body to make periodic checks on the Operating Risks management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For such purposes, the Montepaschi Group has endowed itself with an integrated system for the management of the operating risk, an internal framework built on a governance model which sees all the companies belonging to the scope of application of the AMA model involved. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business unit.

The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardized manner (information or data), both qualitative and quantitative (mixed LDA -Scenario Model).

The quantitative component, Loss Distribution Approach (LDA) in type, is based on the gathering, analysis and statistical modelling of the historic figures on internal and external loss (provided by the DIPO consortium - Italian Database of Operating Losses).

The qualitative component 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 roundtables with the central divisions of the priority and technical-economic feasibility of the mitigation measures.

This is followed by the monitoring of the implementation of the planned measures and compliance with targets and deadlines.

The Framework identifies the operating risk control function in the Operational Risk Management (ORM) Division (within the Parent Company's Risk Management office).

The Parent Company's 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, as for the other companies in the scope, the internal loss data and it identifies the risks to be assessed in qualitative analyses.

The perimeter of the advanced approach (AMA) includes all the main domestic banking and financial components, while for the remaining components and for the foreign companies the basic methods are by contrast adopted. As of 31 December 2014, the coverage of the internal model, in terms of net interest and other banking income , was higher at 95%.

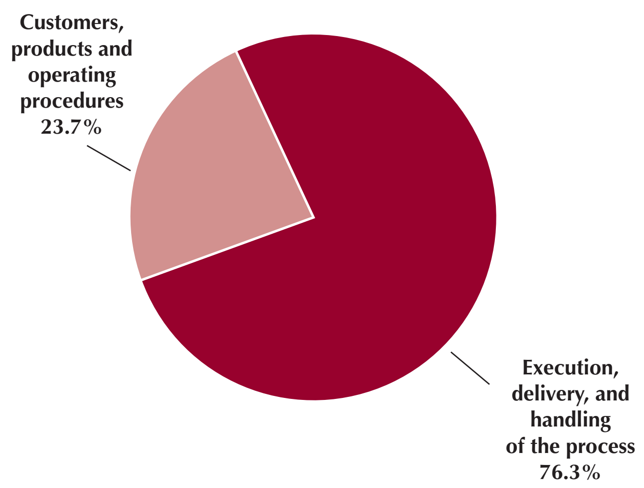
The ORM has also set up a reporting system that provides timely information about operational risks to Top Management,

which translates the strategic principles of the management system into specific management policies. Reports are regularly submitted to the Risks Committee and the Senior 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 Company's operational risk.

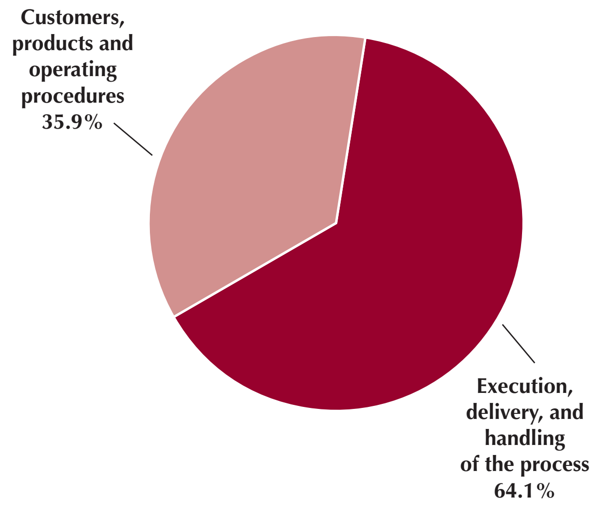
QUANTITATIVE INFORMATION

The percentage-based distribution of the number of events and the operating losses reported in 2014 follows, divided up into the various risk classes mainly linked to the business of the Company, which materialise in the offer of solutions to a wide range of financial and lending problems (medium and long term credit and specialist products, corporate finance activities, capital market and structured finance products):
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;
Execution, delivery and handling of the process: Losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

% DISTRIBUTION OF NUMBER OF EVENTS
MPS CAPITAL SERVICES - 31 December 2014



% DISTRIBUTION OF LOSSES
MPS CAPITAL SERVICES - 31 December 2014



The types of events with an impact on the income statement are attributable to the shortfalls in the finalisation of the transactions or in the handling of the processes ("Execution, delivery and handling of the process" class: 64.1% of the total) and to violation of the professional obligations vis-à-vis the customers ("Customers, products and operating procedures" class: 35.9%).

Part F
Information on Equity

SECTION 1 - THE BANK'S CAPITAL

A. QUALITATIVE INFORMATION

As from 1 January 2014, the prudent supervisory instructions applicable to banks and banking groups have been operative, aimed at adapting Italian legislation to the innovations which have taken place in the international regulatory framework with particular regard to the new legislative and institutional set-up of the European Union's banking supervision.
The new legislative set-up (so-called "Basel3") is functional for the purpose of strengthening the ability of banks to absorb shocks deriving from financial and economic tensions, irrespective of their origin, improving the management of the risk and the governance, enhancing the transparency and disclosure of the banks, having taken into account the lessons of the financial crisis. The reforms of two in type: micro-prudential, or rather concerning the regulation at individual bank level; macro-prudential, in other words regarding the risks at system level, amplified by the interconnection between the institutions.
The approach based on the three Pillars underlying the previous legislative system has been maintained, known as "Basel 2", which has been added to and enhanced with measures which increase the quantity and quality of the capital endowment of the intermediaries, introduce anti-cyclical supervisory instruments, rules on the handling of liquidity risk and on the containment of the financial leverage.
In detail, the **First Pillar** has been enhanced by means of a more harmonised definition of the capital and higher capital requirements. In the presence of generally more strict capital requirements to reflect the potential riskiness of these activities more accurately (for example: securitisations and trading book), with regard to own resources a definition of capital which is higher in quality is added focused on the common equity (primary quality capital), which is joined by capital reserves which cover the function of conservation of the primary capital, the anti-cyclical reserve function and in conclusion the function of covering the additional losses for the institutions of systemic importance. These reserves will be envisaged at the discretion of the Supervisory Authorities, net of the reserve for the conservation of the capital which will always have to be present and equal to 0.625 until 2016, rising to 1.25% in 2017, 1.875% in 2018 and 2.5% in 2019).
In additional to the system of capital requirements aimed at dealing with the credit, counterparty, market and operational risks, the introduction of a limit to the financial leverage (including the off-balance sheet exposures) is now envisaged, acting as a backstop of the equity requirement based on the risk and in order to contain the growth of the leverage at system level.
"Basel 3" also introduces new requirements and systems for supervision of the liquidity risk, based on a short-term liquidity requirement (Liquidity Coverage Ratio - LCR) and on a more long-term structural balance rule (Net Stable Funding Ratio - NSFR), as well as on the principles for the management and supervision of the liquidity risk at individual institution and system level.
The **Second Pillar** requires the banks to equip themselves with a strategy and a control process on the capital adequacy, current and forecast, leaving the task of checking the reliability and coherence of the related results to the supervisory authority and to adopt, if the situation should require, the appropriate corrective measures. Growing importance is assigned to the corporate governance set-ups and the internal audit system of the intermediaries as a decisive factor for the stability of the individual institutions and the financial system in its entirety. In this area, regulatory requirements have been enhanced concerning the role, the qualification and the composition of the senior bodies; the awareness by these bodies and top management with regard to the organisational set-up and the risks of the Parent Company and the banking group; the company control units, with particular reference to the independence of those heading up the units, to the detection of risks of the off-balance sheet assets and the securitisations, to the assessment of the assets and to the stress tests; the remuneration and incentive systems.
The **Third Pillar** - regarding the public disclosure obligations on capital adequacy, exposure to risks and the general

characteristics of the related management and control system, for the purpose of encouraging the market discipline - has been extended with the introduction, amongst other aspects, of transparency requirements concerning the exposures to securitisations, additional information on the composition of the regulatory capital and on the methods by means of which the Parent Company calculates the capital ratios.
The introduction of the Basel 3 rules is subject to a transitory regime which will project the adoption of the full application rules to 2019 (2022 for the phase-out of certain equities) and during which the new rules will be applied in rising proportion.
The supervisory capital, a Pillar 1 element, is therefore calculated according to the Basel 3 rules acknowledged in Europe by means of 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 and by the Supervisory instructions issued by the Bank of Italy (in particular Circulars 285 and 286).
With reference to the definition of the regulatory requirements, the Group was authorised in June 2008 to use the advanced internal rating systems (AIRB - Advanced Internal Rating Based) to establish the capital requirements for the credit risk, relating to the retail and corporate portfolios and AMA (Advanced Measurement Approach) for the operating risks.

The Montepaschi Group pursues strategic objectives focused on the quantitative and qualitative enhancement of the capital, on the structural re-balance of the liquidity and on the achievement of sustainable profitability levels.
With a view to this, the capital management, capital planning and capital allocation activities are of fundamental importance for ensuring the observance of the timescale of both the minimum capitalisation requirements established by prudent legislation and the degree of propensity to risk (Risk Appetite) approved by the Parent Company's strategic supervisory body.
These activities are carried out within the sphere of the Risk Appetite Framework (RAF), by means of which the target capitalisation levels and the permitted tolerance levels are annually estimated and furthermore forecast assessments are made of the capital adequacy over a long-term scale, aimed at checking that the capital endowment is sufficient for ensuring the observance of the minimum requirements both under normal and stress conditions considering both the Pillar I and Pillar II risks.
The analyses of the RAF are carried out under the supervision of the competent Parent Company units. The RAF also envisage the allocation of the capital to the business units in relation to the expected development of said business and the corresponding estimated levels of risk.
The monitoring on the achievement of the objectives and on the observance of the minimum regulatory requirements takes place on an on-going basis during the year.
The company processes where the RAF is applied are the Budget and the Risk Appetite.
The Montepaschi Group defines the Budget objectives on the basis of a method for measuring the correct company performances for the risk, Risk Adjusted Performance Measurements (RAPM), via which the income results are determined net of the cost of the capital to be held for regulatory purposes for the level of risk undertaken.
The concepts of available capital resources used within the sphere of the RAF are attributable to the supervisory capital aggregates: Common Equity Tier 1, Tier 1 and Own Funds (Total Supervisory Capital). Within the sphere of the RAPM metrics, the concept of Invested Capital is also used, which involves the amount of own capital pertaining to the shareholders (Equity) which is necessary to achieve the Common Equity Tier 1 values.
The concepts of capital at risk used are provided by the regulatory requirements and the corresponding Risk Weighted Assets (RWA), determined on the basis of the rules envisaged by supervisory legislation, and by the economic capital, which corresponds to the maximum estimated losses on the measurable risks at a pre-established confidence interval and on the basis of internal models and internal regulations within the Group. Within the sphere of the RAPM metrics, both the measures are used.

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2014*	*31/12/2013*
1. Share capital	276,435	276,435
2. Share premium reserve	228,089	228,089
3. Reserves	689,068	640,420
- profit	443,125	394,090
a) legal	*41,019*	*38,586*
b) statutory	*34,338*	*31,906*
c) treasury shares (of the Parent Company)		
d) other	*367,768*	*323,598*
- other	245,943	246,330
4. Equities		
5. (Treasury shares)		
6. Valuation reserves	(2,764)	(25,442)
- financial assets available for sale	*(295)*	*(23,753)*
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- cash flow hedging		
- exchange differences		
- non-current assets held for sale		
- actuarial income (losses) on definite benefit plans	*(2,469)*	*(1,689)*
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (loss) for the period	(587,503)	48,648
Total	**603,325**	**1,168,150**

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

Assets / Balances	*31/12/2014*		*31/12/2013*	
	Positive Reserve	*Negative Reserve*	*Positive Reserve*	*Negative Reserve*
1. Debt securities	693	2,087	255	36,782
2. Equities	647		717	
3. Units in collective investment undertakings	53		41	
4. Loans				
Total	**1,393**	**2,087**	**1,013**	**36,782**

Note:
the values indicated are gross of the tax effect

B.3 Valuation reserves relating to financial assets available for sale: changes in the year

	Debt securities	*Equities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(36,527)**	**717**	**41**	
2. **Positive changes**	**35,133**	**17,949**	**12**	
2.1 Fair value increases	5,294	614	12	
2.2 Transfer to income statement of negative reserves	29,839	17,335		
- due to impairment		*17,335*		
- due to conversion	*29,839*			
2.3 Other changes				
3. **Negative changes**		**18,019**		
3.1 Fair value decreases		18,019		
3.2 Impairment adjustments				
3.3 Transfer to income statement of positive reserves				
positive: due to conversion				
3.4 Other changes				
4. Closing balances	**(1,394)**	**647**	**53**	

B.4 Reserves from valuation relating to defined-benefit plans: annual changes

	Employee severance indemnities	*Defined benefit pension plans*	*Tax effect*	*Total*
Opening balances	**(898)**	**(1,196)**	**405**	**(1,689)**
Revaluation of the net liability/asset for defined benefits:				
Return on plan assets				
net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions		(180)	49	**(131)**
Actuarial gains/losses deriving from changes in financial assumptions	(556)	(340)	247	**(649)**
Changes of the effect of the limitations to the availability of a net asset for defined-benefit plans				
Profits/losses from discharge envisaged in the plan terms				
Closing balances	**(1,454)**	**(1,716)**	**701**	**(2,469)**

SECTION 2 - OWN FUNDS AND SUPERVISORY RATIOS

2.1. OWN FUNDS

A. QUALITATIVE INFORMATION

Own funds are made up of the following aggregates:
- Class 1 capital (Tier 1 - T1), made up of:
  - Primary class 1 capital (Common equity Tier 1 - CET 1);
  - Additional class 1 capital (Additional Tier 1-AT1);
- Class 2 capital (Tier 2 - T2).

Own Funds are subject to particular transition rules, as are the other supervisory indicators. Therefore, full application requirements and requirements requested for the transitory regime exist.

Primary class 1 capital (CET 1)

Full application requirements

The primary class 1 capital (Common equity Tier 1) is mainly made up of:
- share capital;
- share premium reserve deriving from the reckoned share capital;
- profit reserves;
- valuation reserves.

The requirements for computability in the CET 1 of the equities are very stringent.
Among these, it is indicated that:
- ✓ they must be classified as equity for accounting purposes;
- ✓ the nominal amount cannot be reduced except in the event of liquidation or discretional repurchases of the issuer subject to specific authorisation of the supervisory authority;
- ✓ they must have a perpetual duration;
- ✓ the issuer is not obliged to make distributions;
- ✓ the issuer can make distributions only using distributable profits;
- ✓ there can be no preferential treatment in the distributions, unless this reflects different voting rights;
- ✓ absence of cap in the distributions;
- ✓ the possibility to cancel the distribution does not lead to restrictions on the issuer;
- ✓ with respect to other equity instruments issued, they by way of priority and to a proportionally greater extent absorb the losses at the time they occur;
- ✓ they represent the most subordinate instruments in the event of bankruptcy or winding up of the Bank.
- ✓ they give the holder the right to the residual assets of the issuer in the event of winding up of the same;
- ✓ they are not subject to guarantees or contractual provisions which increase their seniority.

The valuation reserve generated by the hedges of the cash flows (so-called cash flow hedge) and the capital gains/losses deriving from the changes in own credit worthiness (liability in fair value option and payable derivatives) are excluded from the calculation of the CET 1.

The CET 1 also takes into account the supplementary value adjustments (so-called prudent valuation). These adjustments are made to the exposures represented in the financial statements at fair value and must take into account the uncertainty of the parameters (model risk, closure costs, etc.) and the potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to whether level 1 or level 2 and 3 financial instruments are involved.
Besides these components, which make up the so-called prudent filters, the CET 1 is subject to the following main deductions:

- loss for the period;
- intangible assets, including the implicit goodwill of the equity investments of significant influence and subject to joint control carried at equity;
- tax assets which are based on the future profitability and do not derive from timing differences (tax losses);
- deferred tax assets which depend on the future profitability and derive from timing differences (net of the corresponding deferred tax liabilities); by contrast, deferred tax assets which do not depend on future profitability and are transformable in credits as per Italian Law No. 214/2011 are not deducted; these latter assets are by contrast included in the RWAs and weighted at 100%;
- deferred tax assets associated with multiple releases of the same goodwill for the part which has not yet converted into current taxation;
- The excess of the expected loss on the value adjustments for portfolios validated for the purpose of adoption of the internal ratings - AIRB (so-called expected loss delta);
- the direct, indirect and summary investments in own CET 1 instruments;
- the insignificant direct, indirect and summary investments (<10%) in CET 1 instruments in financial institutions;
- the significant direct, indirect and summary investments (>10%) in CET 1 instruments in financial institutions;
- the deductions possibly exceeding the AT 1 equities;

The deductions relating to participating investments in financial institutions and the deferred tax assets apply only for the portions exceeding specific CET 1 thresholds, known as excesses, according to a particular mechanism which is described below:

- the insignificant investments in CET 1, AT 1 and T2 instruments in financial institutions are deducted for the portion exceeding 10% of the CET 1 which is obtained after the application of the prudent filters and all the deductions other than those relating to the deferred tax assets which depend on the future profitability and derive from timing differences, to the direct, indirect and summary investments in CET 1 instruments in financial institutions, to the deductions possibly exceeding the AT equities and to the deductions of the qualified equity investments in financial institutions;
- the net deferred tax assets which depend on the future profitability and derive from timing differences are deducted for the portion exceeding 10% of the CET 1 which is obtained after the application of the prudent filters and all the deductions other than those relating to the deferred tax assets which depend on the future profitability and derive from timing differences, to the deductions possibly exceeding the AT equities and to the deductions of the qualified equity investments in financial institutions;
- the significant investments in CET 1 instruments in financial institutions are deducted for the portion exceeding 10% of the CET 1 which is obtained after the application of the prudent filters and all the deductions other than those relating to the deferred tax assets which depend on the future profitability and derive from timing differences, to the deductions possibly exceeding the AT 1 equities and to the deductions of the qualified equity investments in financial institutions;
- the amounts not deducted due to the excess of 10% of significant investments in CET 1 in financial institutions and of net deferred tax assets which depend on the future profitability and derive from timing differences, added together, are deducted only for the portion exceeding 17.65% of the CET 1 which is obtained after the application of the

prudent filters and all the deductions, including therein the investments in financial institutions and deferred taxes assets calculated in full without taking into account the afore-mentioned thresholds, with the exception of the deductions possibly exceeding the AT 1 equities.

The amounts not deducted due to the excesses are included in the RWAs and subject to weighting to the extent of 250%.

Transitory regime

The main aspects of the transitory regime are as follows:

- the actuarial gains/losses deriving from the valuation of the liabilities associated with so-called Employee benefits (employee severance indemnity, provisions, defined-benefit pensions, etc.) are recognised, net of the tax effect, in the valuation reserves and are considered in the CET 1 with a progressive introduction of 20% a year (20% in 2014 and 20% and 100% in 2018);
- unrealised gains on financial instruments classified in the AFS portfolio, other than those relating to the exposures to central administrations, are calculated in the CET 1 only as from 2015 for 40% and then with a progressive introduction of 20% a year (40% in 2015 and 100% in 2018); the unrealised losses on financial instruments classified in the AFS portfolio, other than those relating to the exposures to central administrations, are calculated in the CET 1 with a progressive introduction of 20% a year (20% in 2014 and 100% in 2018);
- the faculty of excluding the unrealised profits and losses relating to exposures to central administrations classified in the AFS portfolio from CET 1, until approval of the IFRS by the European Commission which replaces IAS 39, due to the activation of the national discretions envisaged by the CRR within the sphere of the transitory provisions carried out by the Bank of Italy; as envisaged by Circular No. 285 dated 17 December 2013, in January 2014 the MPS Group exercised this faculty;
- the deferred tax assets which depend on the future profitability and do not derive from timing differences are deducted at 20% in 2014 (100% by 2018); these are essentially deferred financial assets linked to tax losses;
- the deferred tax assets which depend on the future profitability and derive from timing differences existing as of 1 January 2014 are deducted from the CET 1 with the progressive introduction of 10% a year as from 2015 (10% 2015 and 100% in 2024);
- the other deferred tax assets which depend on the future profitability and derive from timing differences, generated after 1 January 2014 are deducted from the CET 1 with the progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018);
- the insignificant investments in class 1 primary equities in financial institutions held directly, directly and summarily exceeding the excesses indicated above, are deducted from CET 1 with a progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018); the direct investments in financial institutions not deducted from CET 1 on a transitory basis are 50% deducted from AT 1 and 50% from T2; the indirect and summary investments are subject to capital requirements and included in the RWAs;
- the significant investments in class 1 primary equities in financial institutions held directly, directly and summarily exceeding the excesses indicated above, are deducted from CET 1 with a progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018); the direct investments in financial institutions not deducted from CET 1 on a transitory basis are 50% deducted from AT 1 and 50% from T2; the indirect and summary investments are subject to capital requirements and included in the RWAs;
- the excess of the expected losses on the value adjustments (expected loss delta) are deducted from the CET 1 with a progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018); the portion not deducted from CET 1 on a transitory basis is 50% deducted from AT 1 and 50% from T2.

The supplementary value adjustments to the assets and liabilities valued at fair value are determined in proportion to the amount by means of which these assets and liabilities are reckoned in the CET 1 during the transitory period. For example, since the unrealised gains and losses relating to the exposures to central administrations classified in the AFS category are not at present considered for CET 1 purposes, accordingly supplementary value adjustments are not made.

Additional class 1 capital

Full application requirements

The main requirements so that the instruments can be reckoned in AT1 are:
- the subscription or the purchase must not be financed by the Parent Company or by one of its subsidiaries;
- they are subordinate with respect to the T2 instruments in the event of bankruptcy;
- they are not subject to guarantees which increase the seniority issued by the Parent Company, by its subsidiaries or by other companies which have strict links to the same;
- they are perpetual and do not have features which incentive reimbursement;
- in the presence of call options, they can be exercised with the sole discretion of the issuer and in any event not before 5 years have passed, subject to authorisation of the supervisory authority permitted under specific circumstances;
- the interest is paid on the profits which can be distributed;
- the Parent Company has full discretion with regard to the payments of the interest and may at any time decide not to pay it for an unlimited period; the cancellation works on a non-cumulative basis;
- the cancellation of the interest does not represent a default by the issuer;
- in the event of a trigger event, the nominal value may be reduced permanently or temporarily or the instruments are converted into CET 1 instruments;

The AT1 is subject to the following main deductions:
- the direct, indirect and summary investments in own AT1 instruments;
- the direct, indirect and summary investments in AT1 instruments of businesses in the finance sector;
- the adjustments possibly exceeding T2.

Transitory regime

The main aspects of the transitory regime for 2014 are as follows:
- The insignificant investments in class 1 additional equities in financial institutions held directly, directly and summarily temporarily not deducted from the AT1 due to the transitory regime, are 50% deducted from AT1 and 50% from T2;
- The significant investments in class 1 additional equities in financial institutions held directly, directly and summarily temporarily not deducted from the AT1 due to the transitory regime, are 50% deducted from AT1 and 50% from T2;
- the excess of the expected losses on the value adjustments (expected loss delta) temporarily not deducted from the CET 1 due to the transitory regime, is 50% deducted from AT1.

Class 2 capital

Full application requirements

The main requirements so that the equities can be reckoned in T2 are:
- the subscription or the purchase must not be financed by the Parent Company or by one of its subsidiaries;
- they are not subject to guarantees issued by the Parent Company, by its subsidiaries or by other companies which have strict links to the same, which increase the seniority;
- the original duration is not less than 5 years and no incentives are envisaged for early repayment;
- in the presence of call options, they can be exercised with the sole discretion of the issuer and in any event not before 5 years have passed, subject to authorisation of the supervisory authority permitted under specific circumstances;
- the interest does not change on the basis of the credit standing of the Parent Company;
- the amortisation of these instruments for the purpose of being reckoned in T2 takes place on an accruals basis in the last 5 years;

The T2 is subject to the following main deductions:
- the direct, indirect and summary investments in own T2 instruments;
- the direct, indirect and summary investments in T2 instruments of businesses in the finance sector;

Transitory regime

The main aspects of the transitory regime for 2014 are as follows:
- The insignificant investments in class 2 equities in financial institutions held directly are 100% deducted from T2; the insignificant investments in class 2 equities in financial institutions held indirectly or summarily are deducted with a progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018). The indirect and summary investments not deducted on a transitory basis are subject to capital requirements and included in the RWAs;
- The significant investments in class 2 equities in financial institutions held directly are 100% deducted from T2; the significant investments in class 2 equities in financial institutions held indirectly or summarily are deducted with a progressive introduction of 20% a year as from 2014 (20% 2014 and 100% in 2018). The indirect and summary investments not deducted on a transitory basis are subject to capital requirements and included in the RWAs;
- the excess of the expected losses on the value adjustments (expected loss delta) temporarily not deducted from the CET 1 due to the transitory regime, is 50% deducted from T 2.

Grandfathering

With regard to the equities issued previously and reckoned until 31 December 2013 in the supervisory capital which do not meet the requirements envisaged by the new legislative framework, gradual exclusion from the pertinent level of own funds is envisaged, under certain conditions. In particular, the possibility of being reckoned in the CET 1, AT1 and T2 of the instruments issued or reckoned in the supervisory capital before 31 December 2011 which do not satisfy the new requirements, is permitted to the extent of 80% of the nominal value in circulation for 2014, falling 10% a year until complete exclusion in 2022. The case does not affect the bank.

Minimum requirements of the own funds

The following own fund requirements are envisaged for 2014:
- a class 1 primary capital ratio equal to at least 4.5% of the overall exposure to risk;
- a class 1 capital ratio equal to at least 5.5% of the overall exposure to risk (6% in 2015);
- a total capital ratio equal to at least 8% of the Group's overall exposure to risk.

In addition, the banks are obliged to hold additional class 1 primary capital reserves.

More specifically, the new discipline envisages that the banks must also hold the following reserves:
- the capital conservation buffer; this reserve aims to preserve the minimum regulatory capital level in adverse market moments by means of the provision of high quality capital resources in periods not characterised by market tensions. It is mandatory and is equal to 0.625% of the overall exposure to risk (to then increase gradually, as from 2017 until reaching 2.5% in 2019); this reserve is made up of class 1 primary capital;
- the countercyclical capital buffer; this reserve has the purpose of protecting the banking sector in phases of excessive growth of the credit; its imposition, in fact, makes it possible to accumulate, during periods of overheating of the credit cycle, class 1 primary capital which will then be used to absorb the losses in the descending phases of the cycle. In contrast to the capital conservation buffer, the countercyclical capital buffer is imposed only in periods of growth of credit and is calculated according to specific criteria; at the moment, the Supervisory Authorities have not yet defined the amount of this reserve;
- capital reserves for the bodies of global systemic importance (G-SII buffer) and for the other bodies of systemic importance (O-SII buffer); these reserves aim to set higher capital requirements for those parties which precisely due to their systemic importance, at global or domestic level, pose greater risks for the financial system and a possible crisis for the same could have impact on the taxpayers. The Montepaschi Group falls among the brokers of systemic importance envisaged by the Basel Committee obliged to publish the indicators according to the formalities and timescales indicated, therefore as from 2016 it will be subject to additional requirements for absorption of the loss to the extent which will be established by the Bank of Italy.

Liquidity indicators and Leverage ratios

With reference to the Liquidity Coverage Ratio, as of March 2014 the observation period by the Supervisory Authorities will start, preceding its official introduction as from January 2015. Also with regard to the Net Stable Funding Ratio, 31 March 2014 is the date for the launch of their observation period. The introduction of these two indicators and their associated minimums will take place, subject to the authorisation of the European Council and Parliament, as from 1 January 2018.
The financial leverage indicator, Leverage Ratio, is determined using a denominator not based on the weighting of the assets for their degree of risk. The calculation basis is the simple arithmetic average of the monthly leverage indices for the quarter; the indicator will become binding in 2018, the transitory observation period will last from 2014 until 31 December 2017. At the moment, the minimum thresholds of the Leverage Ratio to be observed have not yet been established by the Supervisory Authorities.

In outline, the Leverage ratio is calculated as follows:

$$\frac{\text{TIER 1}}{\text{(Off-Balance sheet*Credit Convertion Factor+Derivatives+Securities Financing Transaction)+other financial statements assets-Regulatory Adjustments)}}$$

The exposures must be indicated net of the regulatory adjustments envisaged in the determination of the T1 for the purpose of avoiding a double reckoning, in fact the items deducted totally from the capital do not contribute to the financial leverage and are deducted also from the extent of the exposure.

B. QUANTITATIVE INFORMATION

		31/12/2014
A.	**Class 1 primary capital (Common equity Tier 1 - CET 1);**	
	before application of prudential filters	**603,325**
	of which CET 1 instruments subject to transitory provisions	
B.	CET 1 prudential filters (+/-)	(47,687)
C.	**CET 1 gross of elements to be deducted and the effects**	
	of the transitory regime (A +/- B)	**555,638**
D.	**Elements to be deducted from CET 1**	(3,910)
E.	**Transitory regime - Impact on CET1** (+/-)	**1,845**
F.	**Total class 1 primary capital (Common equity Tier 1 - CET 1)** (C - D +/-E)	**553,573**
G.	**Additional class 1 capital (Additional Tier 1 - AT1) gross**	
	of elements to be deducted and the effects of the transitory regime	
	of which AT 1 instruments subject to transitory provisions	
D.	**Elements to be deducted from AT 1**	
I.	**Transitory regime - Impact on AT1** (+/-)	
L.	**Total additional class 1 capital (Additional Tier 1 - AT1)** (G - H +/- I)	**0**
M.	**Class 2 capital (Tier 2 - T2) gross of the elements to be**	
	deducted and the effects of the transitory regime	**472,193**
	of which T 2 instruments subject to transitory provisions	
D.	**Elements to be deducted from T 2**	**(48,813)**
O.	**Transitory regime - Impact on T2** (+/-)	**(1,309)**
P.	**Total class 2 capital** ***(Tier 2 -T2)*** (M - N +/- O)	**422,071**
Q.	**Total own funds** (F + L + P)	**975,644**

The figures referring to 2014, determined according to the Basel 3 legislative system, are not comparable with the figures as of 31 December 2013.
With regard to the prudent filters which have an impact on CET 1 (see point E. Transitory regime - impact on the CET 1 above), in relation to the prudent filter to gradually recognise the effects deriving from the application of the new IAS 19, it is hereby specified that:

- the value of the net liabilities which would emerge by applying the regulations of the old IAS 19 would be equal to €1,415 thousand;
- the value of the net liabilities for defined benefits obtained by applying the regulations of the new IAS 19 are equal to €2,334 thousand;
- the amount subject to “prudent filter” comes to €919 thousand.

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The information of a qualitative nature relating to the process for assessing the Group's capital adequacy is illustrated in Section 1 of this Part F.

B. QUANTITATIVE INFORMATION

Categories / Balances		Unweighted amounts		Weighted amounts/ requirements	
		31/12/2014	*31/12/2013*	*31/12/2014*	*31/12/2013*
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	**45,607,068**	**43,500,314**	**8,894,094**	**8,157,516**
	1. Standardized method	34,996,717	32,466,279	6,021,810	5,962,861
	2. Methods based on internal ratings	10,840,526	11,032,831	2,872,284	2,193,451
	2.1 Basic				
	2.2 Advanced	10,840,526	11,032,831	2,872,284	2,193,451
	3. Securitisations		1,204		1,204
B.	**SUPERVISORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			**711,528**	**652,601**
B.2	Adjustment risk of the assessment				
	of the credit			**83,688**	
B.3	Regulation risk				
B.4	Market risks			**276,577**	**529,004**
	1. Standard method			273,541	529,004
	2. Internal models				
	3. Concentration risk			3,036	
B.5	Operational risk			**83,674**	**66,631**
	1. Basic method				
	2. Standardized method				
	3. Advanced method			83,674	66,631
B.6	Other calculation elements				**(267,833)**
B.7	Total prudent requirements			**1,155,467**	**980,403**
C.	**RISK ASSETS AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets			**14,443,338**	**12,255,038**
C.2	Class 1 primary capital/				
	Risk-weighted assets (CET1 capital ratio)			**3.83**	**9.24**
C.3	Class 1 capital/Risk-weighted assets				
	(Tier 1 capital ratio)			**3.83**	**9.24**
C.4	Total own funds/Risk-weighted assets				
	(Total capital ratio)			**6.76**	**9.62**

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 coefficient of 8%).

With regard to 31 December 2013, item B.6 "Other calculation elements" includes the 25% reduction in the requirements because MPSCS belongs to the BMPS Banking Group, i.e. €326,802 thousand, and the amount of €58,969 thousand as an addition for the Basel1 floor. Not considering the 25% reduction of the requirements, the total capital ratio as of 31 December 2013 is 7.22%.

As of 31 December 2014, the bank presented a primary capital deficit of €331 million. This result derives from the significant losses reported in the year, amounting to €587.5 million. In order to rebalance the prudent ratios, a share capital increase will be carried out with a contribution of equity amounting to €900 million which the Parent Company, by means of resolution adopted during the Board Meeting held on 11 February 2015, has undertaken to subscribe also for any portion unopted. The increase will be implemented within the technical timescales necessary for obtaining the due authorisations from the Supervisory Bodies and for accomplishing the formalities envisaged by the law. The entity of the increase ensures an additional buffer capable of covering potential and unforeseeable adverse dynamics in the current year as well as the rising absorptions of the phase-in envisaged by Basel 3.

Part G
Business Combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2014, 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, "key management personnel" include the following persons: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the compensation of executives with strategic responsibilities

	31/12/2014	*31/12/2013*
Short-term benefits	1,622	1,814
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	**1,622**	**1,814**

2. Information on transactions with related parties

The Consob Regulation adopted by means of resolution No. 17221 dated 12 March 2010 and subsequent amendments implementing Article 2391 *bis* of the Italian Civil Code, establishes the legislative framework for the handling of transactions with related parties in companies which issue listed or widely traded shares, for the purpose of ensuring the transparency and correctness of the afore-mentioned transactions and procedures which govern them. In accordance with the afore-mentioned Consob legislation, the bodies of Banca MPS have approved the Group Directive with the procedures envisaged by the "Regulations containing provisions regarding related-party transactions" carried out directly by the Parent Company or via subsidiaries.
This Directive, subsequently acknowledged by MPSCS by means of resolution measures dated 11 January 2011 and 19 July 2011, defines:

- the management model for the related-party transactions, aimed at identifying the roles and tasks of the bodies and the company units, as well as assigning the related responsibilities;
- the processes necessary for establishing the fulfilments envisaged by the Regulations;
- the criteria for identifying the related parties;
- the rules for identifying related-party transactions;
- the cases of exemption from the application of the discipline;
- the approval, proposal and authorisation procedures for the transactions in question, the subsequent disclosure fulfilments vis-à-vis the Corporate Bodies of the Parent Company;
- the safeguards necessary for ensuring disclosure to the market on transactions with related parties, also on a consistent basis with the periodic financial disclosure.

Completing the Directive, the BMPS Group provided operational details with regard to the policy choices made so as to ensure the transparency and essential and procedural correctness of the related-party transactions. Likewise, MPSCS has formalised said operating process in specific internal regulations (Code of Conduct for Related-party Transactions).

For the purposes of the information shown below, those companies belonging to the lending group as defined by Italian Legislative Decree No. 385 dated 1 September 1993 are considered to be companies of the Banca MPS Group.
The intercompany transactions comply in the majority of cases with the criteria of normality and are consistent with the

opportunities and means offered by the Group which MPSCS is part of. The dealings with the Parent Company fall within the usual group operations as per the multi-purpose model. The economic effects associated with the afore-mentioned transactions are usually regulated on an arm's length basis and disciplined by a specific agreement between the Parties known as the Service Level Agreement.
No unusual or atypical transactions were carried out in the period nor were any outstanding at the end of December 2014 (likewise for the end of December 2013).

2.a Transactions with the parent company and the MPS banking Group companies

Items / Balances	*Parent Company*	*MPS Group Companies*	*% of aggregate*
Total financial assets	**14,329,069**	**897,310**	**35.9%**
- Due from banks/Loans to customers	9,511,768	19,892	45.5%
- HFT and AFS assets	4,810,987	874,319	26.5%
- Other assets	6,314	3,099	25.0%
Total financial liabilities	**28,088,026**	**4,681**	**66.1%**
- Due to banks/customers	18,362,824	-	93.8%
- HFT liabilities	9,251,255	66	41.8%
- Outstanding securities	467,301	-	100.0%
- Other liabilities	6,646	4,615	12.9%
Income statement			
Interest income	113,810	23,964	28.1%
Interest expense	(298,593)	-	92.8%
Fee income	7,555	-	8.7%
Fee expense	(36,399)	-	66.2%
Administrative expenses	4,195	(15,086)	15.1%
Other income	277	2	7.5%
Guarantees given	**402,716**	**-**	**2.1%**
Guarantees received	**-**	**30,782**	**0.1%**

2.b Transactions with executives with strategic responsibilities and other related parties

Items / Balances	*Executives with strategic responsibilities*	*Other related parties*	*Incidence*
Total financial assets	**25**	**99,221**	**0.2%**
- Due from banks/Loans to customers	25	98,434	0.5%
- HFT and AFS assets		787	0.0%
- Other assets			
Total financial liabilities		**107**	**0.0%**
- Other liabilities		107	0.1%
Guarantees given		**4,925**	**0.0%**
Guarantees received		**163,054**	**0.4%**

2. Fees paid to the independent auditing firm and the bodies belonging to its network
(pursuant to Article 149 duodecies *of CONSOB Resolution No. 15915 of 3 May 2007)*

Type of services	*Party providing service*	*Fees*
Accounts auditing	Reconta Ernst & Young S.p.A.	144
Certification services	Reconta Ernst & Young S.p.A.	12
Other services	Reconta Ernst & Young S.p.A.	14
Consulting	Ernst & Young Financial-Business Advisors S.p.A.	140
Total		**310**

Note:
the afore-mentioned amounts are net of VAT and accessory expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which carries out management and co-ordination activities.
The highlights from the last set of financial statements (2013) approved by the parent company are provided below.

2.1 Name: **BANCA MONTE DEI PASCHI DI SIENA S.p.A.**

2.2 Registered offices: Piazza Salimbeni, 3 - Siena, Italy

Other details: Share capital € 7,484,508,171.08 fully paid-in
Siena Companies' Register No. 9782/11728
Banking Register No. 325 Code No. 1030.6
Register of Banking Groups Code No. 1030.6
Member of the Interbank Guarantee Fund

FINANCIAL STATEMENTS OF THE PARENT COMPANY BANCA MONTE DEI PASCHI DI SIENA AS OF 31 DECEMBER 2013

Balance sheet *(amounts in millions of Euro)*

Assets		Liabilities and Shareholders' equity	
Cash and cash equivalents	844	Due to banks	43,964
Financial assets held for trading	3,149	Due to customers	87,910
Financial assets available for sale	23,256	Outstanding securities	36,135
Due from banks	25,439	Financial liabilities held for trading	2,240
Loans to customers	124,769	Financial liabilities at fair value	8,406
Hedging derivatives	462	Hedging derivatives	3,196
Value adjustments to financial assets subject to macro-hedging	62	Tax liabilities	16
Equity investments	4,247	Liabilities associated with non-current assets	18
Property, plant and equipment	1,039	Other liabilities	3,517
Intangible assets	817	Employee severance indemnities	254
Tax assets	4,741	Provisions for risks and charges	1,033
Non-current assets	72	**Total liabilities**	**186,689**
Other assets	2,336	Shareholders' equity	4,544
Total assets	**191,233**	**Total liabilities and Shareholders' equity**	**191,233**

Income statement

(amounts in millions of Euro)

Interest income and similar income	5,392
Interest expense and similar charges	(3,947)
Interest margin	**1,445**
Fee income	1,990
Fee expense	(408)
Net fees	**1,582**
Dividends and similar income	128
Net income from trading activities	(102)
Net income from hedging activities	4
Profit (loss) from sale or repurchase of:	(41)
Net result from financial assets and liabilities at fair value	13
Operating income	**3,029**
Net value adjustments/write-backs due to impairment	(2,073)
Net income from financial management	**956**
Administrative expenses(2,852)	
Net provisions for risks and charges	(49)
Net value adjustments/write-backs on property, plant and equipment	(66)
Net value adjustments/write-backs on intangible assets	(28)
Other operating income/charges	75
Operating costs	**(2,920)**
Profit (loss) from equity investments	(273)
Gains (losses) on disposal of investments	2
Profit (loss) from current operations before taxes	**(2,235)**
Income taxes on current operations	646
Profit (loss) from current operations before taxes	**(1,589)**
Gain (Loss) on discontinued operations, net of taxation	(44)
Profit (loss) for the period	**(1,633)**

Part I
Share-based Payments

QUALITATIVE INFORMATION

The Bank has not entered into any transactions with share-based payments representing its own capital or that of another entity belonging to the MPS Group, either in the year under review or in previous periods, being transactions in which the Bank itself purchases or receives goods or services, with the exception of allocations to employees (stock granting) which took place in previous years.

Part L
Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the explanatory notes to its consolidated financial statements as of 31 December 2014.

ATTACHMENTS TO THE EXPLANATORY NOTES

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

STATEMENT OF ACCOUNT as of 31 December 2014

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

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2014

(amounts in euros)

The “MPS Capital Services Banca per le Imprese S.p.A. Pension Fund”, enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.

The “Fund” is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

- the “defined benefit” segment of the “Fund” contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
- the “defined contribution” segment of the “Fund” contains separate and independent assets. This segment, which does not have an independent legal status, contains:
  - contributions payable by the Bank and the fund Members;
  - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment; assets and liabilities referring to the operations of the segment are recorded in the related items of the Bank’s balance sheet, despite maintaining separate asset autonomy with respect to the Bank;
  - the economic results deriving from the financial management of the assets, carried out by parties qualified to perform collective management of savings;

The assets, liabilities, costs, revenues and commitments referring to the segment’s operations are not recorded in the Bank’s financial statements.

The “Fund” is managed by the Bank’s Board of Directors, which avails itself of advisory opinions and the support of a Supervisory Committee; the management of the positions of the members and any other activities, necessary or useful for the “Fund”, are carried out by a Manager appointed by the Bank’s Board of Directors.

A) “DEFINED BENEFIT” SEGMENT

The value of the Actuarial reserve as of 31 December 2014 was €5,902,070 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 42 members, all retired, of which 17 men and 13 women receiving a direct pension, along with 1 man and 11 women receiving an indirect and survivor’s pension.

The periodic benefits disbursed in 2014 amounted to €545,961.

It was necessary to increase the fund during the year by €652,492, so as to adjust it to the value of the actuarial reserve 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 2014 amounted to €42,198,240.

During 2014, 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.

Capital has exited from the section for “transfers and redemptions” for €2,129,817 and disbursements in the form of

capital for €113,838.
The disbursements by way of advances on the total position accrued, concerned requests for a total of €800,613 during 2014.
A total of 546 individuals were enrolled in the segment of the "Fund" as of 31 December 2014, of which 520 active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with the provisions of Article 8, section 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to an identical number of 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 via 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*
- Timescale (years)	7-10	10-20	20-30	5	5		Collective policy
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Stock component	27%	48%	65%	7%	14%		

With regard to the management policies of the GPMs of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for 2014 are as follows, having maintained the trends and positions highlighted in 2013.
The monetary component of the portfolio was characterised by an overweight positioning in terms of financial duration relative to the reference index and by the absence of spread products. Additionally, the decision was made to concentrate the investment in securities issued by the Republic of Italy at fixed and floating rate with an average duration of around six months. This positioning has made it possible to achieve a positive performance, both absolute and relative.
The Euro Zone bond component of the portfolios was characterised by dynamic management relating to the positioning of the curve of the returns and in terms of geographic allocation. The portfolio was characterised during the year by a duration overexposure for the Peripheral countries and by a slight duration underexposure of the Core countries.
Management maintain a constant diversification in terms of exposure to Core and Peripheral countries, limiting the selection to just Italian and German government securities. The active management of the portfolio was therefore the main driver of the positive results achieved.
The stock component was characterised by the allocation in ETF and funds with low tracking error for the liability component aimed at replicating the reference index, while for the active part of the management, active management funds were chosen. A positive positioning in favour of the share asset class was maintained.

2014 annual return and average period returns of 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*
2014 Return	**11.48%**	**11.07%**	**10.83%**	**4.98%**	**6.56%**	**0.63%**	**2.79%**
Annual average return for five-year period **2010/2014**	**7.67%**	**8.67%**	**9.58%**	**3.65%**	**4.86%**	**1.19%**	**2.81%**
Annual average return for three-year period **2012/2014**	**11.35%**	**12.74%**	**13.92%**	**5.07%**	**6.98%**	**1.54%**	**2.67%**

N.B. The values only express the trend in the asset management schemes underlying the individual segments

The values of the individual portions of the different lines over the years are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31 Dec. 2010	**1.161**	**1.254**	**1.342**	**1.055**	**1.092**	**1.012**	*(1)*
31 Dec. 2011	**1.156**	**1.225**	**1.290**	**1.067**	**1.100**	**1.029**	*(1)*
31 Dec. 2012	**1.306**	**1.398**	**1.482**	**1.132**	**1.189**	**1.051**	*(1)*
31 Dec. 2013	**1.395**	**1.536**	**1.668**	**1.162**	**1.237**	**1.064**	*(1)*
31 Dec. 2014	**1.537**	**1.688**	**1.829**	**1.213**	**1.307**	**1.067**	*(1)*

(1) the insurance policy provides for the management of individual positions

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these Explanatory Notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in euros.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2014, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the charges and income

The charges and income have been recorded on an accruals basis, irrespective of the date of collection or payment.
Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.
The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

"DEFINED CONTRIBUTION" BENEFITS SEGMENT
STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2014

BALANCE SHEET

(amounts in euros)

ACCUMULATION PHASE ASSETS	*31/12/2014*	*31/12/2013*
10 Direct investments	**-**	**-**
20 Assets under management	**42,850,329**	**38,948,556**
20-a) Bank deposits	1,737,242	-
20-b) Receivables for repurchase agreements	-	-
20-c) Securities issued by Governments or by international bodies	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	18,318,940	-
20-i) Options purchased	-	-
20-l) Prepaid expenses and accrued income	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	161,775	-
20-p) Margins and receivables on forward / future transactions	-	-
30 Result guarantees acquired on individual positions	**-**	**-**
40 Assets of administrative operations	**-**	**-**
40-a) Cash and bank deposits	-	-
40-b) Intangible fixed assets	-	-
40-c) Property, plant and equipment	-	-
40-d) Other assets of administrative operations	-	-
50 Tax credits	**-**	**-**
TOTAL ACCUMULATION PHASE ASSETS	**42,850,329**	**38,948,556**

(amounts in euros)

ACCUMULATION PHASE LIABILITIES	*31/12/2014*	*31/12/2013*
10 Liabilities of welfare operations	**203,822**	**29,364**
10-a) Payables of welfare operations	203,822	29,364
20 Liabilities of financial operations	**-**	**-**
20-a) Payables for repurchase agreements	-	-
20-b) Options issued	-	-
20-c) Accrued expenses and deferred income	-	-
20-d) Other liabilities of financial operations	-	-
20-e) Payables on forward / future transactions	-	-
30 Result guarantees recognised on individual positions	**-**	**-**
40 Liabilities of administrative operations	**-**	**-**
40-a) employee severance indemnity	-	-
40-b) Other liabilities of administrative operations	-	-
40-c) Deferral of contributions for coverage of administrative charges	-	-
50 Tax payables	**448,267**	**400,243**
TOTAL ACCUMULATION PHASE LIABILITIES	**652,089**	**429,607**
100 Net assets destined for benefits	**42,198,240**	**38,518,949**

The item “Tax payables” represents the substitute tax applied to the results of financial operations.
The item “Sundry payables” includes the personal income tax withholdings to be settled by 16 January of the year after, applied on advances disbursed in December of the reference year.

INCOME STATEMENT

(amounts in euros)

		31/12/2014	*31/12/2013*
10	**Balance of welfare operations**	**233,171**	**(490,223)**
	10-a) Fees for benefits	3,180,366	2,788,333
	10-b) Advances	(800,613)	(610,033)
	10-c) Transfers and redemptions	(2,129,817)	(2,668,523)
	10-d) Transformations in revenue	-	-
	10-e) Disbursements under the form of capital	(113,838)	-
	10-f) Premiums for accessory benefits	(57,284)	-
	10-g) Periodic benefits	-	-
	10-h) Other welfare outgoings	(72,772)	-
	10-i) Other welfare incomings	227,129	-
20	**Result of financial operations**	**-**	**-**
30	**Result of indirect financial operations**	**3,942,652**	**3,646,426**
	30-a) Dividends and interest	958,837	909,817
	30-b) Profits and losses from financial transactions	2,983,815	2,736,609
	30-c) Fees and commission on securities lending	-	-
	30-d) Income and charges for repurchase agreements	-	-
	30-e) Differential on result guarantees issued to the pension fund	-	-
40	**Operating charges**	**(48,265)**	**(7,851)**
	40-a) Management company	(48,265)	(7,851)
	40-b) Custodian bank	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**3,894,387**	**3,638,575**
60	**Balance of administrative operations**	**-**	**-**
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**4,127,558**	**3,148,352**
80	**Substitute tax**	**(448,267)**	**(400,244)**
	Change in net assets destined for benefits (70)+(80)	**3,679,291**	**2,748,108**

The item “Other welfare incomings) represents the contributions relating to December not yet effectively credited to the management accounts.

The item “Other welfare outgoings” represents the monetary finalisation of a settlement registered in December 2013.

STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2014
BREAKDOWN BY INVESTMENT LINE
(amounts in euros)

BALANCE SHEET

ACCUMULATION PHASE ASSETS

		C001	C002	C003	C004	C005	C006	C007
10	**Direct investments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20	**Assets under management**	**8,171,246**	**13,798,761**	**14,688,294**	**2,534,640**	**2,184,746**	**1,310,867**	**161,775**
	20-a) Bank deposits	298,993	321,743	477,978	241,713	187,891	208,924	-
	20-b) Receivables for repurchase agreements	-	-	-	-	-	-	-
	20-c) Securities issued by Governments or by international bodies	5,629,858	6,777,279	4,847,487	2,092,319	1,687,900	1,085,651	-
	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	2,120,379	6,533,641	9,215,549	167,264	282,107	-	-
	20-i) Options purchased	-	-	-	-	-	-	-
	20-l) Prepaid expenses and accrued income	85,532	102,746	73,474	12,719	14,435	640	-
	20-m) Result guarantees released to pension fund	-	-	-	-	-	-	-
	20-n) Other assets of financial operations	36,484	63,352	73,806	20,625	12,413	15,652	-
	20-o) Investments in insurance operations	-	-	-	-	-	-	161,775
30	**Result guarantees acquired on individual positions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40	**Assets of administrative operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
50	**Tax credits**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	TOTAL ACCUMULATION PHASE ASSETS	**8,171,246**	**13,798,761**	**14,688,294**	**2,534,640**	**2,184,746**	**1,310,867**	**161,775**

ACCUMULATION PHASE LIABILITIES

		C001	C002	C003	C004	C005	C006	C007
10	**Liabilities of welfare operations**	**-**	**72,050**	**-**	**114,279**	**-**	**17,493**	**-**
	10-a) Payables of welfare operations	-	72,050	-	114,279	-	17,493	-
20	**Liabilities of financial operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
30	**Result guarantees recognised on individual positions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40	**Liabilities of administrative operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
50	**Tax payables**	**95,717**	**158,302**	**164,700**	**13,541**	**14,983**	**425**	**599**
	TOTAL ACCUMULATION PHASE LIABILITIES	**95,717**	**230,352**	**164,700**	**127,820**	**14,983**	**17,918**	**599**
100	**Net assets destined for benefits**	**8,075,529**	**13,568,409**	**14,523,594**	**2,406,820**	**2,169,763**	**1,292,949**	**161,176**

INCOME STATEMENT								
		C001	C002	C003	C004	C005	C006	C007
10	**Balance of welfare operations**	**(146,712)**	**(631,618)**	**439,010**	**26,595**	**474,430**	**54,679**	**16,787**
	10-a) Fees for benefits	494,251	574,778	923,029	444,878	553,248	168,255	21,927
	10-b) Advances	(18,275)	(256,209)	(315,990)	(132,340)	(53,003)	(24,796)	-
	10-c) Transfers and redemptions	(475,184)	(982,985)	(221,023)	(305,001)	(35,410)	(103,776)	(6,438)
	10-d) Transformations in revenue	-	-	-	-	-	-	-
	10-e) Disbursements under the form of capital	(96,195)	(17,643)	-	-	-	-	-
	10-f) Premiums for accessory benefits	(10,528)	(18,397)	(17,044)	(4,489)	(3,239)	(3,587)	-
	10-g) Periodic benefits	-	-	-	-	-	-	-
	10-h) Other welfare outgoings	(72,772)	-	-	-	-	-	-
	10-i) Other welfare incomings	31,991	68,838	70,038	23,547	12,834	18,583	1,298
20	**Result of financial operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
30	**Result of indirect financial operations**	**839,558**	**1,391,046**	**1,448,840**	**119,635**	**131,910**	**10,035**	**1,628**
	30-a) Dividends and interest	230,601	338,994	303,520	39,083	41,394	5,245	-
	30-b) Profits and losses from financial transactions	608,957	1,052,052	1,145,320	80,552	90,516	4,790	1,628
	30-c) Fees and commission on securities lending	-	-	-	-	-	-	-
	30-d) Income and charges for repurchase agreements	-	-	-	-	-	-	-
	30-e) Differential on result guarantees issued to the pension fund	-	-	-	-	-	-	-
40	**Operating charges**	**(7,233)**	**(14,510)**	**(16,668)**	**(1,891)**	**(1,626)**	**(6,337)**	**-**
	40-a) Management company	(7,233)	(14,510)	(16,668)	(1,891)	(1,626)	(6,337)	-
	40-b) Custodian bank	-	-	-	-	-	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**832,325**	**1,376,536**	**1,432,172**	**117,744**	**130,284**	**3,698**	**1,628**
60	**Balance of administrative operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**685,613**	**744,918**	**1,871,182**	**144,339**	**604,714**	**58,377**	**18,415**
80	**Substitute tax**	**(95,717)**	**(158,302)**	**(164,700)**	**(13,541)**	**(14,983)**	**(425)**	**(599)**
	Change in net assets destined for benefits (70)+(80)	**589,896**	**586,616**	**1,706,482**	**130,798**	**589,731**	**57,952**	**17,816**

AUDIT REPORT

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Relazione della società di revisione
ai sensi degli artt. 14 e 16 del D.Lgs. 27.1.2010, n. 39

Agli Azionisti
della MPS Capital Services S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla nota integrativa, della MPS Capital Services S.p.A. chiuso al 31 dicembre 2014. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli amministratori della MPS Capital Services S.p.A.. È nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Come illustrato nella specifica sezione della nota integrativa denominata "Rettifica dei saldi dell'esercizio precedente e cambiamenti nelle stime contabili in conformità alle disposizioni dello IAS 8 (Principi contabili, cambiamenti nelle stime contabili ed errori)", gli amministratori hanno riesposto alcuni dati comparativi relativi all'esercizio precedente ed allo stato patrimoniale al 1° gennaio 2013, rispetto ai dati presentati nel bilancio d'esercizio al 31 dicembre 2013 ed assoggettati a revisione contabile da altro revisore, che ha emesso la relazione di revisione in data 9 Aprile 2014. Le modalità di rideterminazione dei dati comparativi e la relativa informativa presentata nella suddetta sezione sono state da noi esaminate ai fini dell'espressione del giudizio sul bilancio d'esercizio chiuso al 31 dicembre 2014.

3. A nostro giudizio, il bilancio d'esercizio della MPS Capital Services S.p.A. al 31 dicembre 2014 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa della MPS Capital Services S.p.A. per l'esercizio chiuso a tale data.

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4. Gli amministratori indicano nella relazione sulla gestione e nella nota integrativa che il risultato dell'esercizio 2014 ha comportato l'insorgere di una carenza patrimoniale ai fini regolamentari. Segnalano inoltre che, in data 12 febbraio 2015, la Capogruppo ha comunicato l'orientamento favorevole espresso dal proprio Consiglio di Amministrazione al fine di avviare l'iter procedurale ed autorizzativo per ottemperare al rafforzamento patrimoniale della società nella misura necessaria a colmare la carenza patrimoniale menzionata.

5. La responsabilità della redazione della relazione sulla gestione, in conformità a quanto previsto dalle norme di legge e dai regolamenti, compete agli amministratori della MPS Capital Services S.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione è coerente con il bilancio d'esercizio della MPS Capital Services S.p.A. al 31 dicembre 2014.

Roma, 12 marzo 2015

Reconta Ernst & Young S.p.A.

Francesco Chiulli
(Socio)

BOARD OF STATUTORY AUDITORS REPORT

Report of the Board of Statutory Auditors to the Shareholders' meeting called for the approval of the annual Financial Statements for the period ended 31/12/2014

(pursuant to Article 153 of Italian Decree Law No. 58/98 and Article 2429 of the Italian Civil Code)

To the shareholders' meeting of MPS Capital Services Banca per le Imprese S.p.A.

During the year ended 31 December 2014, the undersigned Board of Statutory Auditors carried out the supervisory activities in observance of the provisions of the Italian Civil Code, Italian Legislative Decrees No. 385/1993 (Consolidated Banking Law), No. 58/1998 (Consolidated Finance Law), No. 39/2010 (Consolidated Formal Audit Law), the statutory provisions, those issued by the Independent Administrative Authorities which carry out supervisory and audit activities, as well as the standards of conduct for Boards of Statutory Auditors recommended by the Italian Accounting Profession.
The Board of Statutory Auditors received the draft financial statements approved by the Board of Directors by the legal deadlines. On the basis of the indications provided by Consob by means of communication No. DEM/1025564 dated 6 April 2001, the Board of Statutory Auditors reports the following.
It is hereby revealed that the income statement for 2014 closed with a loss of €587.5 million, while the income statements for the previous years had been positive. The financial operations of the company maintained a positive performance in line with the previous results, but the lending activities were affected by the economic slowdown, felt to a significant extent in the sectors in which they are exercised by the Bank, and, also further to the new ECB indications, the Company decided to proceed with a complete up-date of methods and parameters for estimating potential losses on loans. The method-related review implemented, whose effects are described in the explanatory notes to the financial statements and commented on below in this report, represent a significant point of reference for the 2014 financial statements and for the monitoring of the lending activities.
The Board of Statutory Auditors met 45 times during 2014, took part in 2 shareholders' meetings and 15 board meetings. During the board meetings, the legal information was provided by the Management Bodies. During these meetings, in-depth information was provided on the activities carried out and on the transactions of greatest economic, financial and equity-related importance implemented by the Bank.
On the basis of the activities and checks carried out by the Board of Statutory Auditors, it is hereby revealed that the transactions resolved and carried out by the Company are compliant with the law and the Articles of Association and do not appear manifestly imprudent, hazardous, in potential conflict of interest or in contrast with the resolutions adopted by the shareholders' meeting or such as to compromise the integrity of the Company's assets. The Board of Statutory Auditors oversaw the observance of the law and the Articles of Association.

Pertinent Banking Group

As you are aware, the Bank is subject to the management and co-ordination of the Parent Company Banca Monte dei Paschi di Siena Spa. The dealings with the Parent Company, aimed at optimising the synergies and productivity of the Company within the context of the Group, include operations on financial markets carried out for the Parent Company, the agreement relating to the option for complying with the National Tax Consolidation scheme for 2013, 2014 and 2015 and the out-sourcing of a series of activities and services which will be illustrated further on in this report.
Within the sphere of the legislative provisions, the Parent Company's Board of Statutory Auditors holds periodic meetings with the Boards of Statutory Auditors of the subsidiaries. During the year, 2 meetings were held, on 2 April 2014 and 28 November 2014.

1 - SUPERVISION OF THE ORGANISATIONAL STRUCTURE, ADEQUACY OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Statutory Auditors oversaw the functioning of the Bank's organisational structure and the adequacy of the overall system of internal controls, ascertaining the efficacy of all the units and divisions involved, as well as the suitability of the risk control and management system.
This was carried out by means of audit activities implemented jointly, obtaining information from the heads of the company divisions, examining documents, analysing the results of the work carried out by the Independent Auditing Firm and, in particular, by means of the monitoring of the activities of the second and third level audit units, which will be more fully discussed in the section dedicated to this aspect.
The Board of Statutory Auditors constantly interacted with the Internal Audit unit, both so as to receive the necessary assistance for the execution of the above-mentioned checks, and as beneficiary of all the inspection reports containing the results of the checks which this Unit carried out during the year.
The Board of Statutory Auditors, frequently consulted with the heads of the operating units for the purpose of looking in-depth at significant problems, in terms of control and risk of the main operating processes; thus also for the purpose of checking that the internal reorganisation process, being implemented within the sphere of the entire MPS Group and aimed at achieving significant improvements in terms of process efficiency, it did not reveal any problematic issues within the Company worthy of note.

Monitoring of the control units

The Board of Statutory Auditors acquired knowledge of and oversaw, insofar as it is responsible, the suitability of the second and third level audit units and the efficacy of the activities carried out relating to the system of internal controls and governance of the risks of the Company.
The Board of Statutory Auditors recalls that, on 22 November 2013, the Company adapted the reporting lines of the Internal Audit and Compliance unit to the matters envisaged by the Bank of Italy circular No. 263 - 15th update.

Internal Audit
The Board of Statutory Auditors monitored the activities of the Internal Audit unit, examining the Plan of activities laid down for 2014, the report on the work carried out during the year and the Annual report for 2014 on the internal audit system.
This report adequately illustrates the programme of activities carried out, the areas examined, the related results and the follow up activities envisaged for the improvement aspects; the summary opinion expressed by the Internal Audit unit on the Bank's control system is "mainly favourable".
The report was illustrated by the Head of the unit to the Board of Directors during the meeting held on 6 February 2015.
The Board of Statutory Auditors expressed its appreciation with regard to the activities carried out.
The Board of Statutory Auditors also examined and positively assessed the qualitative-quantitative suitability of the unit and the position of independence acknowledged the same within the sphere of the Company's organisational structure.

Compliance
Similar monitoring has been carried out on the Compliance unit by means of discussions and direct contact, in which the Internal Audit unit also always took part; the Board of Statutory Auditors also examined the plan of activities for 2014 drawn up by the unit and the reporting as per the Annual compliance report, subject to a specific adequacy opinion issued by the Board of Statutory Auditors.
The Annual compliance report was illustrated by the head of the unit to the Board of Directors during the meeting held on 6 February 2015.

It is hereby formally acknowledged that the Company's Compliance unit, within the sphere of the project for the assimilation of the up-dates as per the XVth update of the Bank of Italy Circular No. 263 and with the contribution of the Organisation unit, implemented the internal regulation and organisational changes necessary, adopting a common Compliance model made up of not only the Compliance unit but also five specialist units for specific regulation of the entire scope of pertinence of the Bank.
The Compliance function was also allocated responsibility for the activities for fighting money-laundering; in order to assess the suitable performance, the Board of Statutory Auditors directly conversed with the Compliance unit during several meetings, in which the Internal Audit units also took part; the Board of Statutory Auditors also examined the results of the checks carried out by the Internal Audit unit with regard to this aspect.
Activities for implementing the profiling of the customers for anti-money laundering purposes will also continue during 2015, and the Board of Statutory Auditors was informed that an application expressly designed for the Bank will be released.
The Board of Statutory Auditors formally acknowledges that during 2014 eight suspect transactions were reported by the appointed unit, while no reinforced check as per Article 28, sections 4 and 5 of Italian Legislative Decree No. 231/07 took place.

Risk management
The outsourcing of the Risk Management Unit care of the Parent Company's Risk Management Division, already achieved in essence in previous years, was confirmed in the overall layout of the Internal Audit System, in accordance with the legislative adaptations due to the XVth update of Circular 263, envisaging a centralised risk management model for MPSCS.
The resolution measure, which officialises the adoption of this model and the acknowledgement at company level of the Group policy, was approved on 6 August 2014 by MPSCS's Board of Directors.
Together with the above, the Bank has taken steps to identify the figure of Local Risk Management Contact individual.
The Board of Statutory Auditors examined the activities carried out by the Risk Management Unit, which involve the analysis relating to the trend of the exposures to risks undertaken with a focus relating to the credit risks and the financial ones, also for the purpose of achieving a measure of the economic capital absorbed and the consequent assessment of the Bank's capitalisation level.
The Board of Statutory Auditors interacted during the year with the local Risk Contact individual to receive up-dates on the risk aspects inherent to MPSCS, included in the implementation of the "Execution Masterplan Gap 263" of the Parent Company, which also includes the assessment of the more significant lending transactions in the phase prior to disbursement.
The Risk Management Unit reported to the Board of Statutory Auditors that the Bank is taking steps, together with the Parent Company, to define specific Service Level Agreements, in which also the appropriate metrics and the reference values will be defined so as to permit a pertinent monitoring on the efficacy of the overseeing of the risks to which the Bank is exposed.

Outsourcing of functions and activities

The Board of Statutory Auditors hereby reminds you that, in addition to the afore-mentioned outsourcing of the Risk Management unit care of the Parent Company, the Company has outsourced a series of services and activities to the Parent Company, or third parties via the same, which are summarised below:
- **Disbursement of the ICT activities**: architectures, logical security, development and maintenance of HW and SW; telecommunications and telephone services, jobs, disaster recovery, user support;
- **Disbursement of services relating to administration of disputes**: handling of non-performing loans; handling of lawsuits and bankruptcy revocation;

- **Disbursement of sundry services** such as: advertising and image; internal and external communication; knowledge management and training; ALM - medium/long-term funding; handling of banking products; monitoring of significant risks; counterparty ratings; group costs and purchases; logistics and property management; supervision and production of supervisory reports;
- **Disbursement of Back Office services:** collection and payments; network operations, finance; administrative and credit services; business and accounting services; ancillary services; assistance services (help desk);
- **Implementation, maintenance and disbursement of the DDT market**, via the List proprietary SW infrastructure.

The service contracts for outsourced activities (both intercompany and outside the group), some of which are being finalised, have been subject to review to check Compliance with the requirements envisaged by the 15th update of Circular 263.

The Organisation unit, which is assigned the task of overseeing the adequate performance of the outsourced activities, illustrated to the Board of Directors, in the meeting held in 27 February 2015, the supervision work carried out relating to the outsourced activities, with indication of the contractual documentation to be drawn up and finalised.

The Board of Statutory Auditors reports that certain measures for improved adaptation , within the sphere of the overall subject of outsourcing, have already been included and in part achieved by means of the activity plan drawn up in accordance with Circular 263.

The Board of Statutory Auditors shall therefore take steps to check that the implementation of the residual measures, including therein the definition and contractual finalisation, takes place according to the plan drawn up by the Bank.

Adaptations associated with the XVth update of Circular 263 dated 27 December 2006

With reference to the other activities required by the XVth update of the Bank of Italy Circular No. 263, the Company has continued to operate, via the dedicated internal work group and with the support of a qualified outside consultant, in a co-ordinated manner with the same work group within the Parent Company. Thus also after the completion of phase I - Gap Analysis, concluded with the forwarding to the Bank of Italy of the Internal Assessments Report by the deadline of 31 January 2014.

In particular, the Board of Statutory Auditors followed the activities implemented by the bank which, on the basis of the information received during the meetings with the project heads, were developed via the following phases:

Execution Master Plan - phase II

During the first half of 2014, specific project-related activities were carried out aimed at executing the measures envisaged within the Internal Assessment Report; thus (at Group and MPSCS level with regard to the pertinent aspects) the drafting of the “263 Documental Set” was achieved, approved in July by the Board of Directors of Banca MPS and acknowledged by the MPSCS Board of Directors in the meeting held last August, which concerned the “Management Models” and the “Group Policies” with regard to the Internal Audit System, Credit Exposure Monitoring, Validation Unit, Risk Appetite Framework, Transactions of Greatest Significance, Operating Continuity and Outsourcing.

Implementation - Phase III

During the second half of 2014, activities were carried out for “full application” of the matters envisaged in the documents approved at the end of phase II: measures relating to the following aspects were achieved under the management of the Parent Company:

Audit/Compliance systems

- Internal Audit system (documental set);
- New Compliance Unit Model;
- Specialist Compliance structures;

- Specialist Validation structure;
- Analysis of compliance of legislation applicable to MPSCS.

Risk management
- Risk Appetite Framework;
- Transactions of greatest significance;
- Monitoring of trend in credit exposures;
- Enhancement of the Credit Risk Mitigation structures.

Other structures
- Operating Continuity;
- Training relating to risk supervision;
- Entry into New Markets;
- Supervision of outsourced activities;
- Taxonomy of operating processes;
- Recovery of impaired positions.

The important initiatives of a mandatory nature which have taken place on a parallel with the “Execution Master Plan GAP 263”, such as the exercise of the Comprehensive Assessment - AQR, Stress Test EBA, evolution of the operational risks measurement model - AMA, etc. generated - for certain and circumscribed actions - the need to define solutions aimed at ensuring the legislative compliance by the end of 2014, but deferring the effective implementation until 2015.
The application within MPSCS of the “Model for the intercompany outsourcing of the Corporate Audit Functions (FAC)”, in addition to the matters illustrated previously, established the centralised method care of the Parent Company of the Validation Unit.

Organisation and control model pursuant to Italian Legislative Decree No. 231/01

For some time now, the Company has adopted the Organisation, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001, drawn up according to the ABI (Italian Banking Association) guidelines and in agreement with the layout indicated by the Parent Company.
Further to the expiry of the Board of Directors and subsequent renewal of the same, resolved by the shareholders’ meeting on 28 April 2014, the Supervisory Body pursuant to Italian Legislative Decree No. 231/2001 had ceased its appointment.
The new Board of Directors of MPS Capital Services S.p.A. during the meeting held on 30 June 2014 resolved to appoint the following as members of the Supervisory Body pursuant to Italian Legislative Decree No. 231/2001: Ms. Rita Pelagotti, independent director, and the consultants Mr. Giovanni Aspes and Mr. Salvatore Messina, outside professionals.
During 2014, the process was carried out aimed at the review of the “Organisation, Management and Control Model pursuant to Italian Legislative Decree No. 231/2011”, inclusive of the “231 internal assessment”, concluded with the approval of the new 231 Model during the Board meeting held on 27 February 2015.
With the approval of the final version, on 4 March 2015, the process for the issue of the new Regulations of the 231 SB were also concluded.
The newly appointed 231 SB reported to the Board of Directors on the activities it carried out.
The Board of Statutory Auditors took part in a number of meetings of the Supervisory Body and activated exchanges of information with the Body on aspects of mutual interest.

The information acquired via contact with the Supervisory Body did not reveal any aspect which the Board of Statutory Auditors must disclose to the shareholders' meeting.

2. MONITORING AND ADAPTATION OF THE SUPERVISORY CAPITAL

The Board of Statutory Auditors reveals that the Company has adopted - for the measurement of the absorbed economic capital - 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 activities, carries out periodic checks on the adequacy of the models used and on a quarterly basis prepares the supervisory reports, including therein the statement of capital absorption and checking of the adequacy levels.
The Board of Statutory Auditors has monitored the drafting of the reporting on the Company's capital, and has checked that the Board of Directors has adopted all the necessary measures so that the bank maintains the supervisory capital in accordance with the capital ratios required.
As already mentioned in the previous year's report, further to the Bank of Italy Instruction dated 19 December 2013, with effect as from 1 January 2014 the amendment of the regulations on capital requirements for Banks came into force, which for the Bank led to significantly higher levels of capital endowment than those in force previously.
Furthermore, the income statement and balance sheet effects consequent to the Asset Quality Review (AQR), described further on, have led to a capital coverage deficit at year end, in relation to which the Board of Directors, together with the Parent Company, adopted corrective action illustrated further on.

Capital enhancement transactions

During 2014, the Company took steps to issue two subordinated Tier II loans, issued respectively in March and July for the respective amounts of €250 and €150 million, fully subscribed by the Parent Company BMPS.
As a result of the significant loss reported in the year, amounting to €587.5 million, as of 31 December 2014 the statement of the capital requirements, examined by the Board of Directors during the meeting held on 6 February 2015, discloses a primary capital deficit (CET1) of €331 million.
The Parent Company - which is responsible for the co-ordination of the corporate resolutions and the communications to the ECB and the Bank of Italy - during the Board meeting held on 11 February 2015 resolved the favourable stance towards the strengthening of MPSCS's capital for €900 million (share capital/share premium reserve), undertaking to subscribe within a suitable period of time the unopted portion and thus informed the Supervisory Authorities in this connection.
This amount will allow the bank to cover the requirements currently requested and avail of a suitable capital buffer in the face of any further capital needs regarding the possible pick up in the development of the disbursement activities as well as the progressive increase in the requirements envisaged by the phasing in of Basel 3.
During the Board Meeting held on 19 March 2015, the Parent Company specified that the MPSCS share capital increase shall have to be harmonised with that of the same Parent Company and, confirming its resolution dated 11 February, it also resolved to endow the subsidiary MPSCS, pending finalisation of the transaction, with the necessary financial and equity means by means of the payment of the amounts pertaining to it into the future share capital increase account or an equivalent form.
MPSCS's Board of Directors, in the meeting held on 27 February 2015, resolved the launch of the share capital increase procedure and during the Board meeting on 20 March 2015 called the shareholders' meeting for 13 April 2015 so as to resolve in extraordinary session on the share capital increase to be carried out by 31 December 2015.
The Board of Statutory Auditors reports that the same extraordinary shareholders' meeting is called to resolve also with regard to the adaptation of the Articles of Association to the Bank of Italy instruction on governance.

3. SUPERVISION OF THE ADMINISTRATIVE AND ACCOUNTING SYSTEM AND ON THE FINANCIAL STATEMENTS PREPARATION PROCESS

The Bank, when drawing up the financial statements as of 31 December 2014, applied the IAS/IFRS international accounting standards issued by the IASB (International Accounting Standards Board) and the related interpretations provided by the IFRIC (Internal Financial Reporting Interpretations Committee), approved by the European Union and subject to mandatory application in 2014.
The financial statements as of 31 December 2014, and the related attachments, have been drawn up on the basis of the Bank of Italy Circular No. 262 dated 22 December 2005 amended by the third up-date dated 22 December 2014. The Annual Report dated 31 December 2014 relating to the MPS Capital Services Banca Per le Imprese SPA Pension Fund has been presented as an attachment to the Explanatory Notes.
The financial statements are subject to formal audit by Reconta Ernst & Young S.p.A., which on 12 March 2015 issued its report; account is provided further on in this report of this and the work carried out by the independent auditing firm, insofar as the Board of Statutory Auditors is responsible.
With regard to the supervisory activities on the administrative-accounting system of the bank, this Board of Statutory Auditors has taken steps to confirm the adequacy on the basis of measures of the Internal Audit unit, meetings and direct assessments and via exchanges of information with the independent auditing firm.
The Board of Statutory Auditors met frequently with the Executive responsible for drawing up the corporate accounting documents. On such occasions, the same Executive did not report any significant shortfalls in the operating and audit processes which, in terms of significance, could invalidate the opinion of efficacy and efficiency of the administrative structures and suitability and effective application of the administrative-accounting procedures.
The organisational safeguards are therefore suitable for ensuring the correct representation of the economic, equity and financial situation of the bank and compliance with the IAS/IFRS international accounting standards and the reliability of the content of the Report on operations.
With regard to the joint document No. 2 dated 6 February 2009 (and subsequent updates) issued by the Bank of Italy, Consob and IVASS with regard to the application of the IAS/IFRS, this Board of Statutory Auditors formally acknowledges that the Report on operations and the explanatory notes have been drawn up with a view to the company as a going-concern given the assessment made on the ability to continue to operate as a going-concern, also in light of the equity enhancement envisaged and the matters illustrated in the Explanatory Notes on page 116.
In this connection, you are hereby reminded that the Bank's share capital has not been reduced due to the loss for the year (absorbed in full by the equity reserves) and that the measures for adaptation to the capital requirements requested by the banking Supervisory Authorities have already been resolved by the Board of Directors of the Company and the Parent Company.

AQR and up-date of the estimation methods for the value adjustments

With reference to the valuation of the receivables, the Board of Statutory Auditors emphasises that the net value adjustments booked to the income statement in 2014 amounted to €1,122 million compared with €257 million reported in the previous year in the same item.
The adjustments recorded in 2014 were significantly affected by the results of the Asset Quality Review (also "AQR"), the examination carried out by the European Central Bank to check the quality of the assets of the leading 131 European banking groups.
The analysis carried out during the performance of the AQR and the situation of great economic difficulty revealed during the year in the main sectors of activities in which the Bank operates, had led the MPS Group and the Board of Directors of Capital Services to up-date the accounting policy for the recognition and measurement of the receivables, reviewing methods and parameters and extending the application of the new policy to all the loan books, even if not

included within the scope of the AQR.
As described in the explanatory notes, the review of the policy led to a deterioration in the costs for the year by €695 million, while all the adjustments considered to be "non-recurrent" in nature amounted to €957 million. The formalities for the up-dating of the parameters qualify, in accordance with IAS 8 (section 5), as an "estimation change" since the measurement base of said receivables has not been changed.
In consideration of the significant impact of this review of the parameters, the Board of Statutory Auditors examined the activities carried out by the Company as the time of the AQR, the results of this check and the criteria for extension to the additional loan books. This examination was carried out in the first instance by means of discussion with the heads of the loan sector and analysis of the reference documentation.
Furthermore, the analysis of the same carried out on the consistency of the up-dates applied to the estimation parameters and the loan classification methods, was discussed and examined with the independent auditors.

Financial operations

With reference to the financial operations, the Bank achieved significant results, having also taken into account the reduced amount of capital allocated to these activities, whose absorption level was constantly monitored and kept under the established use threshold.

Independent Auditing firm and Certification of the financial statements

The Bank, in compliance with the policy defined by the Parent Company aimed at having the same independent auditor for each company in the Group, during the Board meeting held on 14 March 2014 had resolved to propose to the shareholders' meeting, called to approval the 2013 annual financial statements, the revocation - as from 2014 - of the appointment granted to KPMG S.p.A. in 2011 for nine years.
The independent auditing firm Reconta Ernst & Young therefore received the appointment for the accounts audit for the years from 2014 to 2022 from the shareholders' meeting held on 28 April 2014, further to the proposal formulated by this Board of Statutory Auditors as per Italian Legislative Decree No. 39/2010.
The same company forwarded the certification report on the financial statements of the bank as of 31 December 2014, dated 12 March 2015, without findings and judged the same to be drawn up clearly and such as to represent the equity-financial situation, the economic results and the cash flows of MPS Capital Services S.p.A. as of 31 December 2014 in a clear and correct manner.
The Board of Statutory Auditors has duly noted that the independent auditing firm has included in its certification, under section 4, a disclosure reference relating to the circumstance that *the result in 2014 led to the occurrence of an equity shortfall for regulatory purposes* and, furthermore, made reference to the circumstance that, *on 12 February 2015, the Parent Company communicated the favourable stance expressed by its Board of Directors for the purpose of launching the procedural and authorisation process for complying with the capital enhancement of the Company to the extent necessary for making up the capital shortfall mentioned previously.*
The Board of Statutory Auditors also duly noted that the independent auditing firm has included in its certification the opinion on the consistency between the report on operations and the financial statements and carried out the procedures as indicated in the accounting standard No. 001 issued by the Italian Accounting Profession, as recommended by Consob.
No reports have been received from the same on events deemed reprehensible revealed during the performance of the independent audit activities.
The Board of Statutory Auditors reveals that it has not come across the presence of problematic issues relating to the possession of independence requirements by the independent auditing firm and that it has received confirmation in this sense from the same auditors as per Article 17.9, letter a) of Italian Legislative Decree No. 39/10.

The Board of Statutory Auditors specifies that the firm Ernst & Young Financial Business Advisors, linked to the independent auditing firm Reconta Ernst & Young, has been entrusted with the advisory appointment to support the activities for implementation of the "Bank of Italy 263 Circular" project; for the performance of this appointment, the Bank has paid a fee, net of VAT, of €140 thousand. This appointment, as declared by the same independent auditing firm, does not relate to activities incompatible with the performance of the accounts audit in accordance with the matters envisaged by Article 17 of Italian Legislative Decree No. 39/2010.
During 2014, no cases occurred which would require the issue by the afore-mentioned independent auditing firm of mandatory opinions as per the law.

4. OTHER AUDIT AND CERTIFICATION ACTIVITIES

Renewal of the appointments of the Directors

The shareholders' meeting held on 28 April 2014 renewed the board appointments for a three-year period, until that is the approval of the financial statements referring to 31 December 2016. Subsequently, as from 8 November 2014, the Director Lucia Savarese and, from the office of Vice-Chairman, the Director Angelo Barbarulo tendered their resignations; the latter however maintained the office of director.
The shareholders' meeting held on 17 December 2014 appointed Prof. Paola Demartini as director and Vice-Chairman.
This Board of Statutory Auditors took steps to carry out an independent check with regard to the correct application of the criteria and the assessment procedures adopted by the Board of Directors for ascertaining the independence of its members.

Transactions with related parties and associated parties, obligations of the banking representatives

It is formally acknowledged that the transactions with related parties have always been subject to analysis by the Board of Directors and, with regard to the pertinent aspects, this Board of Statutory Auditors. In this connection, the Company has adopted Regulations which discipline the transactions entered into by Listed Companies also via Subsidiaries further to acknowledgement of the related Parent Company Directive; thus in implementation of Consob Resolution No. 17221 dated 12 March 2010 as amended by resolution No. 17389 dated 23 June 2010, with effect as from 1 January 2011.
Having duly noted that during the year the Bank carried out intergroup transactions and/or related-party transactions, the Board of Statutory Auditors has checked that the same were not atypical and/or unusual and that they took place on an arm's-length basis (i.e. at market conditions).
A summary representation of the balances of these transactions is found in the explanatory notes. Again with regard to the performance of atypical and/or unusual transactions, this Board of Statutory Auditors has not detected the existence or received reports, in this connection, from the Independent Auditing Firm or from the head of the Internal Audit unit.
With reference to the transactions with associated parties, suitable periodic reporting has been provided to the Board of Statutory Auditors by the competent units of the bank. In this connection, current legislation in fact envisages that the decision-making bodies/units of MPSCS provide, via the Compliance unit, specific disclosure to the Board of Directors, the Independent Directors, General Management and the Board of Statutory Auditors with regard to the transactions of greatest and minor importance concluded.
The Board of Statutory Auditors has also carried out suitable checks to ensure that the transactions performed with the parties who cover the function of administration, management and control of the Bank have been carried out in observance of Article 136 of the Consolidated Banking Law (TUB) and the Supervisory Instructions and are, in any

event, subject to resolution adopted by unanimous vote of the management bodies and the Statutory Auditors, without prejudice to the obligations envisaged by Article 2391 of the Italian Civil Code regarding the interests of directors, also duly applied and observed.

Related Party Committee

The Company's Board of Directors, by means of resolution dated 8 June 2012, established the Independent Directors' Committee, made up of three Board Directors in possession of the independence requirements and defined the "Resolution procedures regarding transactions with associated parties" by means of a Regulation.
Following the renewal of the Company's Board of Directors in April 2014, the same functions were entrusted jointly to the only two Independent Directors present on the Board, as per the matters envisaged in circular 263.
Further to the shareholders' meeting resolution dated 17 December 2014, which appointed Prof. Paola Demartini as director (in possession of the independence requirements), steps were taken to form the *Related Parties Committee*, therefore made up of three Independent Directors.
The duties of the Committee are those outlined by the Bank of Italy Circular dated 12 December 2011 and by the specific Policy adopted.
The Committee takes steps to carry out the activities preparatory to the internal assessment and the checking of the qualitative-quantitative composition of the Board of Directors. In this sense, the Committee has taken steps to carry out - also at the time of replacement of a member of the Board of Directors - the activities functional for checking the adequacy of the qualitative-quantitative composition with respect to the optimum composition criteria previously established by the same Management Body.
In compliance with the matters envisaged by its Regulations, the Committee took steps to report quarterly to the Board of Directors on the transactions with related parties and associated parties carried out by the bank on the basis of the report sent by the Compliance Unit.
The work carried out by the Committee did not reveal situations and/or transactions incompatible with the rules established in this connection by the Bank.

Remuneration policy

The Board of Statutory Auditors checked that the Board reported to the shareholders, during the shareholders' meeting held on 17 December 2014, on the remuneration policies adopted and on their application for 2013.

Fairness opinions

The Board of Statutory Auditors has periodically checked the fairness and compliance opinions with regard to the regulatory requirements on netting transactions for the exposure deriving from OTC derivative transactions. The collateral management agreements on derivative transactions have also been periodically represented.

Other certification

No complaints have been made to this Board of Statutory Auditors as per Article 2408 of the Italian Civil Code, nor any petitions of any kind.
On the basis of all the activities carried out and an examination of the information obtained by the independent auditing firm, no omissions and/or irregularities or in any event significant events which would required reporting to the Supervisory Bodies or mention in this report, emerged.

* * * *

Conclusions

In conclusion, on the basis of the matters stated above, the Board of Statutory Auditors expresses a favourable opinion with regard to:

- approval of the financial statements for the year ended 31 December 2014, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity with the related changes in the reserves, the cash flow statement and the explanatory notes, as well as the related attachments and the Report on operations;
- the proposal for the coverage of the loss for the year as formulated by the Board of Directors.

Florence, 25 March 2015

THE BOARD OF STATUTORY AUDITORS
s/Francesco Bonelli - Chairman
s/Federico Caputi - Acting Auditor
s/Daniela Moroni - Acting Auditor

[1] *MPS Ireland was absorbed in Banca Monte dei Paschi di Siena with effect as from 11 February 2014 and starting from 1 January 2014.*

[2] *With regard to quantitative figures, please see the matters illustrated in section H of the Explanatory Notes.*

[3] *MPS Ireland was absorbed within the Parent Company. The transaction took place in February 2014, with effective as from 1 January 2014.*

[4] *The Models have been up-dated to acknowledge the indications laid down by the new international Supervisory regulations (so-called "Basel 3").*

[5] *Circular No. 285 XVth update dated 17 December 2013.*

[6] *The AQR process was preparatory to the undertaking by the European Central Bank (ECB), as from 4 November 2014, of the supervisory responsibilities on the lending bodies in the Euro Zone, on conclusion of a preparatory phase of one year which envisaged an in-depth examination of the solidity and the financial statements of the leading banks in the area.*

[7] *Bank of Italy Circular No. 263 (Part V, Chapter 5, Section III Resolution procedures, paragraph 1) envisages that "For the performance of the duties of the body with strategic supervision functions (....) If a sufficient number of directors in possession of the necessary requirements is not present, the duties are carried out individually by a sole independent director or jointly in the event there are two".*

[8] *Current name adopted, in relation to the implementation of the fulfilments as per circular 263.*

RESOLUTIONS OF THE SHAREHOLDERS' MEETING

The shareholders' meeting, called in ordinary and extraordinary session and held in first calling on 13 April 2015, resolved in ordinary session:

POINT 1a OF THE AGENDA
To approve the 2014 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 Explanatory Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors.

POINT 1b OF THE AGENDA
To use reserves to cover the loss for 2014 amounting to €587,503,146.87 as follows:

- with regard to €42,766,572.59 by means of use of the reserves established at the time of initial application (FTA First Time Adoption) of the IAS standards;
- with regard to €367,768,195.50 by means of use of the extraordinary reserve;
- with regard to €176,968,378.78 by means of use of the merger surplus reserve.

POINT 1c OF THE AGENDA
Provisions as per Articles 2359 *bis* and 2357 of the Italian Civil Code and Article 132 of Italian Legislative Decree No. 58/98; purchase of shares of the parent company Banca Monte Dei Paschi di Siena S.p.A..

- to grant the Board of Directors, for a maximum period of 18 months as from the day after the shareholders' meeting, authorisation to purchase Banca Monte dei Paschi di Siena S.p.A. shares up to a maximum of 30,000,000 (thirty million) ordinary shares, in observance of the current brokerage formalities of the stock market and exclusively on the market managed by Borsa Italiana S.p.A..

The shareholders' meeting subsequently resolved, in extraordinary session:

POINT 2a OF THE AGENDA

- To increase the share capital up to a maximum amount of €691,086,865.70 divided up into ordinary name-registered shares of €0.31 Euro each to be carried out by 31 December 2015, in tranches, by means of the issue of up to 1,337,587,482 ordinary shares with regular dividend rights, to be offered under option to the shareholders, as per Article 2441 of the Italian Civil Code and related amendment of Article 4 of the Articles of Association and related and consequent resolutions.

POINT 2b OF THE AGENDA

- To amend the Articles of Association relating to the adaptation to the provisions contained in the Bank of Italy circular No. 285 dated 17 December 2013, section IV, part I, 1st up-date of 6 May 2014 ("Bank of Italy Instructions on Corporate Governance").

MPS

CAPITAL SERVICES

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