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

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2012

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

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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 constitution	**1954** as Mediocredito Regionale della Toscana
Registered head office	**Florence** - Via Pancaldo, 4
General Management	**Florence** - Via Panciatichi, 48 Telephone +39 055-2498.1 - Fax +39 055-240826 Website www.mpscapitalservices.it
Global Markets	**Siena** - Viale G. Mazzini, 23 Telephone +39 0577-209111/ 53711 - Fax +39 0577-209100
Investment Banking Head office	**Rome** - Via Piemonte, 127 Telephone +39 06-42048325 - Fax +39 06-42016914
Market Protection Structure	**Milan** - Via Dante, 14 Telephone +39 02-88891922/30 (Electronic Channels) Telephone +39 02-88891924/40/21 (Financial Institutions Italy and Abroad)
Branch	**Rome** - Via Marco Minghetti, 30 Telephone +39 06-42006611 - Fax +39 06-42006680
Representative Offices	**Turin** - c/o Banca Monte dei Paschi di Siena Via Mazzini, 14/16 Telephone +39 011-837445 - Fax +39 011-8812091
	Milan - Via Santa Maria Segreta, 5/b Telephone +39 02-88233210 - Fax +39 02-88233233
	Padua - c/o Banca Antonveneta - Piazzetta Turati, 17 Telephone +39 049-6991659 - Fax +39 049-6992195
	Mantua - c/o Banca Monte dei Paschi di Siena Head office of North East Area - Via Vittorio Emanuele II°, 30 Telephone +39 0376-313563
	Bologna - Via Riva di Reno, 65 Telephone +39 051/6486718 - Fax +39 051/2960284
	Siena - Viale G. Mazzini, 23 - Telephone +39 0577-271928
	Perugia - c/o Banca Monte dei Paschi di Siena Ponte San Giovanni - Via Manzoni Telephone +39 075/398040 - Fax +39 055/240826
	Ancona - c/o Banca Monte dei Paschi di Siena Via 1° Maggio, 70/A Telephone +39 071-2905009 - Fax +39 055-240826
	Naples - c/o Banca Monte dei Paschi di Siena Piazza Municipio - Ang. Via Medina - 1st Floor Telephone +39 081/6057393 - Fax +39 081/7341067
	Bari - c/o Banca Monte dei Paschi di Siena Piazza Aldo Moro, 21 Telephone +39 080-5226268 - Fax +39 080-5220077
	Catania - c/o Banca Monte dei Paschi di Siena Piazza della Repubblica, 32/38 Telephone +39 095-7348321 - Fax +39 095-7348300

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

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

BOARD OF AUDITORS

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

MANAGEMENT

General Manager	Giorgio PERNICI
Assistant General Manager	Carmine MANCINI
Assistant General Manager	Federico VITTO

AUDITING COMPANY

KPMG S.p.A.

Ratings

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

LONG-TERM DEBT RATING:	**Ba2**
SHORT-TERM DEBT RATING:	**Not Prime**
FINANCIAL STRENGTH RATING:	**E**

In the course of 2012, the long-term debt rating was downgraded by three notches, from Baa2 to the current Ba2. This revision is a direct consequence of the downgrade that involved the Parent Company Banca Monte dei Paschi di Siena. Moody's outlook on all ratings is currently negative.

Shareholding Structure

As of 31 December 2012, the Share Capital broke down as follows:

Shareholder	*Number of shares*	*Amount in units of one Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	891,016,938	276,215,250.78	99.92%
I.N.A.I.L.	239,634	74,286.54	0.03%
Other shareholders	468,416	145,208.96	0.05%
Total	**891,724,988**	**276,434,746.28**	**100.00%**

REPORT ON OPERATIONS

Reference Context

The debt crisis continued in **2012,** with focus on operators, analyses and policy makers, especially on Greece and Spain. The European Central Bank (ECB) and the Federal Reserve System (FED) introduced new unconventional measures. The ECB put into practice the second LTRO operation for a three year term, while in September the FED resumed the bond purchase plan (the so-called QE3), the effects of which were evident above all on the bond market (Fig.1), although at alternate phases in the Euro area and in a more constant and uniform manner in the USA which benefited from the *flight to quality* effect.

Fig.1 - 10 YEAR SPREAD ITALY AND SPAIN

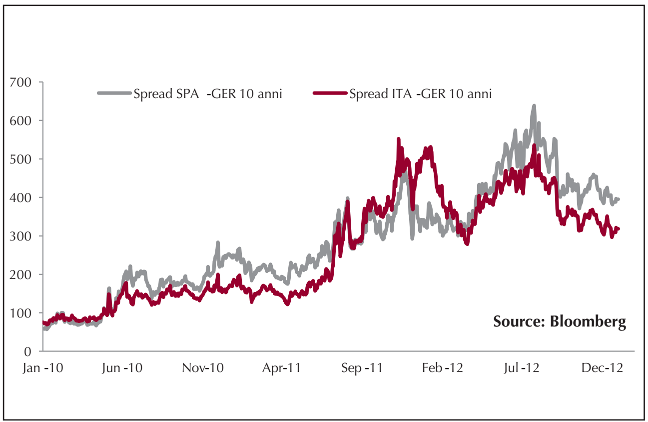
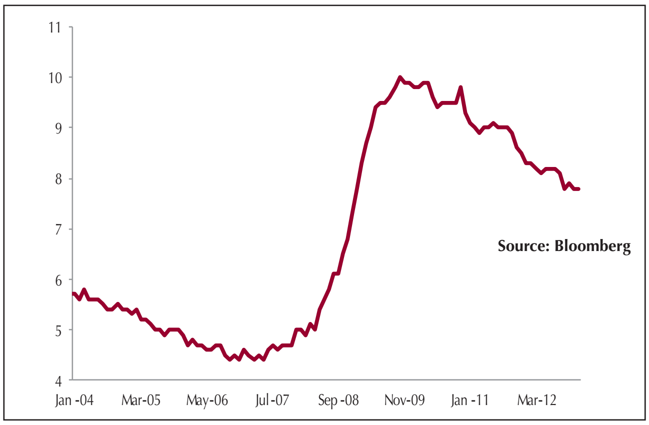


Fig. 2 - USA UNEMPLOYMENT RATE



In **Greece** lengthy negotiations were carried out for the issue of *tranche*s of aid already agreed previously, until reaching a plan for the *buy back* of the debt recently implemented after the preceding restructuring of February 2012. **Spain**, however, had to resort to an aid plan for the banking system for an amount of around € 40 billion. In addition, the central Spanish administration had to sustain the difficulties consequent to the strong indebtedness of the local administrations, creating a special fund of € 18 billion. In order to avoid the crisis extending also to other countries, causing strong risks to the stability of the single currency, the main European representatives met several times during the year that has just closed, seeking, as far as possible, definitive solutions to the problem. One of these, worthy of mention, is the activation of the new permanent ESM salvage mechanism which, as of July 2013, will replace the EFSF fund, to sustain countries in difficulty. In the meantime, the two funds will continue to practise their activities in parallel. After that date, the EFSF will complete only the programmes already in progress.

On the **macroeconomic front,** growth was strongly penalised in 2012. The need to restore public accounts pushed governments of the Euro area to adopt austerity measures which penalised economic growth, causing several countries of the area to fall into recession. From the analysis of the average value of the range of the estimates published in December by the ECB staff, the forecast GDP of the Euro area should fall by 0.5% in 2012 and 0.3% in 2013.

With regard to **government rates in the Euro area**, the year can be divided into two parts. In the first part, an increase in the rates of the peripheral countries increased, influenced by the increased tension in Greece and, above all, in Spain and successively in Italy. In the second part, however, the increased efforts on the part of the European authorities to seek a definitive solution to the debt crisis, and above all the announcement of a new bond purchase plan on the part of the ECB led to a fall in the peripheral rates, especially in Italy.

The strong political divergences contributed to slowing down the activity of the ESM and there was a consequent decrease in the confidence of the operators in respect of the timing of the solution of the crisis. The worsening of the crisis led the ECB to put into practice new unconventional manoeuvres. In fact, in addition to reducing the benchmark interest rate by 25 pb (bringing it to 0.75%), it announced a new bond purchase plan on the secondary market which, however, depends on a similar action on the primary market by the EFSF/ESM funds. In turn, the two funds took action only after a memorandum of understanding was signed on the part of the applicant country. The announcement helped to reduce the spread of the peripheral countries.
In the **United States**, the year 2012 was marked by signs of recovery in the real estate area and the employment rate (Fig.2), which factors, however, were not deemed satisfactory by the RED in terms of the speed of the recovery shown. This is witnessed by the implementation, in September 2012, of a third securities purchase plan linked to mortgages, for a monthly sum of 40 billion USD, with successive extension of the plan in December for a further 45 billion of government securities (USD) always on a monthly basis. The FED also undertook to keep the bank rate firm at near 0% until the following three conditions were fulfilled: a) contraction in the unemployment rate to at least 6.5%; b) inflation rate above 0.5% in respect of the long-term target set at 2% (or 2.5%); c) forecasts of inflation under control.
With regard to **currency**, the year featured a *risk-off* phase which regarded mainly the first part of the period, with an opposite trend in the second half. In the first half, in fact, after an initial phase of greater inclination for risk following the ECB decision to launch the two 3-year LTRO operations, the focus returned to the crisis in the Euro area. The fear that if Greece left the area a domino effect would be triggered off in the other peripheral countries, caused operators to considerably reduce positions on risk assets, especially European risk assets. All this resulted in a decided depreciation of the single European currency and of the emerging currencies, the latter penalised in the meantime by the expansion policies adopted by the central banks. However, in the second half, the crisis in the Euro area reached a turning point with the words which Draghi pronounced at the end of July (Fig.4). The determination shown by the Institute, ready to anything necessary to preserve the Euro, had a considerable impact on the markets. In addition to the single currency, the recovery movement mainly regarded the commodity currencies, except for the South African rand and the Brazilian real. The first, in fact, suffered from the social tensions which burst out during the summer, while the second was negatively influenced by the expansion policy adopted by the Central Bank, in view of the strong deterioration of the macro situation. The FED also contributed to the climate of greater inclination for risk, with a third QE (*quality easing*) plan in September 2012, with successive extension announced in December.

Fig. 3 - ECB INTEREST RATES

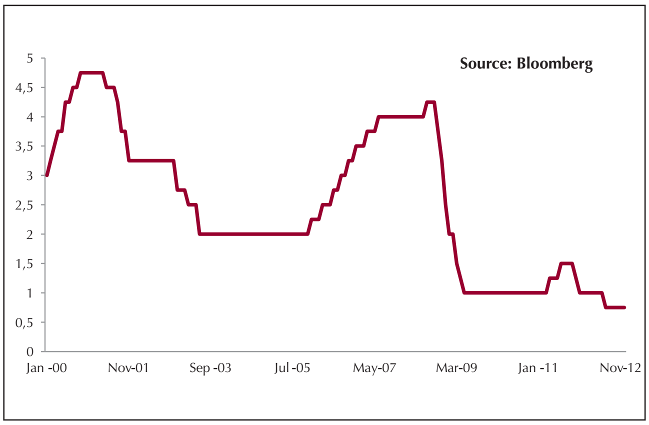
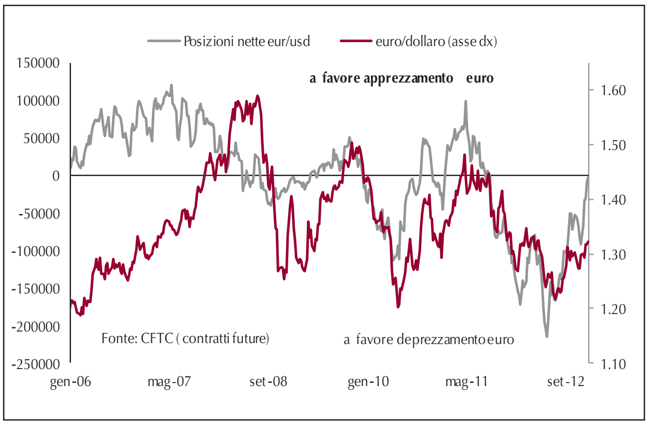


Fig. 4 - EURO/DOLLAR AND SPECULATORS



In 2012, there was a generalised deceleration of the real economy in the **emerging area** in the wake of the recession in the Euro area. In fact, the GDP of China, the driving force of the Asian area, failed to reach double figures this year.

In 2012 the Chinese growth slowed down, with the GDP increasing by 7.8%, the lowest recorded in the last thirteen years, even if growth accelerated in the last quarter. To stimulate the economy, during the year the authorities twice cut the benchmark rate on one-year loans (from 6.56% to 6%) and once that on deposits (from 3.50% to 3.25%). In addition, the rate on the obligatory reserve was cut several times, bringing it from 21.5% to 20% for the large banks, to 16% for cooperative banks, and to 18.5% for agricultural banks. In September, the Chinese government announced a plan of investments in infrastructures for the next years, in an attempt to relaunch growth. In October 2012, the Chinese People's Party elected the members of the new executive for the next ten years and in March 2013 the election for the new leader will be held. The country's economic policy seems oriented towards stimulating domestic demand in order to attempt to continually reduce dependence on exports. Most of the other emerging economies, such as Turkey, India and Brazil, also attempted to implement expansion monetary policies, aimed above all at stimulating the economy. In Brazil, in particular, a series of domestic investments was put on the table also in view of the sports events which the country will host in the forthcoming years. The same policy aimed at favouring internal investments was implemented by India, which launched a plan of reforms in September. Russia, on the contrary, was the only emerging economy whose central bank had to raise the interest rate in order to attempt to control the inflation tendency, caused above all by the increase in the prices of agricultural produce.
With regard to **raw materials,** the S&P GSCI *Excess Return* index closed the year at the same level as 2011, having increased in the first and third quarters, with a strong fall in the second quarter, and a moderately decreasing phase towards the end of 2012. The agricultural sector, because of the severe drought which hit the USA, and the precious metals sector, showed the best performances. There was a slight rise for industrial metals, while energies closed with a slight fall (Fig. 5). The Brent followed the trend of the general index, closing the year at around $111, with a rise of just over 3%. Gold reached the level of $1800/ounce, but then decreased and closed the year at 1675, showing a rise, in any case, of 7%.
With reference to the **equity markets**, 2012 closed with a rise of the Stoxx600 (+14.4%) thanks to a second part of the year which benefited from the greater confidence on the Euro area after the expansion measures announced by Draghi in the summer. The increases regarded all the main stock markets of the world, with Nikkei 25 jumping up by about 23%, and S&P500 by 13.4%. The emerging markets also did well, with the MSCI EM index (expressed in USD) rising by 15.2%. Of the main world listings, the only one which closed negatively was that of Spain: Ibex (-4.7%).
As regards the **volatility of the stock indices**, it was greater in the first part of the year, in line with the turbulences arriving from the Euro area. After a peak of volatility recorded in June, there was a marked fall for practically the whole of the second six months of the year, except for a strong temporary increase at the end of the year because of the fears linked to the USA *fiscal cliff*. During the year, both the Vix and the Vdax touched the lowest points since 2007 (Fig.6).

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

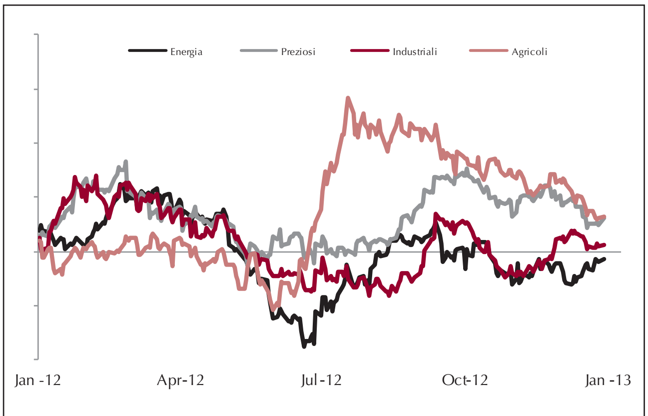
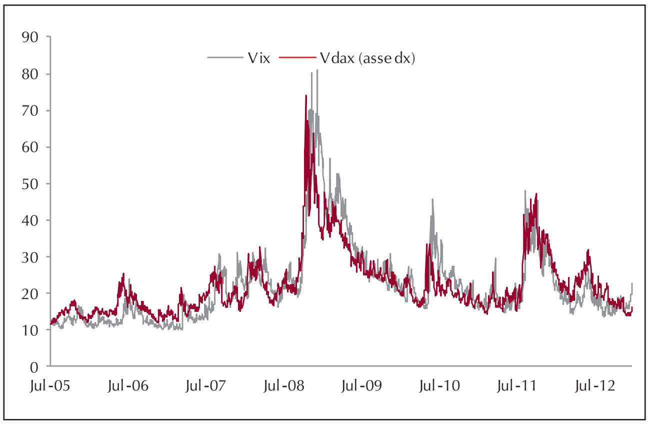


Fig. 6 - VIX VS. VDAX



Significant Aspects of Operations

The "Business Units" (hereafter BU), unchanged with respect to last year and on which the pursuit and operational monitoring of the Business Plan is articulated, are:

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

With regard to the **"Ordinary Finance**" BU, both the stipulations and the issues were far below the provisional forecasts expressed when the budget was drawn up (respectively -16.2% and -10.9%), which contraction was partly due to greater selection of the clientèle.

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2012*	*Budget as at 31/12/2012*	*Percent deviation*
Stipulated transactions	419.1	500.0	(16.2%)
Issued loans	685.9	770.0	(10.9%)

For the Low Interest Financing sector, the Bank continued to perform its role as the "managing party" on behalf of the Ministry for Economic Development and the Ministry of Education, Universities and Research (MEUR), relative to public incentives for research and industrialisation. To this regard, the following new activities are mentioned:
- the launch of the inquiry phase of four research projects, within the sphere of the MEUR call for tenders reserved to technological clusters and destined to initiatives of relevant dimensions for a total value of € 46 million; of these, we mention in particular the research programmes promoted by the following companies: STMicroelectronics S.r.l., Novartis Vaccines and Diagnostics S.r.l., Dompè S.p.A., Barilla G. e R. Fratelli S.p.A., Parmareggio S.p.A., Whirpool R&D S.r.l., Granarolo S.p.A., Ponti S.p.A., Monini S.p.A.;
- the launch of the inquiry phase of two MEUR projects promoted by Spin-Offs of Siena University and Bari Polytechnic.

Activity continued on nine research and development projects relative to the so-called "negotiating procedure" destined for initiatives of large dimensions (a total of € 240 million), and inquiries were concluded on three projects of the Smart Cities tender (a total of € 63 million.
We lastly mention that the activity within the scope of the TGC which was formed, led by MCC-Banca del Mezzogiorno, for the management of the Guarantee Fund for the SME, in which we are involved mainly in promoting and developing the low interest instrument in question.

As in previous years, the activities of the "Corporate Finance" BU were affected by difficulties in the international and domestic macroeconomic scenario, which also generated a strong reduction in companies' risk appetite and development plans, especially for operations of considerable entity.
Given the BU's reference product type (Project Financing, Acquisition and Object Finance), the most evident impact of this decrease was seen in stipulations (-43.6% out of the budget), while for disbursements, due to existing projects, the drop from the budget's commercial targets was -25.9%.

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2012*	*Budget as at 31/12/2012*	*Percent deviation*
Stipulated transactions	451.0	800.0	(43.6%)
Issued loans	615.1	830.0	(25.9%)

A summary of the activities carried out by the single sectors is given below.

1 - Equity investments and operations

With regard to the investments portfolio, acquisitions were made in 2012 for € 48.6 million, of which € 45 million in the fourth quarter of the year. In particular, in the last quarter of 2012, in execution of the arrangement with creditors of Holding BF (Baldassini and Tognozzi Group), we were assigned 16.38% of the share capital of Fenice Holding (€ 42 million). Within the scope of the restructuring of the loan of a pool of banks to Targetti Sankey S.p.A., part of the credit was converted into shares of the company, assigned to the Bank in November (for a counter value of € 2.9 million). In addition the capital invested in RE.GE.IM. (company in partnership with the Mezzaroma Group) was brought to about € 7.3 million.

The private equity activity, in support of the development of small and medium enterprises with strong growth potential, was carried out mainly through MPVENTURE SGR, which managed seven closed end equity investment funds reserved to professional investors, for a total original amount of about € 438 million. In 2012, this was liquidated for the early closure of the MPVenture 3 fund; there was a follow-on action for about € 0.05 million, in the name of and on behalf of the SIENA VENTURE fund, in the investee company Externautics S.p.A. in the form of a capital increase; the MPVENTURE SUD 2 fund carried out the early conversion of the bond loan into shares of the investee company Edizioni Master S.p.A.; lastly, the Emilia Venture fund sold its interest in Bellco S.r.l..

2 - Corporate Finance loans

The project financing activity continued its consolidated work in the sectors of infrastructures, utilities and renewable energies, in spite of the present economic-financial context featuring a generalised slow-down of works, although with certain liveliness in the infrastructures sector.

At the beginning of 2012, the Bank completed its entry into the bridge loan contract in a pool of leading national banks (for a share of € 75 million out of a total of € 546 million), for the construction of the new Brescia-Milan motorway.

The Bank is the leader of a pool to finance certain variants of the project for the restructuring and enlargement of Niguarda Ca' Granda hospital in Milan (for a total of € 44.3 million), in addition to the credit lines already granted and which have been partially used.

During the year, financial advisory mandates were signed in the following sectors:

- health, relative to both the planning and construction of new hospital structures (Leghorn and Trento), and the restructuring and expansion of an already operating health care structure (Monza);
- mass public rail transport, for the review and updating of the loan for the construction, management and maintenance of the underground-tram network of the Florence area and of Scandicci;
- road infrastructures, relative to the planning, construction and management of the Padana Regional Motorway “Nogara (VR) - Mare Adriatico” and the westward link with the A22 of the Brennero pass.

In the fourth quarter of 2012, a bridge loan was signed by a pool of banks on structured finance bases (in which the bank acts as agent) for a total of € 75 million (of which € 25 million represent the MPSCS quota), in favour of Publiacqua S.p.A. (Florence). The Bank has also obtained from Publiacqua the financial advisory mandate for the structuring of a medium-long term loan operation for the investments of the territorial plan.

Also in 2012, in a still difficult market context (M&A), the Bank confirmed its competitive positioning in the structuring and underwriting of acquisition/leveraged finance operations in the Mid Corporate segment. Of the main operations concluded in the year, we mentions, for their importance, the acquisitions of:

- Alpitour (tour operating) on the part of the Wise SGR and J. Hirsch & Co. private equity funds;
- Light Force (women's clothing with the Twin-Set label) promoted by the international private equity operator Carlyle;
- SIREMAR (Tirrenia Group; passenger sea transport) on the part of several Italian ship owners led by the Lauro Group;

- Pool Service (hair care products) promoted by the private equity operators Accord Management and Riello Investimenti SGR.

With regard to syndicate activities, during the financial year 2012, the Bank acted as leader for placing three loan operations on the market for a total amount of € 31.8 million (the MPSCS share is € 18.7 million).
With regard to the arranging activity carried out on behalf of the Parent Company BMPS, an operation was carried out by a pool for a total amount of € 13,100 thousand. To this regard, it must be underlined that this type of operation on one side contemplates lengthy structuring times, which in some cases may even exceed the financial year, and on the other continuous attention is required after the issue, not limited to restructuring if necessary, but also includes constant monitoring of the financial covenants and the management of relations with all the other subjects involved in the operation, *in primis* the other banks of the pool.
Regarding activities linked directly to the **"Global Market"** BU, in the first part of the year there was a positive trend which the Bank dealt with by gradually reducing its exposure to the risk. This allowed for facing the successive phase of turbulence with ample positioning disposition, and for benefiting from the further composition of the financial situation in the last quarter.

The commercial component mainly featured the contribution of the bankassurance (investment) products, Revenues from exchange and commodities coverage activities with corporate customers have decreased, in spite of the fact that the volumes of these latter increased by 13% on the 2011 total (the Group's internal policy has limited the products sold which allowed the customer greater flexibility of use and also major revenues). The remaining business lines were penalised by the economic situation; especially derivatives to hedge the interest rate suffered from the fewer loans granted, and the business with institutional customers in general was negatively influenced by the lower appeal of the MPS Group as counter part.

In 2012, operations began on the Tradeweb platform, an instrument for trading in Italian and foreign corporate securities, and a series of activities were carried out for the optimisation of the consumption of capital on derivatives (e.g. portfolio compression) and for the management of liquidity.

The "Global Market" BU played a leading role in the BMPS Group in the implementation of "eonia discounting" in the Bank's systems for the determination of the fair value of the OTC derivatives with counterparties collateralised on the eonia rate, as the risk-free rate of reference, instead of the traditional euribor rate. Subsequent to the financial crisis of 2008, the spread between the euribor rate and the eonia rate began, and continued, to increase, unlike the past when this differential tended to remain always stably around zero. This phenomenon led to a corresponding increase in the so-called "base risk" of the collateralised derivatives, i.e. a misalignment between derivative contracts valued at the euribor rate and the relative collateral paid according to the eonia rate. This new operating practice has become increasingly consolidated in recent years among our main brokers/counterparties and at the central counterparties (CPP), and therefore the Bank and the BMPS Group found it opportune to take adequate action on the Murex platform. The change, which took place in the first week of August, had a net positive effect in the valuation of the financial derivative instruments, of about € 18 million. In parallel, during the year, the valuation of the credit value adjustment (CVA) component for transactions in non-collateralised OTC derivatives was launched, and in part completed; this was mainly carried out with corporate customers to hedge the interest rate risk of medium-long term loans that they have stipulated with the Group. The adjustment of valuation of the credit risk, as a component of the entire valuation of the derivative, involved the registration, at 31 December 2012, of impairment of more than € 10.6 million, partly mitigated by the posting, on the Income Statement, of the relative collective impairment recorded in previous periods (€ 7.5 million).

In the fourth quarter of the financial year 2012, there was substantial consolidation of the economic result with a gradual reduction of the risk positions and greater difficulty in finalising the commercial action because of the sub-investment downgrade.

In 2012 the **"Investment Banking"** BU carried out its activity through its *Syndication Desk*, *Debt Capital Market, Corporate Advisory & Origination*, *Equity Capital Market, Securitisation* and *Principal Finance and Capital Market Solutions* offices; the interaction between the said offices allowed for the Bank to achieve important results, offering valuable support to the Parent Company's operations, albeit in a difficult macro economic context.

During the fourth quarter of 2012, the mandate was obtained form the Ministry of Economy and Finance to operate as dealer for the third issue of the BTP Italia (treasury bonds), which represented the largest operation in terms of size (more than € 18 billion) ever carried out in Europe on the part of a Sovereign Issuer. The activity involved assistance in drafting the documentation, the general structuring of the deal and the definition of the overall execution of the operation, especially in respect of the time to market and the pricing of the new product.

For the whole of 2012, the collaboration with the Parent Company continued, both in the field of the asset disposal operations contemplated by the EBA Action Plan and by the Group's 2012-2015 Business Plan, and within the scope of the primary bond operations, with the issue of two senior unsecured bonds of € 1.25 billion in the first quarter and € 500 million in the third quarter, placed with institutional investors, and the issue of ten guaranteed bank bonds, for a total of € 7.8 billion (of which 5 in the last quarter), aimed at improving the Group's counter balance capacity, for which MPSCS acted respectively as Joint Lead Manager, Joint Bookrunner and Dealer. Within the same field, in the third quarter, the Bank covered the role of Joint Dealer Manager for the Parent Company in the exchange offer (for a total sum of € 800 million), for the exchange of newly issued 3-year senior securities for junior securities of various levels (T1, UT2 and LT2) already on the market.

In 2012, the "Investment Banking" BU acted as Joint Lead Manager and Joint Bookrunner for the issue of two important senior bonds:
- Eni S.p.A. at 8 years, the first corporate investment grade issue of 2012, for a total issued of € 1 billion;
- Terna S.p.A. at 5 years for a total issued of € 1.25 billion.

In addition, the Bank participated as Co-Lead Manager in the placing of a senior 7.year bond for a total issued equal to € 500 billion on the part of Lottomatica S.p.A.
The Bank also coordinated the activities for granting guarantees and placing within the BMPS Group relative to the Public Subscription Offer addressed to the general public in Italy, of a Enel S.p.A. bond for a total issued equal to € 3 billion, and it provided for the placing, within the BMPS Group, for a Public Subscription offer of a 6-year bond on the part of Atlantia S.p.A. for a total issued equal to € 1 billion. In the first quarter of 2012, it also acted as Nominated Advisor of the TBS Group, a company listed on the AIM Italia market of Borsa Italiana, and it covered the role of Co-Lead Manager for the capital increase of Unicredit.

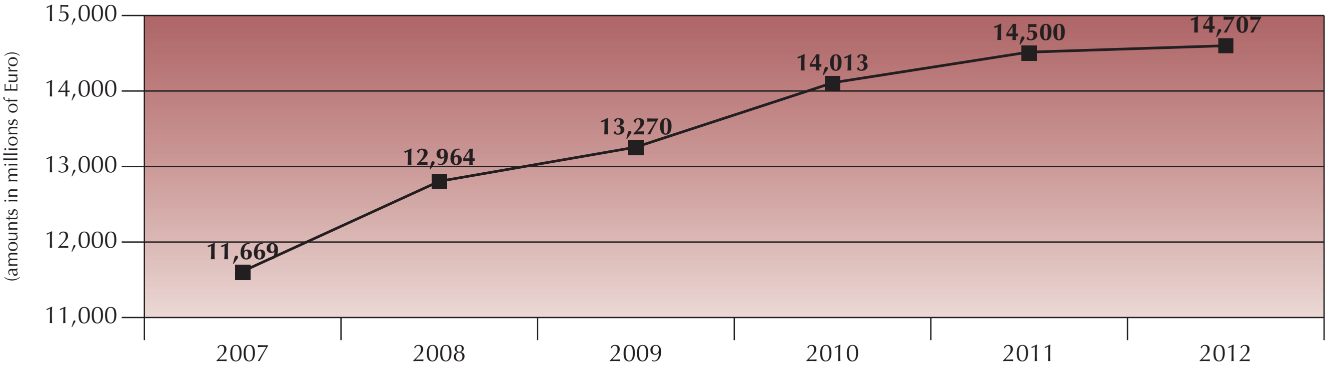
Lastly, the activities being developed, in concert with the Parent Company's Corporate Area, the Company developed proposals for the Group's sales departments linked to the new regulations deriving from the conversion into law of the so-called "Development Decree", which will make it easier for Italian companies not listed in regulated markets to take avail of the market of bonds and of bills of exchange.

Credit aggregates

TOTAL LOANS

Loans to customers, calculated according to management logic, as at 31 December 2012 amounted to €14,707 million, versus €14,500 million of the previous year (+1.43% on an annual basis).

TREND OF TOTAL LOANS
(“Management” view))



Below is the reconciliation of the management data as at 31 December 2012 with the balance of the asset entry 70 “Loans to customers”. The reconciliation amounts, shown in millions of EUR, derive from a different classification of the financial statement data with respect to the management disclosure:

Importo gestionale	**14.707**
Management amount	**14,707**
Operating receivables (1)	153
Prepaid expenses and accrued income and IAS differentials (2)	33
Credit for collateral and deferred premiums (3)	554
Valuation reserve on receivables (4)	(1,527)
Financial statement amount	**13,920**

(1) sundry receivables deriving from the “subsidised” management activities excluded from the “loans”;
(2) items deriving from the “non-interest bearing payables and receivables”, as well as the adj component for calculation of the amortised cost;
(3) items for collateral not linked to loans and premiums with deferred payment, both deriving from the “Global Market” BU activity;
(4) valuation reserves for receivables classified from the management perspective amongst “other liabilities”.

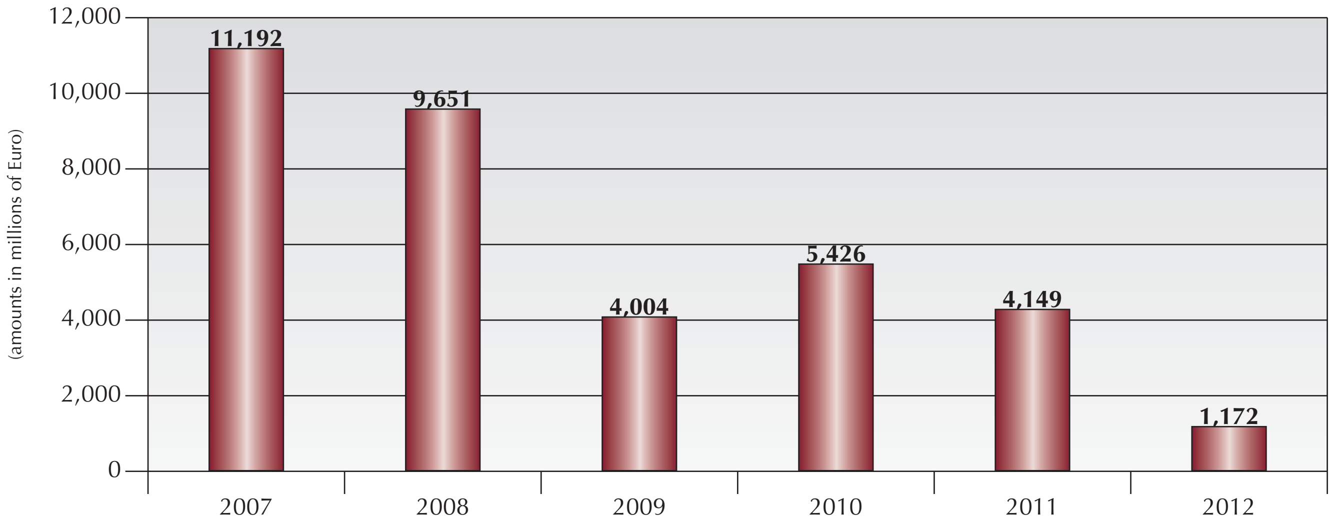
The table below analyses commercial flows for 2012.

APPLICATIONS FOR FINANCING SUBMITTED

(amounts in millions of Euro)

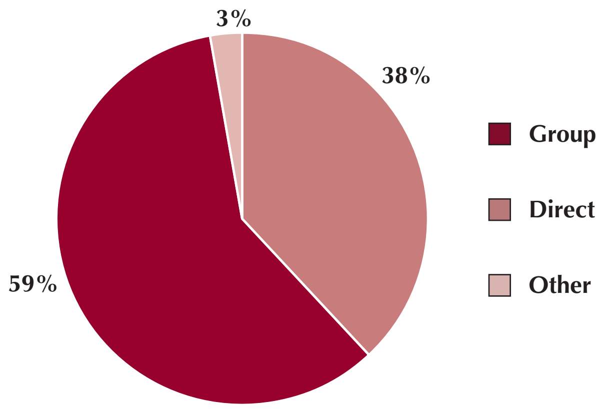
	2012	*2011*	*Changes*	
			Absolute	*%*
Number	298	492	-194	-39.4
Amount	1,172	4,149	- 2,977	-71.8

VOLUMES OF REQUESTS PRESENTED



The continuance of a heavily negative economic period in terms of GDP growth and therefore of internal demand both for consumption and investments has caused a very marked contraction in sales, which have reached the lowest level of the past few years. This phenomenon is not only clearly visible in terms of “requested credit” (- €2,977 million with respect to the financing applications of the previous year), but it is also evident in “substance” in all other credit processing “phases”. In fact, there were drops in the amount “authorised” (- €1,963 million, down by more than 70% compared to 2011) and in the amount “stipulated” (- €941 million, down 52.0% compared to the previous year's result). Obviously the amount issued was also much less than in 2011 (€ -789 million, equal to a decrease of 37.8%).

APPLICATIONS SUBMITTED IN 2012
Breakdown by Channele

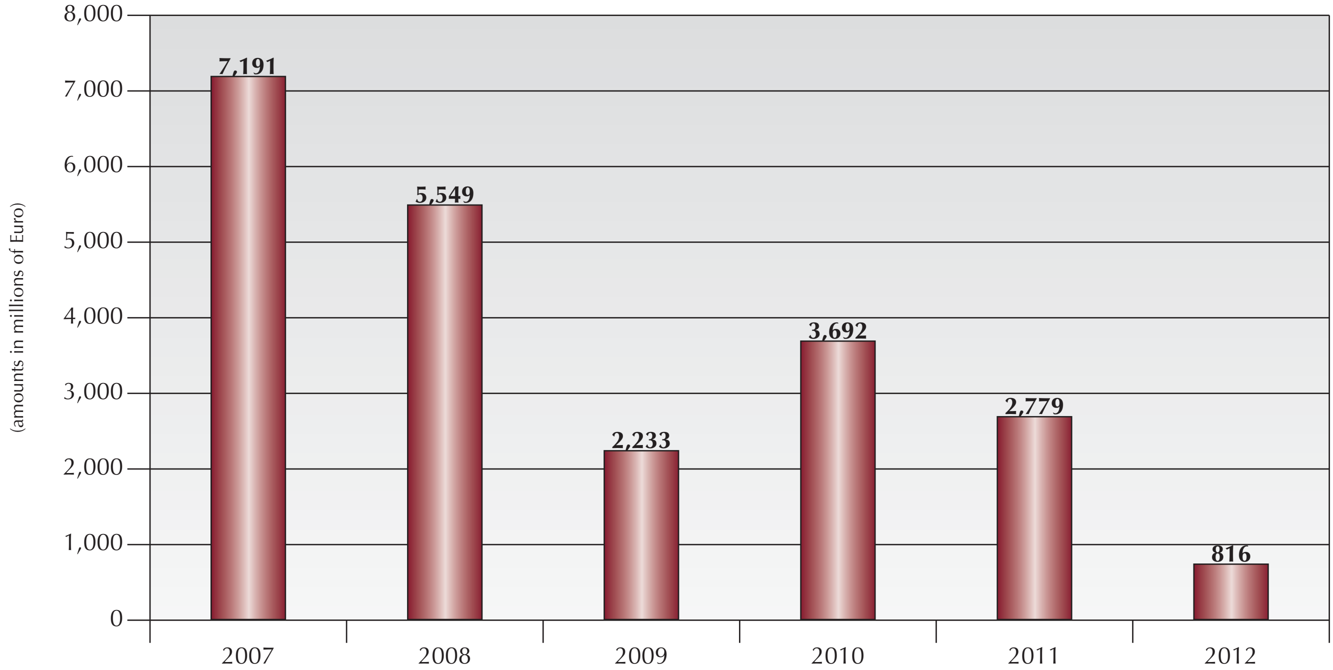


LOANS GRANTED

(amounts in millions of Euro)

	2012	*2011*	*Changes*	
			Absolute	*%*
Number	245	363	-118	-32.5
Amount	816	2,779	-1,963	-70.6

AUTHORISED TRANSACTIONS



RATIO OF LOANS GRANTED TO APPLICATIONS FILED

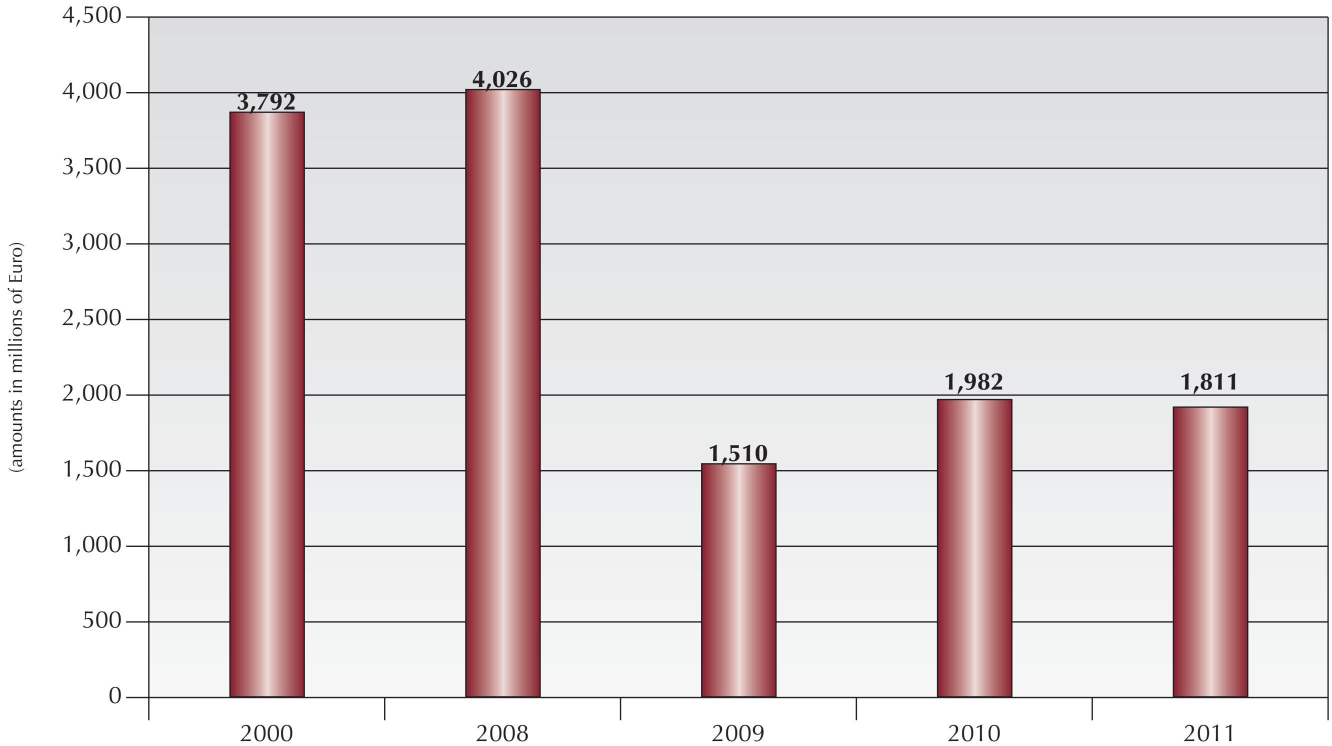
	2012	*2011*	*2010*	*2009*	*2008*
Number	82.2%	73.8%	69.1%	63.7%	66.2%
Amount	69.6%	67.0%	68.0%	55.8%	57.5%

AGREEMENTS ENTERED INTO

(amounts in millions of Euro)

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

OPERATIONS CARRIED OUT



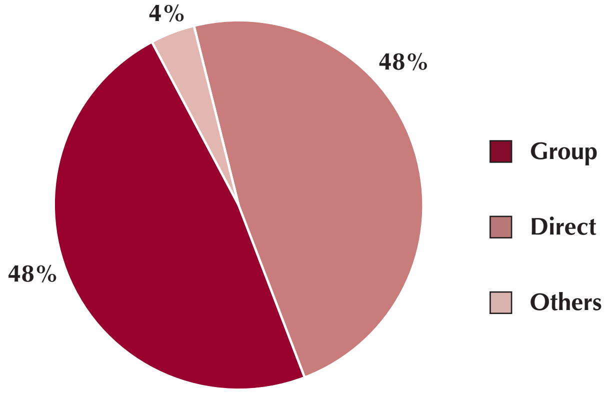
FINANCING DISBURSED

(amounts in millions of Euro)

	2012	*2011*	*Changes*	
			Absolute	*%*
Number	899	1,261	-362	-28.7
Amount	1,301	2,090	-789	-37.8

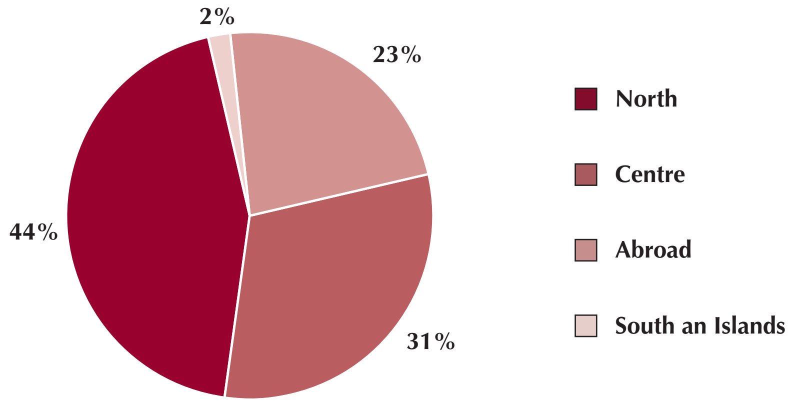
During the year, the Bank disbursed a total of just over €1.3 billion. In this respect, the number of "disbursements carried out" in any case remained high, as a result of the company policy, which has been consolidated over the years, to favour financing linked to future investments, to be made in compliance with precise production development plans. Therefore, financing is disbursed in several tranches, according to the "state of progress" of the works.

LOANS ISSUED 2012



With regard to the geographic distribution of the commercial flows, the policy of fully diversifying the portfolio continued; 31% was disbursed in Central Italy, whereas 44% was disbursed in the North and 23% in the South/Islands. Lastly, 2% pertains to operations with non-resident parties..

GEOGRAPHIC BREAKDOWN OF LOANS GRANTED IN 2012



IMPAIRED ASSETS

The tables below show the distribution of impaired assets as at 31 December 2012 by portfolio (amounts in thousands of Euro):

(amounts in thousands of Euro)

Cash exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	160		-	160
Loans to customers	4,775,548	(1,368,400)	(72,750)	3,334,398
Total	**4,775,708**	**(1,368,400)**	**(72,750)**	**3,334,558**

(*) These are bonds issued by the Lehman Group bought back in 2012.

(amounts in thousands of Euro)

Off-balance sheet exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	32,207	(30,398)		1,809
Guarantees given (**)	15,326	(1,710)	(641)	12,975
Commitments to disburse funds and other commitments	39,055	-	-	39,055
Total	**86,588**	**(32,108)**	**(641)**	**53,839**

(*) Resulting from impaired derivative positions towards customers
(**) Performing exposures are subject to collective adjustments for a total of €5,559 thousand.

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

(amounts in thousands of Euro)

Type of impaired assets	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Collective adjustments*	*Net exposure*
Non-performing	2,954,257	(1,042,444)	(163,238)	-	1,748,574
Watch-list	1,164,671	(137,208)	(15,875)	(40,850)	970,738
Restructured exposures	180,350	(7,414)	(24)	(8,600)	164,312
Exposures past due by over 90 days	476,270	(2,196)	-	(23,300)	450,774
Total (*)	**4,775,548**	**(1,189,262)**	**(179,137)**	**(72,750)**	**3,334,398**

(*) Performing loans are subject to analytical adjustments for default interest of €643 thousand and collective adjustment for €76,533 thousand. Analytical write-downs therefore amounted to €1,189,905 thousand, while collective write-downs totalled €150,063 thousand.

The successive analyses confirm the application of a policy for more conservative valuation of its own impaired credit, based on more severe parameters, in the light of both the worsening of the overall credit scenario and the momentary hesitant tendency of the Italian and international economy.
The balance of impaired assets, net of value adjustments and discounting, stands at €3,334 million; the change compared to the amount as of 31 December 2011 (€2,744 million) is €590 million (21.52%). Non-performing exposures deriving from loans to customers, net of financial assets held for trading, increased from €1,646 million as of 31 December 2011 to €1,749 million as of 31 December 2012 (+6.21%). The average impairment of non-

performing loans stands at 40.81% (34.52% at 31 December 2011); in fact, the Bank's portfolio is composed mainly of mortgage loans and the increase in value adjustments is due to a policy aimed at increasing coverage percentage and further reinforcing risk protection, in view of the present and forecast economic-financial scenario. Part of the increase is also the result of the moral suasion activity carried out by the Bank of Italy's supervisory body in the recent inspection of problem loans of the entire BMPS Group (which activity was extended to the Italian banking system). Gross and net non-performing loans account for 19.23% and 12.56%, respectively, of gross and net loans to customers (16.28% and 11.48% in 2011).
Watch-list loans increased from €776 million as of 31 December 2011 to €971 million as of 31 December 2012 (+25.15%). The average write-down of watch-list loans stands at 16.65% (16.00% as at 31 December 2011). Gross and net watch-list loans account for 7.54% and 6.97%, respectively, of gross and net loans to customers (5.98% and 5.41% in 2011).
Past due loans increased from €148 million at 31 December 2011 to €451 million at 31 December 2012 (+203,56%); the significant increase is also due to the adoption, as of 1 January 2012, of the new criteria contemplated for the regulatory provision which have reduced the late payment term for classifying receivables in this category from 180 to 90 days. The average write-down of past due loans stands at 5.35% (5.58% as at 31 December 2011). Gross and net past due loans account for 3.09% and 3.24%, respectively, of gross and net loans to customers (1.02% and 1.04% in 2011).
Restructured receivables decreased from €173 million as of 31 December 2011 to €164 million as of 31 December 2012 (-5.22%). The average write-down of restructured receivables stands at 8.89% (11.13% as at 31 December 2011). Gross and net restructured loans account for 1.17% and 1.18%, respectively, of gross and net loans to customers (1.26% and 1.21% in 2011).
In view of the continuing signals of deterioration of the economic situation of reference and the increase, registered in 2012, of unpaid differentials, exposures which present critical elements regarding recovery, the Bank has proceeded to register analytic adjustments for €30.4 million (posted as a reduction of item 20 of the assets “Financial assets held for trading”).

As already pointed out in previous years, the unfavourable economic market situation, which continues to regard all merchandise sectors with consequent problems in terms of company cash flows, has significantly influenced the above data. In particular, there has been greater recourse, on the part of borrowing companies and their consultants, to the instruments contemplated by the laws in force relative to company and debt restructuring plans, especially when several banks are involved; although providing important protection for the counterparties concerned, these initiatives always feature lengthy procedures which thus contribute, to a considerable extent, to extending the time required for requalifying debt positions as performing. It must also be remembered that as of 1 January 2012, the new criteria for the classification of receivables contemplated by the “Basel 3” Directive entered into force; this has reduced the terms for reporting “past due” from 180 to 90 days.
The appointed departments have paid special attention in the execution of the normal activities of controlling and monitoring the positions featuring financial tension: in this sense, the “renegotiation” tool of debts that are overdue or about to become overdue, applied to worthy positions as regards recovery possibilities and guarantees acquired, has now become part of the Bank's normal activity, together with the measures adopted by the ABI (the Italian Banking Association) for the usual recovery activity. About 440 positions have benefited from the dedicated ceiling of €600 million allocated for the 2012 financial year, of which about €520 million was absorbed.
Lastly, all the other initiatives, which have become consolidated (albeit in an increasingly more marginal quantity than in the past), aimed at limited the anomalous risk have continued: the “contact centre” activity, aimed at the early detection of customers' problems in respecting the normal loan repayment dates, and at collaborating with external companies and professionals specialised in recovery activities.

With regard for the income statement, during the year, analytical value adjustments were recorded for €338.5 million;

write-backs due to valuation amounted to €16.9 million, while those due to collection totalled €4.8 million. Discounting resulted in adjustments of €93.2 million, while the related write-backs and the interest totalled €100.4 million. Collective write-downs decreased by €37.6 million overall (net of €7.1 million of utilisations) reaching €150.1 million (including: €40.9 million to cover watch-list loans without doubtful outcome, €23.3 million for exposures past due by over 90 days, €8.6 million for restructured loans; €76.5 million to cover performing loans to customers and €0.8 million to cover performing loans to banks).
In percentage terms, flat-rate write-downs cover 0.97% of loans to customers (0.72% as of 31 December 2011). Ascertained losses with impact on the income statement of the period amount to €1.6 million; this sum does not include losses from credit sales for €7.9 million, which are posted under item 100 "Profit/loss from sales or purchases of a: credit".
For guarantees issued and commitments, a write-down of €7.9 million (€1.7 million of analytical adjustments and €6.2 million of portfolio adjustments) was recorded under "other liabilities", including €2.8 recognised during the current year.

Deposits

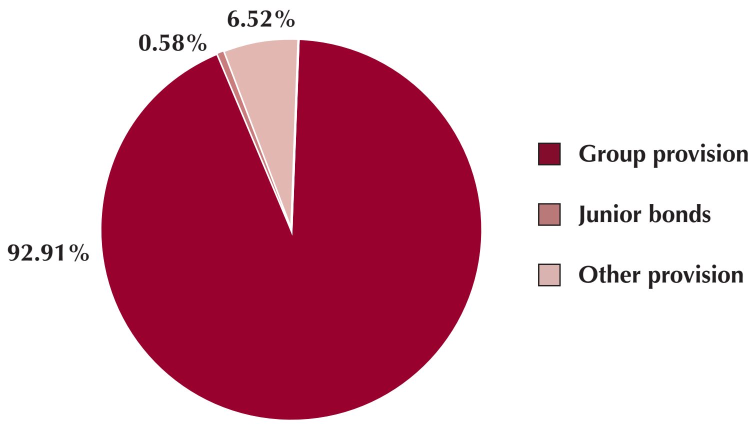
The financial need to support lending was covered by medium and long term loans granted by the Parent Company, for a total amount of €1,220 million (almost entirely replacing deposits which expired in the year), while the short-term provision decreased by €1,253 million (against an increase of €1,077 million in the previous year).
During the period the Bank, through the Parent Company, carried out provisioning operations with the national Deposits and Loans fund in order to favour a major inflow of medium-long term resources in favour of the SME, for an initial amount of €5.6 million.
Total amounts due to the Parent Company and its non-banking foreign subsidiary, MPS Ireland, totalled €17,212 million (€18,196 million at 31 December 2011), broken down as follows: €379 on demand (€465 at 31 December 2011), €4,567 short (€5,734 at 31 December 2011) and €12,266 medium - long term (€11,997 at 31 December 2011).
The table below shows the breakdown of deposits by type as of 31 December 2012, compared with the situation at the end of the previous year:

(amounts in millions of Euro)

	31/12/2012	*31/12/2011*
Loans of the Parent Company and its subsidiaries:		
- on demand and short term	4,946	6,199
- medium and long term	12,266	11,997
Bonds:		
- non-subordinate	-	-
- subordinate	107	244
Other payables to Banks and Customers	1,207	844
TOTAL	**18,526**	**19,284**

The table, under the item "Loans from the Parent Company and its subsidiaries - on demand and short term" conventionally includes (for accurate matching with balance sheet items) also short-term deposits for €3,000 million (€4,500 million as at 31 December 2011), as supplementary deposits in addition to the typical assets of the Global Markets (see following paragraph "Main financial aggregates").

BREAKDOWN OF DEPOSITS AT 31/12/2012



Main Financial Aggregates

With regard to the activity of the Global Markets Division, the main dynamics that characterised the commercial volumes of 2012 are analysed in detail below, with the volumes summarised in the table that below:

- the volumes deriving from hedging of the rate risk with Corporate customers (Customer Desks) were about €1,272 million versus €2,717 million in 2011, down 53%. The decrease in volumes is due to a drastic reduction in medium/long-term loans, linked to the deleveraging process and EBA requirements;
- the negative performance of the volumes of the institutional derivatives rate, -30% compared to the previous year, is linked mainly to the minor use of hedging due to the instability of the rates/spread;
- the volumes from currency hedging with Corporate clientèle amounted to €1,842 million, 2% lower than 2011, as the continuing consequence of the Group's highly restrictive policy, implemented in the last few years, which caused a shift from derivative instruments to treasury instruments (spot and forward);
- volumes of commodity hedges with corporate customers came out to around €952 million, up by 13% compared to 2011. The increase is linked to the activity of developing new customers interested in protecting themselves from commodity price fluctuations;
- the volumes traded on the secondary market of Bank, Corporate, Emerging, Supranational and ABS (Secondary Credit) securities, increased by 3% from 2011, therefore substantially stable compared to last year.
- “secondary government” performance, -2% compared to 2011 volumes, is the direct result of customers' need to trade on trading platforms, to guarantee transparency and best execution;
- volumes from placement with institutional investors and corporate customers of primary market securities totalled €2,856 million, with a decrease of 15% compared to 2011, due to the Bank's reduced activity on the primary bond market. Participation as lead manager in the operation for the placing of the Italian BTP bond, in October 2012, certainly contributed to the less marked contraction compared to the previous year.

(amounts in millions of Euro)

Product	2012 Volumes	2011 Volumes	Percent change
Customer desk rate hedging	1,272	2,717	-53%
Institutional rate hedging	2,874	4,129	-30%
Exchange rate hedging	1,842	1,886	-2%
Commodity hedging	952	840	13%
Equity hedging	110	3	3,571%
Secondary credit	4,583	4,437	3%
Secondary government	7,761	7,931	-2%
Primary	2,856	3,359	-15%
Ad hoc investments	0	11	-100%
TOTAL	**22,250**	**25,313**	**-12%**

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

With regard to balance sheet aggregates, relative to 2011, the assets represented by securities held for trading sustained a relevant decrease in 2012 both in the financials class, by €784 million (-21.43%), and in equity and collective investment undertakings, for a total of €306 million (a negative average of 68.05%). However, at 31 December 2012 the short positions on government securities increased (+ €1,398 million compared to the previous period, equal to 93.93%), deriving from *carry trade* operations with benefits on the interest margin, in spite of the restriction of the spreads for government issuers and financials.

Trading portfolio	*31/12/2012*	*30/12/2011*	*Changes from 12/2011*	
Sub-items - long position securities			*Absolute*	*%*
Government and public agency securities	5,633,537	5,249,452	384,085	7.32
Bonds and other debt securities	2.873403	3,657,105	(783,702)	(21.43)
Equity securities - shares	104,224	330,357	(226,133)	(68.45)
Equity securities - UCITS/funds	39,600	119,746	(80,146)	(66.93)
Total securities	**8,650,764**	**9,356,660**	**(705,896)**	**(7.54)**

Trading portfolio	*31/12/2012*	*30/12/2011*	*Changes from 12/2011*	
Sub-items - short position securities			*Absolute*	*%*
Government and public agency securities	2,886,029	1,488,208	1,397,821	93.93
Bonds and other debt securities	299,769	233,408	66,361	28.43
Equity securities - shares	8,700	1,780	6,920	388.79
Equity securities - UCITS/funds	316,091	=	316,091	N°
Total securities	**3,510,589**	**1,723,395**	**1,787,193**	**103.70**
Net total of portfolio of securities held for trading (long-short)	**5,140,175**	**7,633,264**	**(2,493,089)**	**(32.66)**

With regard to repurchase operations (including “triparty repos”) and securities lending operations, there was a systematic deceleration compared to the previous year, for the limited funding needs of the banking system, which reduced margins:

Trading portfolio	*31/12/2012*	*30/12/2011*	*Changes from 12/2011*	
Sub-items - loans			*Absolute*	*%*
Repurchase agreements	4,403,585	9,622,662	(5,219,084)	(54.24)
Securities loan	90,526	16,101	74,520	465.58
Total loans	**4,494,111**	**9,638,763**	**(5,144,564)**	**(53.37)**

Trading portfolio	*31/12/2012*	*30/12/2011*	*Changes from 12/2010*	
Sub-items - borrowings			*Absolute*	*%*
Repurchase agreements	11,885,698	16,492,221	(4,606,523)	(27.93)
Securities loan	610,256	=	610,256	N°
Total borrowings	**12,495,954**	**16,492,221**	**(3,996,267)**	**(24.23)**
Net loans (borrowings) (assets-liabilities)	**(8,001,842)**	**(6,853,545)**	**(1,148,297)**	**16.75**

To complete the information given above relative to the trading portfolio, excluding derivatives (discussed below in this chapter), it must be specified that the gap between long positions in securities and financial liabilities for trading, shown in the above table, is covered by the increase volumes of securities made available by the clientèle of the BMPS Group for securities loan operations (against which there is a parallel increase of €1,713 million in cash collateral compared to 31 December 2011).

For a complete analysis of the so-called "Sovereign Risk", please see the next Part E, section A "Credit Risk" of the explanatory notes.

Investments made for the longer period can be broken down into:
- credit (loans & receivables), such as unlisted bonds, issued by corporate entities, for a total counter value of € 2.6 million, against € 39 million of the previous year; the decrease is due to sales in the period for € 37.5 million;
- financial assets available for sale, such as: i) unlisted debt securities for a value of about €168 million and ii) stocks and UCITS units for a total amount of about €68 million).

This portfolio has been influenced both by the total and/or partial closure of some ABS positions (for further details, see section C of part E of the explanatory notes), and by new investments in securities issued by the Parent Company (for which the Bank sustains the secondary market), as well as investments in corporate entities (for further details, see the next paragraph "Equity investments".
In order to hedge a part of the portfolio from the swings in the interest rates, the Bank drew up an interest rates swap contract to cover a nominal €37.5, according to the rules issued by IAS 39 on hedge accounting.

Examining the transactions with derivative instruments, opposite dynamics are noted in the brokered stocks with respect to those recorded at the end of 2011. Trading, featuring relevant positions in the first quarter above all on the bases and on curve and directional positions on the inflation rate, was more contained and conservative in the last period of the year, when the risks assumed during the period were reduced, especially in virtue of the greater uncertainty and aiming to maintain equity absorption substantially in line with that of the previous year.
The activity, exclusively secondary, has decreased considerably not only for the lack of inclination for risk which has accompanied the re-opening if the crisis, but also for the process activated by the Bank to select deals stipulated with the same counterparties (including the CCP) which, in a situation of contained and absolutely unchanging risk profiles, has allowed for the successive compensation and cancellation, without modifying the already existing risk profiles (portfolio compression). This process for rendering more efficient the administrative management of these instruments and at the same time reducing operating risks, as well as reducing management costs, will continue in 2013, under a project entitled the "Emir Project"[1], with maximum adhesion in terms of the types of financial instruments on the Trioptima circuit, which will allow for cancelling those derivatives without which the risk profiles remain unchanged.

Almost all the Banks counterparties in fact operate with netting agreements (the total of the non-netted positive fair value is €267 million, representing 2.16% of the total), which agreements usually contemplated the reciprocal payment of guarantees to mitigate the risk deriving from the net exposure.

[1] *European Market Infrastructure Regulation (Emir): Regulation UE n. 648/2012*

OTC DERIVATIVE CONTRACTS - COMPENSATION AGREEMENTS

(amounts in millions of Euro)

Positive evaluation of	*31/12/2012*	*No netting*	*Netting*
Derivatives on debt securities and interest rates	10,125	262	9,863
Derivatives on equity securities and indices	557	5	551
Derivatives on currencies and gold	70	-	70
Credit derivatives	1,572	-	1,572
Commodities derivatives	30	-	30
Total	**12,354**	**267**	**12,087**

(amounts in millions of Euro)

Negative evaluation of	*31/12/2012*	*No netting*	*Netting*
Derivatives on debt securities and interest rates	8,822	67	8,755
Derivatives on equity securities and indices	714	4	710
Derivatives on currencies and gold	90	-	90
Credit derivatives	1,597	-	1,597
Commodities derivatives	30	-	30
Totals	**11,260**	**71**	**11,189**

Note:
the netting operations include the "compensated" contracts with Swapclear".

Given the above, the analysis of the precise data shown in the tables below cannot express the dynamics of the stock reduction of contracts resulting from said early extinctions.

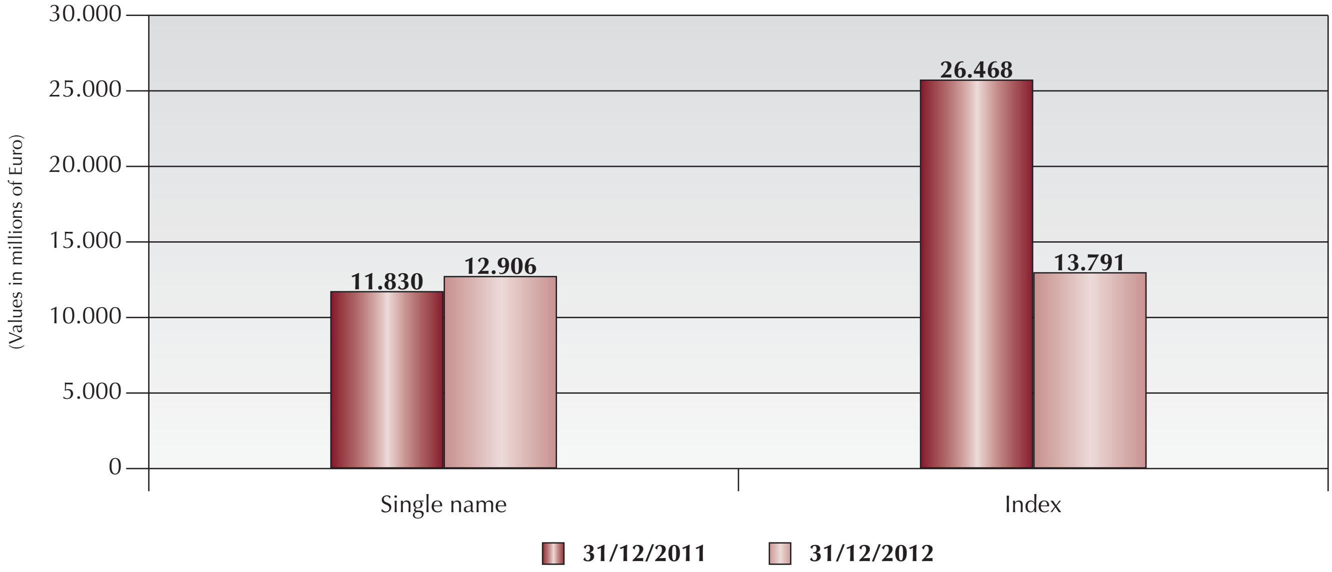
For the derivative credit class, from comparison with the normal values at 31 December 2012 and those of the previous year, a relevant decrease can be seen, in both purchases and sales, especially for instruments based on ratios. The single name derivatives mainly refer to government, bank and insurance securities. Operations are mainly under way with bank counterparties (71.10% of purchases and 65.03% of sales).

(nominal amounts in thousands of Euro)

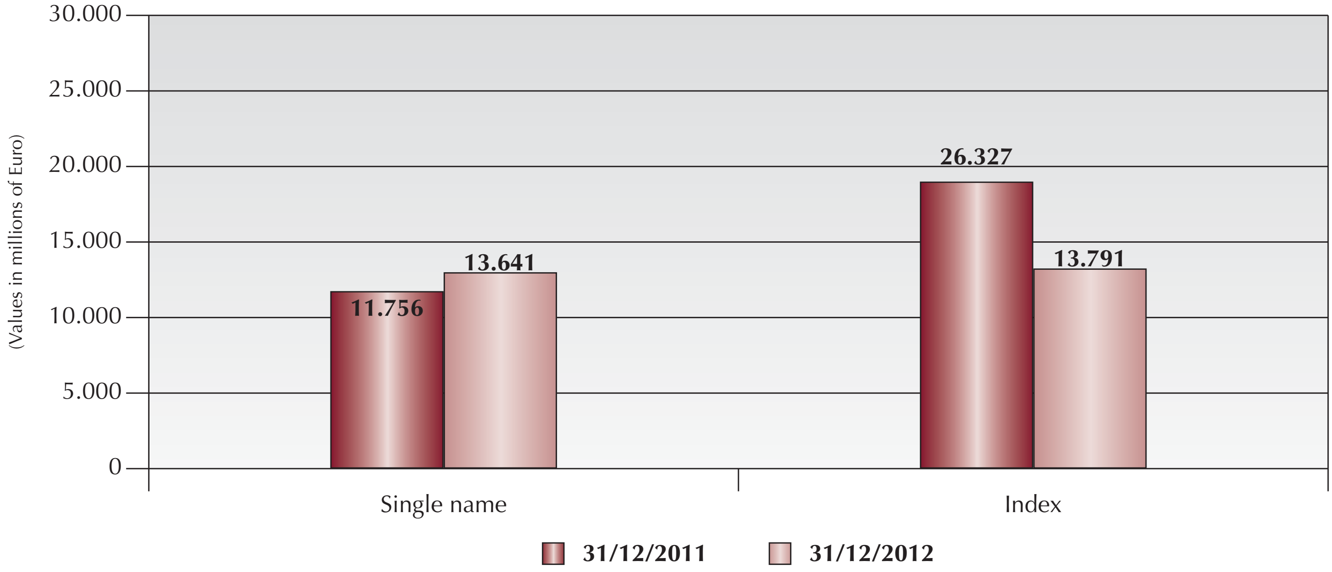
Credit derivatives	*31/12/2012*	*31/12/2011*	*Changes from 12/2011*	
			Absolute	*%*
Protection purchases	26,735,723	38,297,728	(11,562,005)	(30.19)
Protection sales	27,432,165	38,082,767	(10,650,602)	(27.97)

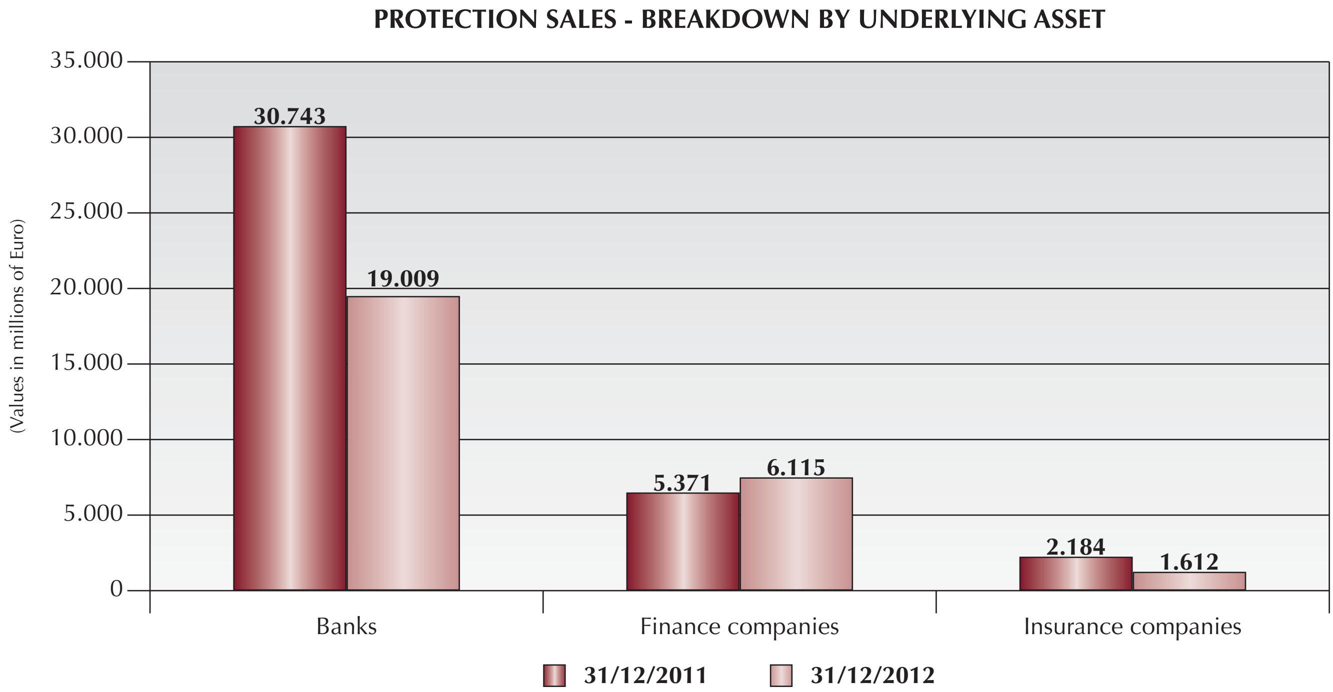
Credit derivatives single name underlying asset	*Protection purchases %*	*Protection sales %*
Corporate	12	11
Sovereign	57	60
Bankassurance	32	29

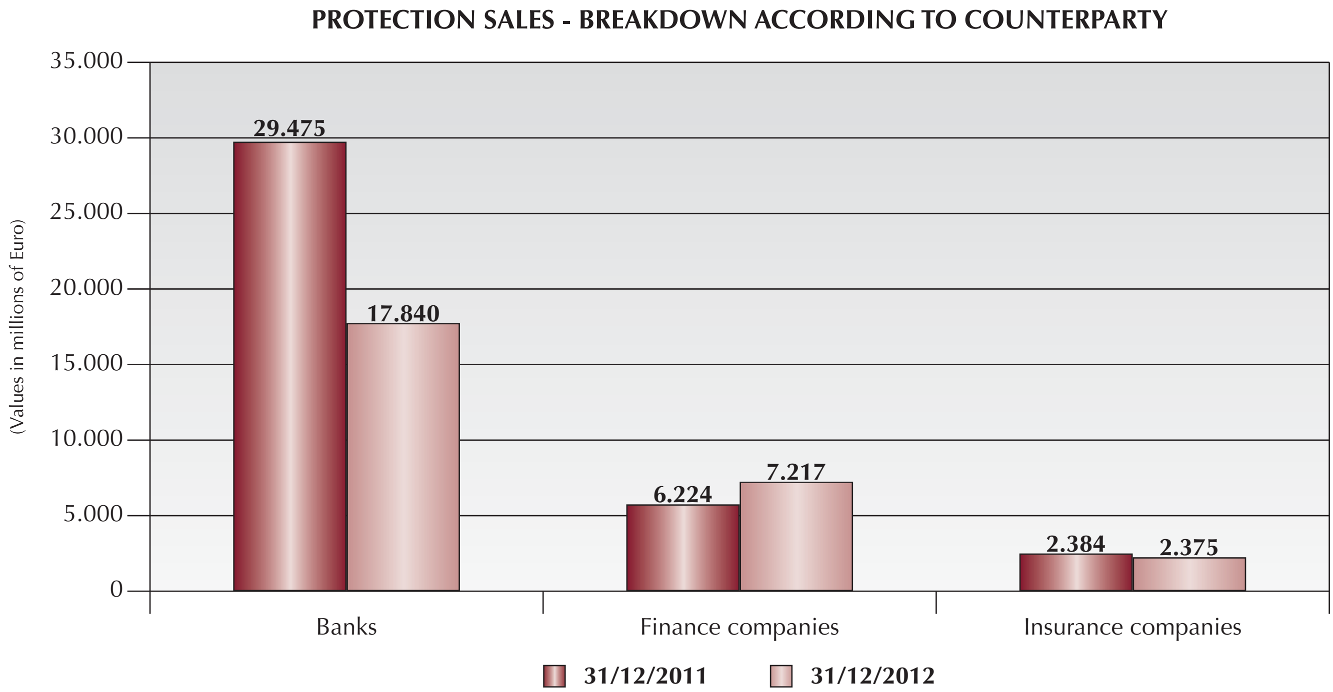
HEDGE PURCHASES - BREAKDOWN BY UNDERLYING ASSET



HEDGE SALES - BREAKDOWN BY UNDERLYING ASSET







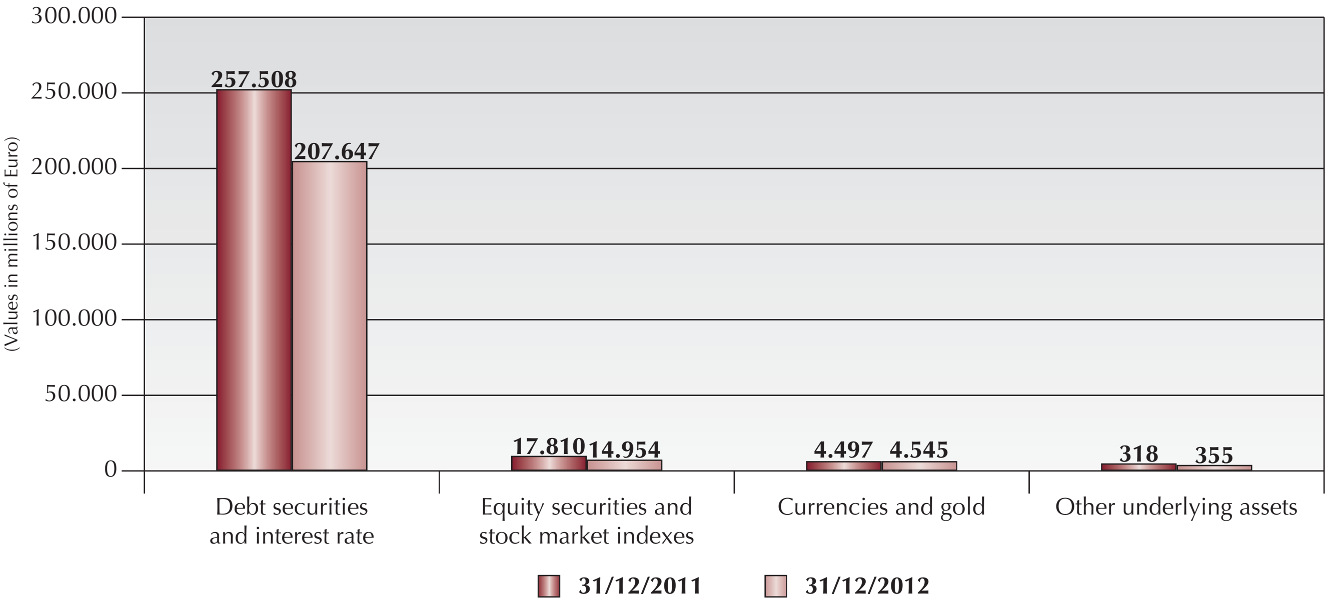
For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

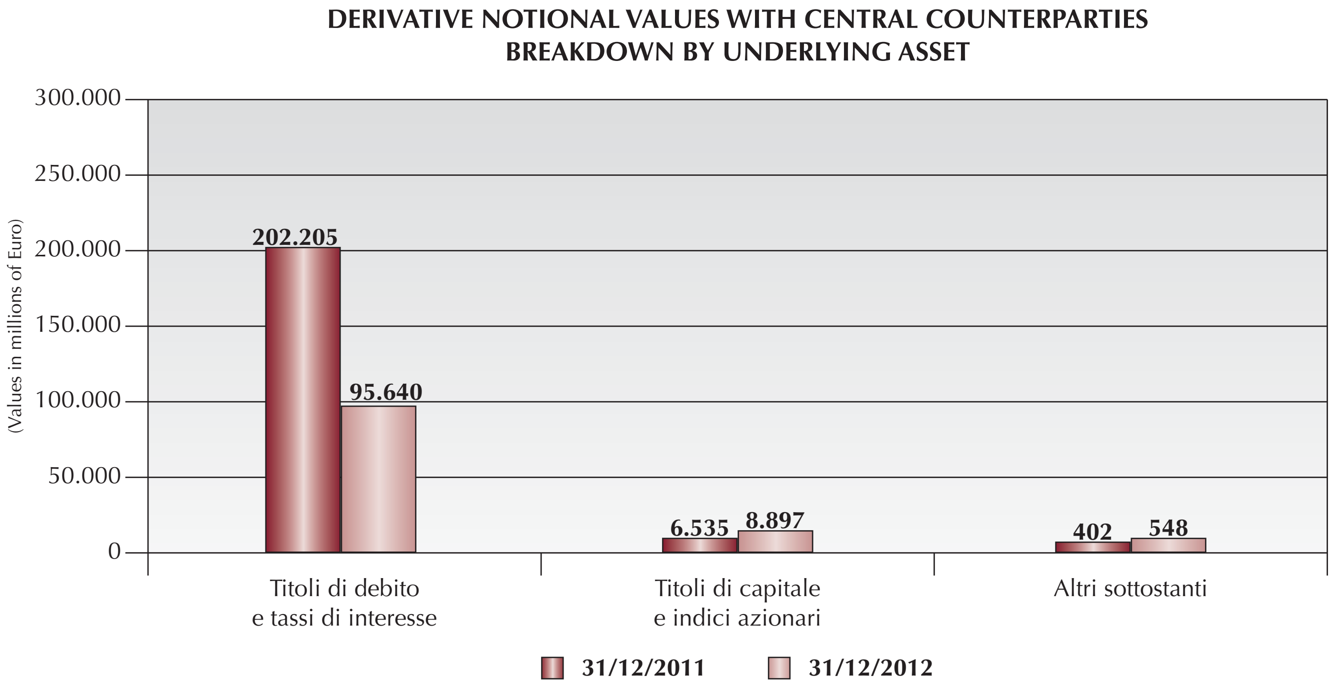
Also for the financial derivatives asset class, there was a relevant overall contraction of 32.03% in nominal terms with respect to the previous year, explained by the situation described above. I particular, there was a reduction of 49.75% in nominal exposure towards the CCP, resulting from the process launched by the Bank in the second part of the year, of the compensation and cancellation of relevant exposures in interest rate swap derivatives, managed initially with open balances and totally equalled in terms of risk (portfolio compression).

(nominal amounts in thousands of Euro)

Financial derivatives	*31/12/2012*	*31/12/2011*	*Changes from 12/2011*	
			Absolute	*%*
Over the counter	227,501,489	280,133,655	(52,632,166)	(18.79)
Central counterparties	105,084,287	209,142,456	(104,058,169)	(49.75)
Total	**332,585,776**	**489,276,111**	**(156,690,335)**	**(32.03)**

OTC DERIVATE NOTIONAL VALUES - BREAKDOWN BY UNDERLYING ASSET

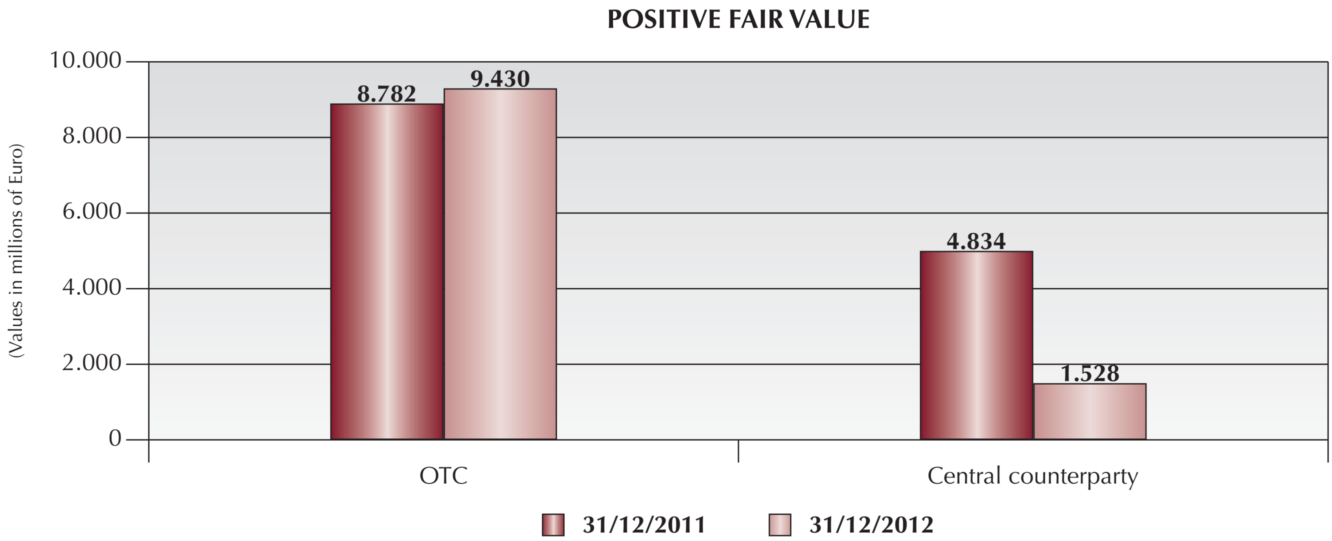


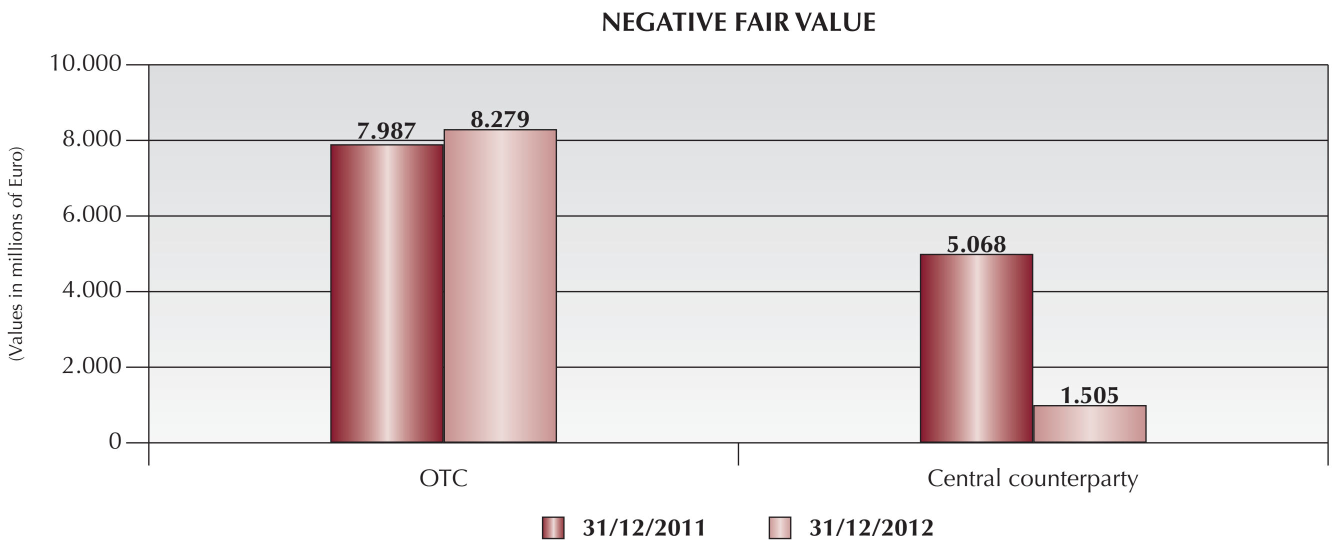


The overall evaluations as at 31 December 2011, compared with the values of the previous year, are shown below. Naturally, listed future style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

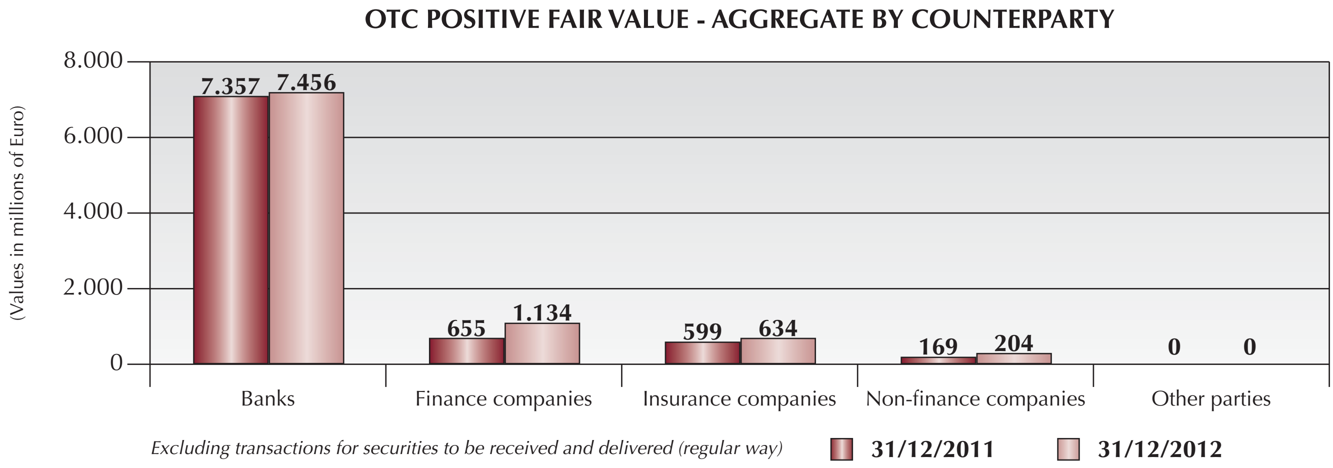
(amounts in thousands of Euro)

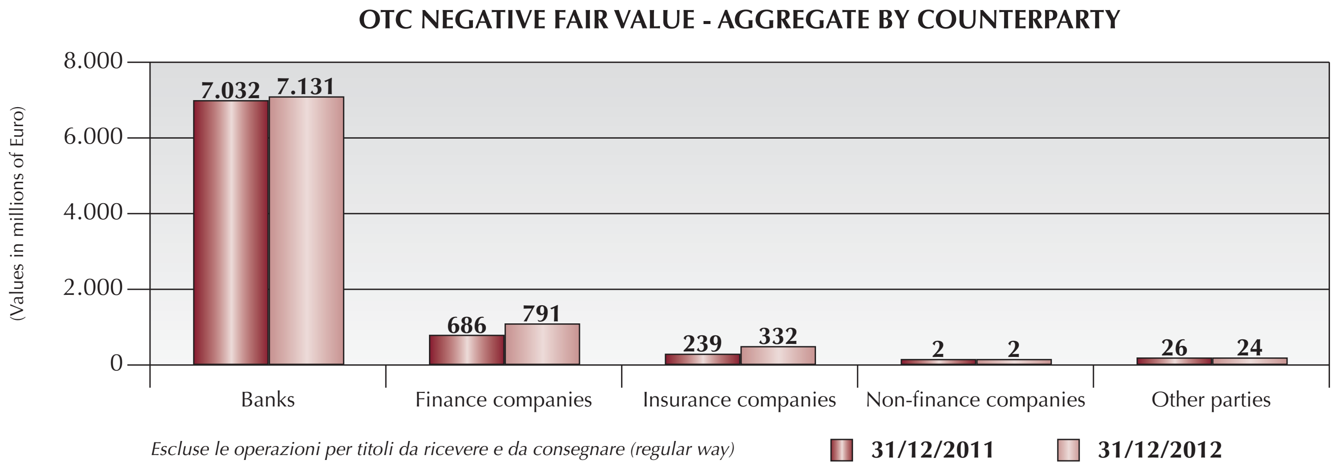
Financial derivatives	*30/06/2012*	*31/12/2011*	*Changes from 12/2011*	
Valuation (fair value)			*Absolute*	*%*
Positive (of which Assets item 20)	10,957,747	13,613,805	(2,656,058)	(19.51)
Negative (of which Liabilities item 40)	(9,784,225)	(13,053,708)	3,269,483	(25.05)





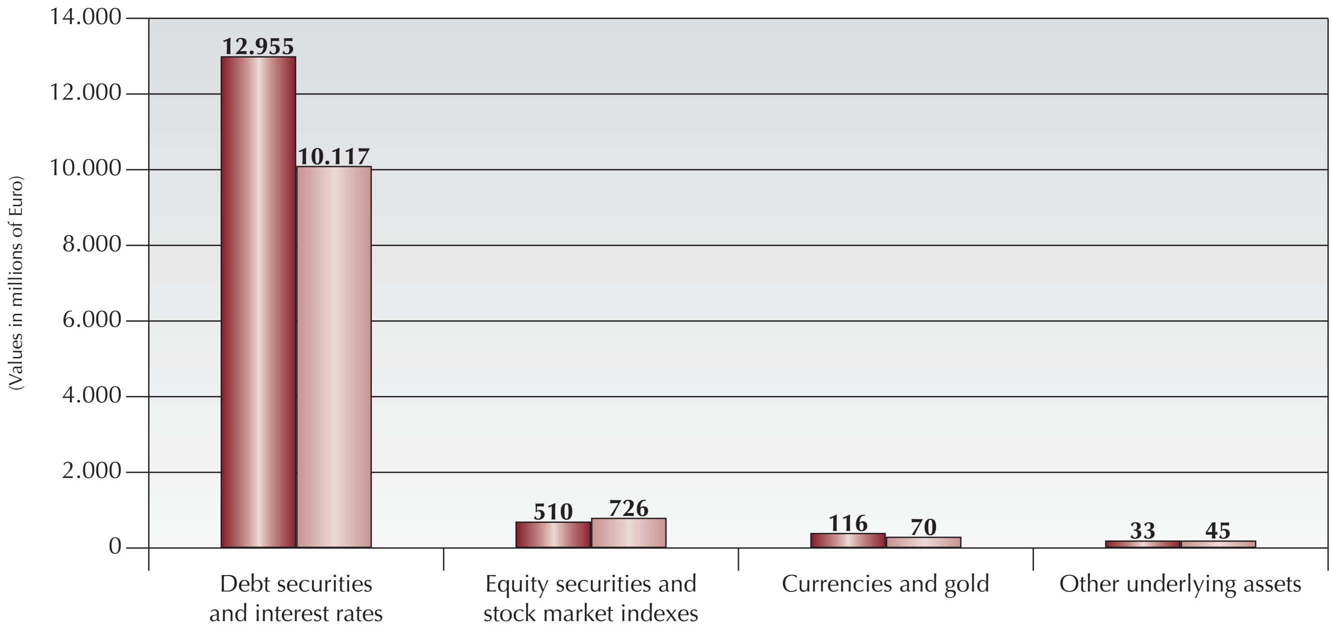
With respect to the "Central Counterparty" item, exposures in fair value terms to Swapclear as at 31 December 2012 amount to €1,343 million as positive fair value and €1,377 million as negative fair value. The contraction comparing counter values at 31 December 2011 (respectively equal to €4,695 million and €4,914 million) is due to the portfolio compression carried out to a considerable extend in the second half of the year.





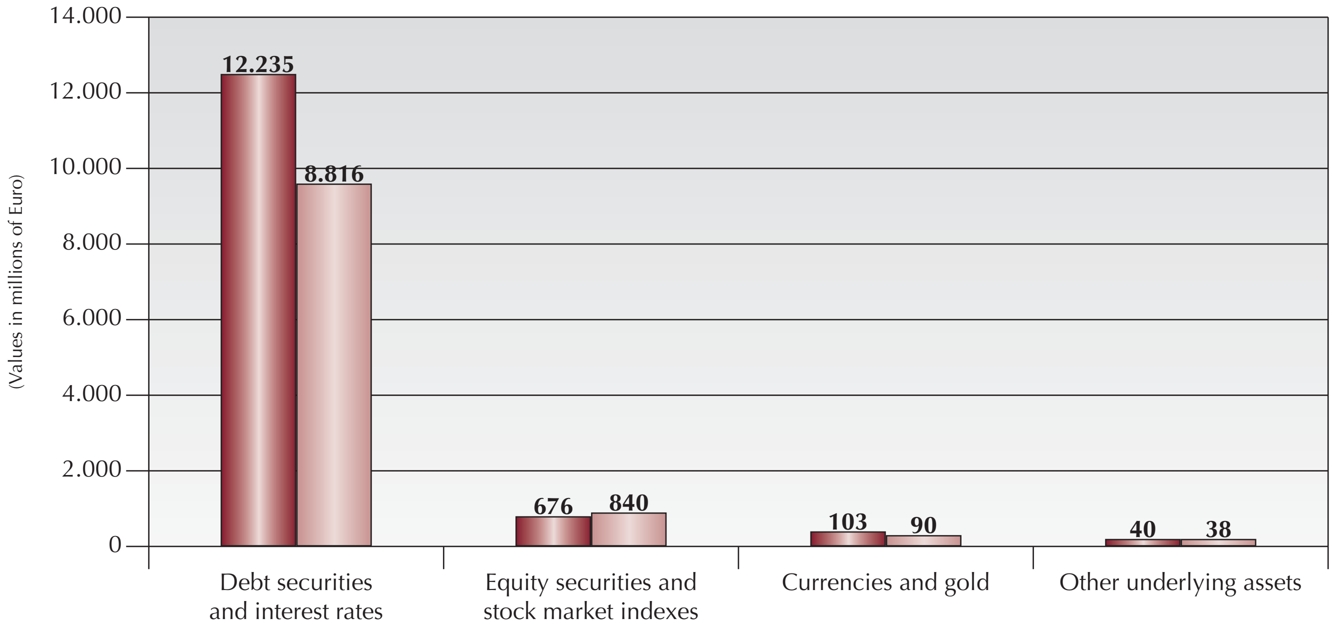
The breakdown by "underlying" type of asset exposures (as positive fair value) and of liability exposures (as negative fair value) reported in the balance sheet is provided below, expressed in millions of Euro.

POSITIVE FAIR VALUE - BREAKDOWN BY UNDERLYING ASSET



Excluding transactions for securities to be received and delivered (regular way) 31/12/2011 31/12/2012

NEGATIVE FAIR VALUE - BREAKDOWN BY UNDERLYING ASSET



Excluding transactions for securities to be received and delivered (regular way) 31/12/2011 31/12/2012

For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes. In particular, in the section referred to, the mass and the type of OTC derivative contracts, whether subject to compensation agreements or not, are illustrated. Almost all the Bank's institutional counterparties in fact operate with netting agreements, often accompanies by the reciprocal payment of guarantees to mitigate the risk deriving from the net exposure.

Equity Investments

The total amount is €86.6 million, versus €44.7 million as at 31 December 2011. Based on the criteria set forth by international accounting standards, equity investments are classified in the following balance sheet items: "Financial assets available for sale - Item 40" and "Equity investments - Item 100"; shown below.

(amounts in thousands of Euro)

Company	*% Stake*	*Value on financial statement*
Fenice Holding S.p.A.	16.38%	42,076
Moncada Solar Equipment S.r.l.	21.67%	6,003
Marina di Stabia S.p.A.	15.37%	4,317
Targetti Poulsen S.p.A.[2]	*na*	2,882
S.T.B. Società delle Terme e del Benessere S.p.A.	14.10%	2,551
Ital TBS Telematic & Biomedical Services S.p.A.	1.72%	609
Società Infrastrutture Toscane S.p.A.	4.80%	538
ABS Technology S.p.A.	10.00%	500
DBI - Services S.r.l.	30.00%	450
Bioera S.p.A.	2.82%	283
Classica S.p.A.	9.68%	338
Classica Sviluppo S.p.A.	9.68%	315
Newco S.p.A.	3.61%	300
Arcea Lazio S.p.A.	5.00%	210
Other[3]		5,089
Equity investments classified among "Financial assets available for sale" Item 40		**66,461**
RE.GE.IM. S.p.A.	40.00%	7,341
Interporto Toscano Amerigo Vespucci S.p.A.	36.30%	6,260
Agricola Merse S.r.l.	20.00%	5,004
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	29.00%	1,507
Immobiliare Centro Milano S.p.A.	33.33%	-
Equity investments classified under item 100 "Equity investments"[4]		**20,112**
TOTAL EQUITY INVESTMENTS		**86,573**

[2] these are equity investment financial instruments A and B.
[3] of which €5,000 thousand for investee associations as per Law 24/12/2007 n° 244 par. 325 ande327 - cinematographic credit.
[4] in December 2012, the 48% shareholding of MPSVenture SGR S.p.A., for which negotiations for sale are in progress, was reclassified under the "non-current assets held for sale" (IFRS5), (book value € 972 thousand).

The schedule below sums up the investments of the financial year 2012, except those regarding the cinematographic sector equal to a total of €2,500 thousand (posted under “Financial assets available for sale”):

(amounts in thousands of Euro)

Name/Headquarters	*Investment Amount*
Fenice Holding S.p.A.	42,077
Targetti Poulsen S.p.A.	2,882
Financial assets available for sale	**44,958**
RE.GE.IM. S.p.A.	3,661
Equity investments	**3,661**
TOTAL	**48,619**

With regard to the above listed operations, it is to be noted that the acquisition of the interest in Fenice Holding S.p.A. and of the shares issued by Targetti Poulsen S.p.A. is connected to the financial restructuring granted to the BTP (Baldassini-Tognozzi-Pontello) Group and to Targetti Sankey S.p.A.. For the investee company RE.GE.IM. S.p.A. capital was conferred pursuant to the initial investment agreement. Please see the notes commenting on the main investee companies for additional information.

With regard to disinvestments in 2012, the Arkimedica S.p.A. shares, equal to 3.32%, posted on the financial statement for €235 thousand, were sold for €294 thousand.

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.

Fenice Holding S.p.A. - Prato. The company was founded on 2 August 2012 by the conferment on the part of the Holding BF (a company of the Baldassini and Tognozzi Group subjected to arrangement with creditors) of the hotel and real estate company branches, for a conferment value of €256.8 million as per the sworn estimate report drawn up in compliance with art.2343 of the Italian civil code (sworn on 30 July 2012 with oath drawn up by the Notary Public La Gamba of Prato). Fenice Holding S.p.A. directly controls the following companies, operating in the real estate and hotel sectors: Il Forte S.p.A., UNA S.p.A., Fase S.r.l., Fattoria S. Stefano S.r.l., Euro S.r.l., Immobilare Ferrucci S.r.l. e Montevalori S.r.l.. In execution of the arrangement with creditors, on 9 October 2012, the Bank was assigned #4,207,659.= shares representing 16.38% of the share capital of Fenice Holding S.p.A. (total shares issued 25,682,932) for a counter value of approximately 42.1 million Euro on the basis of the aforesaid expert conferment estimate.

Moncada Solar Equipment S.r.l. - Aragona (AG). This company, founded in 2008 and part of the Moncada Energy Group, produces silicon thin film photovoltaic panels. Production started in 2010. The Bank is taking part in this initiative as a financial partner, with an equity investment representing about 21.67% of the share capital. On the basis of an agreement with the Moncada Energy Group, the sale of the equity is scheduled to take place within the end of the financial year 2013. In order to assess the investment, the existence of an option to sell the shares in favour of the Bank was considered in addition to the counterpart's solvency.

Marina di Stabia S.p.A. - Castellammare di Stabia (NA). This company holds a concession (lasting until 31 December 2080) for the construction and management of a tourist marina in Castellammare di Stabia, deriving from the conversion of an inactive industrial complex. The majority of the company’s capital is held by a group of entrepreneurs and professionals from Castellammare di Stabia. The Bank holds 15.37% of the capital. During the period, a value adjustment was made for impairment of about € 2.5 million consequent to the company's negative trend. The value adjustment was estimated on the basis of the net book equity posted on the last approved financial statement (financial year 2011).

Targetti Poulsen S.p.A. - Florence. This is a holding of the Targetti family, which directly controls the company Targetti Sankey S.p.A.. Within the sphere of the loan restructuring operation granted to Targetti Sankey S.p.A., part of the Bank's credit due from the company was undertaken by Targetti Pulsen S.p.A. and converted into shares with equity and administrative rights. The shares, assigned to the Bank on 22 November 2012, posted at a value of around €2.9 million, represent 7.14% of category A shares and 8.60% of category B.

S.T.B. Società delle Terme e del Benessere S.p.A. - Prato. The company manages three spa establishments: "Grotta Giusti" - Monsummano Terme (PT), "Fonteverde" - San Casciano dei Bagni (SI) and "Bagni di Pisa" - San Giuliano Terme (PI). The majority shareholder is Investex S.p.A.. The Bank holds a 14.10% interest in the company. The Bank also holds 30 units of the closed-end real estate fund Cosimo I, managed by Castello SGR S.p.A., owner of the Fonteverde and Grotta Giusti property complexes managed by S.T.B.. The units are posted as available-for-sale assets, at an overall value of €1,618 thousand, calculated based on the most recent NAV available. During the period, the value was adjusted for impairment of the equity held by the company by about €3.3 million, relative to the company's negative trend and calculated on the basis of the net book value of the equity posted on the last approved balance sheet (financial year 2011).

Ital TBS Telematic and Biomedical Services S.p.A. - Trieste. This company works with medical and hospital structures, for the supply and maintenance of biomedical equipment, as well as integrated IT services. Since 23 December 2009, the company's shares are traded on AIM Italia. The Bank holds an interest representing 1.72% of the share capital. When assessing possible impairment, it was found necessary to write down this item by about €0.4 million. The valuation is based on a book value of the equity assumed equal to the average price recorded on the stock market of reference in the second half of 2012; since this was 30% lower than the original cost of the holding, the Bank registered the difference as a value adjustment.

Società Infrastrutture Toscane S.p.A. - Florence. This is a special purpose vehicle, pursuant to art. 37 *quinquies* of Law 109/94, and holder of the concession to plan, build and manage the "Bretella Autostradale regionale a pedaggio Lastra Signa - Prato" motorway project. In December 2011, the Tuscany Region decreed that the concession was cancelled since it was too burdensome. Among other things, the company has filed action before the Regional Administrative Court against the provision of the Tuscany Region. The Bank has a 4.80% holding in the share capital, which is subscribed for €30 million, and 50% of the nominal amount is paid in. The company's main shareholders are Autostrade per l'Italia with 46% and the Florence Chamber of Commerce with 31%. When assessing possible impairment, it was found necessary to write down this item by about €0.2 million. The value adjustment was estimated on the basis of the company's hypothetical sale value.

DBI Services S.r.l. - Siena. This is company founded in 2011, operating in the sector of executing road sign works (vertical and horizontal traffic signs), as well as the sale of products and equipment related to road signs and train signals. The company was established to relaunch the company FAU S.p.A. through the identification of a new industrial partner (DBI Holding Corp.) and a transaction to lease a business unit from the company FAU. The company is controlled by the American DBI Holding Corp., working in the sector of transport infrastructure maintenance and management. The Bank holds an interest representing 30% of the share capital.

Bioera S.p.A. - Milan. This company is listed on the electronic equity market and is specialised in the production and sale of organic and natural products. The Bank holds approximately 2.82% of the equity. The book value was assumed as equal to the price of the last stock exchange business day (28 December 2012), when the listing was more than 30% lower than the original cost of the shares. Consequently, the Bank registered the difference as a value adjustment.

Classica S.p.A. - Padua. This is a financial company which controls Classica SIM S.p.A. In the first quarter of 2011, the company arranged for a proportional spin-off, in favour of the newly established Classica Sviluppo S.p.A., of non-strategic equity investments with regard to the control of the stock brokerage firm (SIM). The Bank holds an approximately 9.68% interest in the company.

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

Newco S.p.A. - Naples. This is a special purpose vehicle, incorporated in 2004, for the purpose of enhancing the tourist redevelopment of areas adjacent to the tourist harbour of Castellammare di Stabia, and of holding equity investments. Newco S.p.A. holds a share representing about 14.65% of the company Marina di Stabia S.p.A.. The Bank holds an equity interest of 3.61%.

Arcea Lazio S.p.A. - Rome. This company, whose business is the planning, construction and maintenance of the regional motorway network, was founded pursuant to Regional Law of Lazio n° 37 of 28.10.02, amended by the Lazio Region with several acts (subsequent to objections raised at EU level on the regulatory framework). The Lazio Region is the majority public shareholder, with 51%, while the minority shareholders are Autostrade per l'Italia S.p.A. (for 34%), Duemilacinquanta Consortium (for 10%) and the Bank (with 5%).

RE.GE.IM. Realizzazioni e Gestioni Immobili di Qualità S.p.A. - Rome. The purpose of the company, incorporated in October 2010, is to promote, coordinate and manage operations and investments in the real estate industry that specifically pertain to home construction, commercial construction and tourist and hotel construction. The controlling shareholder, with 60%, is Impreme S.p.A., a company of the Pietro Mezzaroma & Figli Group. The Bank's equity investment (40%) was acquired upon incorporation. Simultaneously, the shareholders executed and investment agreement that provides for a commitment to capitalise the Company to a total of €41 million (our share, €16.4 million). In 2012, the shareholders undersigned a capital increase of €2 million (bringing it to €6 million) and made a capital conferment of approximately €7.2 million.

Interporto Toscano Amerigo Vespucci S.p.A. - Leghorn. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plains, in the municipality of Collesalvetti (Leghorn). The majority of share capital is held by public entities and administrations (Tuscany Regional Authorities, Provincial Authorities and local municipalities, local Chambers of Commerce (CCIAA)). Bank is the relative majority shareholder with 36.3%. During the period, a value adjustment was made for impairment of the company's shares held, of about €2.1 million consequent to the company's negative trend in the last two financial years. The value adjustment was estimated on the basis of the net book equity posted on the last approved financial statement (financial year 2011).

Agricola Merse S.r.l. - Milan. This company owns the luxury tourist resort "Tenuta di Bagnaia", located in the province of Siena. The Company is promoting, involving financial and non-financial investors, an investment initiative involving supplementing the promotion of real estate to be built on several lots in the resort, and the enhancement of several existing structures destined for offering accommodation and hotel services. The Bank is participating in the initiative as a financial partner with an equity investment, representing 20% of the share capital, acquired from the majority shareholder "INFI - MONTI S.p.A." in June 2008, for an investment of €5 million.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. - Florence. The company manages three closed-end mutual funds, Fondo

Centroinvest, Fondo Toscana Venture and Fondo Toscana Innovazione. Apart from the Bank, which holds 29%, the corporate equity is held by Fidi Toscana (31%), Cassa di Risparmio di Firenze S.p.A. (15%), Cassa di Risparmio di San Miniato S.p.A. (10%); Cassa di Risparmio di Prato S.p.A. (10%) and Banca Popolare dell'Etruria e del Lazio S.c.r.l. (5%).

Immobiliare Centro Milano S.p.A. - Milan. The company, incorporated in November 2009, manages residential and commercial real estate through two wholly owned special purpose vehicles. The Bank's equity investment (33.33%) was acquired upon incorporation. The other shareholders are Sansedoni S.p.A. (33.33%) and Banca Italease S.p.A. (33.33%).
For the sake of giving full information, we mention that in the financial year 2011, the investment was completely written off due to the losses in value verified by the company on the two subsidiary special purpose vehicles. In addition, the company's operational losses, correlated with the results of the subsidiary real estate vehicles, were considered in the process of estimating the credit exposure towards the investee.

To complete the above information, under the item “Assets available for sale” were posted the Banks cash conferments for the production of **cinematographic works** on the basis of art. 1, par. n° 325 of Law 244/2007 (“the 2008 Finance Act”) and Ministerial Decree 21.1.2010 “Tax credit for external investors”. The said contributions, made in both 2011 and 2012, amounting to the maximum contemplated by the law (€2.5 million a year), amount to €5 million at 31 December 2012 (€2.5 million at 31.12.2011). It is also pointed out that the relative contracts normally contemplate a priority for the recovery of the Bank's contribution in the waterfall of the revenues and a share in profits pursuant to art. 2554 of the Italian civil code.

Main economic aggregates and management indicators

ECONOMIC AGGREGATES

MPSCS closed its financial statements as of 31 December 2012 with a net profit of €1.3 million, recognised according to the International Financial Reporting Accounting Standards (IAS-IFRS).

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

- the reclassified income statement item “Interest margin” is the result of the imbalance between item 10 “Interest and other income” and item 20 “Interest expense and similar charges”. The management aggregate is shown net of changes totalling €0.25 million relative to interest, both income and payable, generated by positions disbursed in previous years and derived from the revision/restructuring of contractual conditions or transfer to dispute, for which it was decided to link it to the management item “other operating income/charges”. Moreover, the economic effects of the valuation based on the amortised cost method of debt securities classified amongst loans & receivables were conventionally posted to “trading income” for approximately €0.1 million. In summary, the overall reconciliation difference between the management and accounting value of the “Interest margin” amounts to €0.35 million.
- The reclassified income statement item “Total net fees from customers” is the result of the imbalance between items 40 “Fee income” and 50 “Fee expense”. The management aggregate was shown net of the economic effect of fees equalling net €0.06 million (contingencies referring to previous periods), which amount was linked for management purposes to “Other operating income/charges”.
- The reclassified income statement item “Other revenues from financial management” includes the values of financial statement items 70 “Dividends and similar income”, 80 “Net income from trading activities”, 90 “Net income from hedging activities” and 100 “Profit/loss from disposal or repurchase of financial assets available for sale”, in addition to the profits and losses generated by equity investments which are instead shown under item 210 “Profit/losses from equity investments” (quantified as approximately €2.1 million). “ Furthermore, also from the management perspective, this item also includes trading income of €0.09 million, generated by the economic effect of valuation according to the amortised cost method of debt securities classified amongst loans & receivables.
- The management aggregate “Net value adjustments for impairment” perfectly coincides with the item in the financial statements.
- “the reclassified income statement item “”Operating costs”“ includes the values of financial statement item 150 “”Administrative expenses”“, which includes both personnel expenses (item 150 a)) and other administrative expenses (item 150 b)).” Regarding personnel expenses, the differences between the balance shown in the financial statements and the management figure are due to costs relative to past years generated by expenses which, although accrued in previous years, had a certain financial manifestation during the year under review; they amount to €0.96 million and in the management figures are included within the “Other operating income/charges” aggregate. This aggregate also represents and records the recovery of expenses relative to rental fees for management staff, equal to €0.49 million. As regards other administrative expenses, the differences between the accounting and management figures are basically due to not including costs relative to the collection of loans in dispute charged back to customers, amounting to €4.3 million, within the management figure. In conclusion, the overall difference between the “Operating costs” and “Administrative expenses” aggregates amounts to approximately €3.7 million less in costs.
- The aggregate “Net provisions for risks and charges” corresponds to and coincides with the values shown under the financial statement item 160 “Net provisions for risks and charges”.
- The reclassified income statement item “Other operating income/charges” includes the financial statement item 190 “Other operating income/charges”, which equals over €4.7 million, and has an overall positive management value of €0.7 million. This difference is due to the combined effect of the reclassifications described in the paragraphs above.

- The reclassified income statement item "Income taxes for the year on current operations" corresponds to financial statement item 260.

(values in millions of Euro)

IAS Income Statement	Cons. at 31/12/2012	Cons. at 21/12/2011	Change % 2012-2011
INTEREST MARGIN	**301.22**	**272.88**	**10.39%**
TOTAL FEES FROM CUSTOMERS	**33.08**	**43.68**	**-24.26%**
OTHER REVENUES FROM FINANCIAL MANAGEMENT	**179.40**	**-10.64**	**-1785.80/**
MARGIN ON FINANCIAL AND INSURANCE MANAGEMENT	**513.71**	**305.92**	**67.92%**
Net value adjustments for impairment	-365.03	-126.77	187.95%
RESULT OF FINANCIAL AND INSURANCE MANAGEMENT	**148.68**	**179.15**	**-17.01%**
OPERATING COSTS	**-73.18**	**-75.36**	**-2.90%**
NET OPERATING PROFIT	**75.50**	**103.79**	**-27.26%**
Net allocations to the risks provision for risks and charges	-37.32	-14.39	159.31%
Other management charges/income	0.72	-14.39	
PROFIT (LOSS) BEFORE TAXES	**38.90**	**88.19**	**55.89%**
Income taxes on current operations	-37.62	-42.78	-12.06%
- Tax Rate	*-96.7%*	*-48.5%*	
PROFIT (LOSS) FOR THE PERIOD	**1.28**	**45.41**	**-9719%**

In short, the **"Interest margin"** shows an increase of 10.39% compared to 2011, while **"Total Customer Fees"**, compared with the same period of the previous year, shows a fall of 24.26%; the item **"Other Financial Management Revenues"** shows a value of €179.4 million against €-10.6 million at 31 December 2011.
The increase in the "Interest Margin" is party due to a variable rate funding manoeuvre, concentrated in the first ten months of the year, against fixed rate loans, which allowed for amortising the increased cost of the provision decided by the Parent Company. The trading result is also extremely positive and comforting in spite of the fact that 2012 has been a uncertain and volatile period, thanks to the different market strategies pursued by the Bank, as illustrated in the preceding paragraph on "Significant Aspects of Operations". We wish to bring your attention to the changeover to the "eonia" discounting method and the "credit value adjustment", which had an influence, on first application, of respectively plus approximately €18 million and minus approximately €8 million. The latter effect was mitigated by the transfer of collective adjustments applied, on previous financial statements, to the value of OTC derivatives (for a total of €7.5 million). In view of the continuing signals of deterioration of the economic situation of reference and the increase, registered in 2012, of unpaid differentials, exposures which present critical elements regarding recovery, the Bank has proceeded to register analytic adjustments for €30.4 million.
With regard to commissions, the fall is mostly ascribable to the limited lending which, subsequent to the known market difficulties, sustained strong deceleration compared to the previous year.

Consequently, the **"Margin from Financial and Insurance Management"**, at €513.7 million, is 67.92% more than that of 2011 (equal to +€207.8).

"Net value adjustments for Impairment" increased significantly to €365.0 million, against €126.8 million in 2011. The significant increase, of €241.7 million, reflects a policy aimed at increasing coverage percentages and the will to further reinforce risk protection, in view of the overall economic scenario and the trend of specific sectors, such as that of medium-long term credit. The result was also influenced by the results of the recent inspection of the Bank of Italy's supervisory body, regarding the valuation of the non-performing loans of the BMPS Group, in execution of the moral suasion addressed to the Italian banking system. For further details, see the preceding paragraph on

“Impaired Assets”.

With respect to “**Operating Costs”**, there was a decrease of 2.9% compared to 2011, as a direct result of the Bank's systematic containment action based on the guidelines issued by the Parent Company. This item also includes the major debits for outsourced services provided by the Group's Operating Consortium, the annual cost of which has increased sharply from €13.75 million in 2011 to over €17.5 million, mainly ascribable to the depreciation of the entire software in use and certain internal and external impairment indicators. This process led to the posting of costs, bearing on the year that has just concluded, well above the targets fixed when the forecasts were drawn up. We also mention that personnel costs have decreased since 2011, by more than €6 million, mainly due to the fact that the variable part of remuneration was not distributed, and, in any case, already including the cost estimated for leavers.

The item “**Net allocations to provisions for risks and charges”**, equal to €37.3 million, has increased by 159,31% compared to 2011, both for resignation incentive costs and for access to the solidarity fund on the part of some employees, as well as greater allocations for legal disputes and charges connected to the Bank's business.

The item **“Profit before Taxes”** amounts to €38.9 million, versus €88.2 million in 2011, with a negative difference of about €48.3 million (-55.89%).

“Income taxes” for the period, both current and deferred, amounted to €37.6 million with an effective tax rate of 96.7%. The considerable increase compared to the previous year, equal to 48.5%, is mainly due to the net value adjustments on credit non-deductible from income tax, the share of interests payable non-deductible from both income tax and regional business tax, and the capital losses non-deductible as regards pex.

“Profit for the period”, net of taxes, was €1.28 million against €45.4 million the previous year.

MANAGEMENT INDICATORS

(values in millions of Euro)

	31/12/2012	21/12/2011	Change in %
Credit quality indices (%)			
Net non-performing loans / Loans to customers	12.56	11.48	9.42
Net watch-list loans / Loans to customers	6.97	5.41	28.94
Profitability indices (%)			
R.O.E. on shareholders' equity *	0.11	3.92	(97.16)
R.O.E. on capital balance **	0.11	4.05	(97.23)
Interest margin / Operating revenues ***	202.60	152.32	33.01
Net fees/ Operating revenues ***	22.25	24.38	(8.75)
Operating costs / Operating revenues ***	49.22	42.07	17.01
Net adjustments on credit / End of period loans	2.48	0.87	183.89
Capital ratios (%)			
Tier 1 capital ratio ****	6.61	6.19	6.79
Total capital ratio ****	7.17	7.47	(4.02)

(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 end-of-period equity:***
The ratio between the net profit for the period and the shareholders' equity at the previous year's end minus the profit allocated to shareholders.

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

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

Integrated Management of Risk and Capital[1]

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

THE RISK MANAGEMENT PROCESS

The MPS Group pays close attention to the process for identifying, monitoring, measuring and controlling risks. The risk management process within the Group was further strengthened in recent years, mainly because of the progressive extension of the advanced models for management and notification purposes to the various entities in the Group.
The underlying principles that characterise this process in the MPS Group are based on a clear, precise distinction of the roles and responsibilities between the first, second and third level control functions.
The Board of Directors of the Parent Company BMPS is responsible for defining the strategies and risk management policies at least on a yearly basis, and for expressing the Group's overall risk appetite, also quantitatively in terms of Economic Capital. The Board of Statutory Auditors and the Internal Control Committee are responsible for assessing the level of efficiency and adequacy of the Internal Control System, specifically regarding control of risks.
The General Management is in charge of ensuring compliance with the risk policies and procedures. The Risks Committee draws up the risk management policies and verifies overall compliance with the limits assigned to the various levels of operations. The Parent Company's Risk Committee is assigned the responsibility for proposing the allocation of capital to be submitted to the approval of the Board of Directors and for assessing - overall and for the individual companies (including MPSCS) - the risk profile reached, and thus, the consumption of capital, both regulatory and economic capital, as well as the risk-return performance indicators. The Parent Company Finance Committee is attributed duties regarding the formulation of principles and strategic guidelines with respect to Proprietary Finance. It also authorises and makes proposals with regard to the exposure to rate risk and liquidity risk of the Bank Portfolio and the definition of Capital Management actions.
The Internal Auditing department is required to operate by means of an independent and objective assurance and advisory activity aimed on one hand to check, also with on-site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation.
In 2012, within the sphere of the Parent Company's general organisational and governance review, the Risk Management Direction was formed, which reports directly to the Managing Director. The mission of this Direction is:

- to guarantee the assessment of the adequacy of the capital and the definition of the risk appetite;
- to define the assessment of the adequacy of the capital and the definition of the risk appetite;
- to define the strategic policies on the credit portfolio;
- to guarantee risk reporting to the top management bodies and to the top management of the Group.

Within the sphere of the Risk Management Direction, the Risk Management Area in particular defines the integrated

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

analysis and measuring methods of all risks, in order to guarantee constant assessment and monitoring of the same. The Area autonomously and independently develops the internal risk models and checks on respect for the operating limits laid down by the Board of Directors. The autonomy and independence of the Risk Management Area are ensured by mechanisms for relations and liaising with the Company bodies responsible for strategic supervision, management and control, in particular:

- the appointment/revocation of the Parent Company's Risk Management Area Manager by the Board of Directors, on the Chairman's proposal - who takes avail of the contribution of the Human Resources Direction - after consultation with, and hearing the opinion of, the Internal Audit Committee;
- to determine the remuneration system for the Parent Company's Risk Management Area Manager on the part of the Board of Directors - on the Chairman's proposal - who takes avail of the assistance of the Human Resources Direction and Internal Communications - after hearing the opinion of the Internal Audit Committee.

The peripheral Business Control Units, located at the controlled banks or the main business areas of the Parent Company, instead implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System. In 2012, it was decided that the BCU (Business Control Units) of the finance department were to report directly to the Risk Management Area.

ACTIVITIES RELATED TO INTERNATIONAL SUPERVISORY ACTIVITIES

In line with the principles contemplated by the New Agreement on Capital Adequacy (the so-called “Basel 2”), regarding First Pillar risks, the MPS Group (including MPSCS) had already concluded its work on internal models for credit and operational risks during the first half of 2008. Pursuant to Bank of Italy Circular 263/2006, on 12 June 2008 the Group was formally authorised to use the advanced models for measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach) from the first consolidated report for 30 June 2008.
Successively, work continued for the completion and extension of the aforementioned models for Group entities not included in the initial scope of validation; the activities aimed at the improvement of the internal models on market and counterparty risks also continued. Compliance activities relating to Second Pillar also continued. During the year 2012, activities continued on the methodological and organisational activities needed to coordinate the optimisation and governance of all processes pertaining to the internal assessment of the Group’s capital adequacy, within the ICAAP (Internal Capital Adequacy Assessment Process).

With reference to the Third Pillar, the Market Disclosure is an extremely effective summary document, which provides the market with information regarding activities carried out, capital adequacy, exposure to risks and the general characteristics of the systems used to identify, measure and manage said risks. The Parent Company BMPS, as a Class 1 bank, has complied with the obligation for quarterly publication of the consolidated information according to the provisions of the supervisory regulations. The disclosure has been published on the Montepaschi Group website (www.mps.it/Investor+Relations) and is constantly updated based on the provisions of the current regulations in force. The methodological and application examinations continued, required by the new international supervisory regulations (the so-called “Basel 3”), especially regarding liquidity, counterparty and market risks and the relative updating of the reporting databases.

ECONOMIC CAPITAL ANALYSIS

The Total Economic Capital (or Total Absorbed Internal Capital) is the minimum amount of capital required to cover

economic losses due to unexpected events generated by simultaneous exposure to various types of risk.
The main types of risk to which the BMPS Group (including MPSCS) is exposed during its normal business activities, can be classified as follows:

- credit risk (including the concentration risk)
- counterparty risk
- issuer risk
- market risk (price, interest rate and exchange rate) of the trading book
- interest rate risk of the banking book (Asset & Liability Management - ALM)
- liquidity risk
- equity investment portfolio risk
- collective investment undertakings risk (alternative funds)
- operational risk
- business risk
- property risk
- reputation risk

Protection is also put in place against the risks inherent to investment products/services addressed to the Group's customers, both to protect the customers and to prevent potential impact on the Group's reputation.
The Economic Capital is quantified based on all types of risks mentioned above, with the exception of the liquidity risk and of the reputation risk, which instead are mitigated through policies and organisational processes.

The Risk Management Department of the Parent Company BMPS periodically determines the Economic Capital for each type of risk, mainly on the basis of internal measurement models for the individual risk factors. These models are mainly based on a Value-at-Risk (VaR) approach, and hence aimed at determining the maximum loss the Group may incur, given a time interval during which the positions are held (holding period) and a pre-set probability level (confidence interval).
For some risk factors and on certain portfolio categories, said models received the formal validation of the Supervisory Authority for regulatory purposes (specifically credit risk and operational risk). The outputs deriving from the use of models developed internally in view of the different risk factors, both “validated” and managerial risks, are the main instrument for daily control and monitoring of the risk exposures generated in these segments, as well as for controlling the operating limits and delegations according to the lines prescribed and approved by the Parent Company and by the individual subsidiaries (including MPSCS).

Regarding the credit risk, most of the inputs of the Credit Portfolio Model, whose method is also constantly evolving, finds its source in the internal models used for indication purposes, with the addition of further information and refinements, aimed at representing risk measures from a typically managerial point of view. With regard to the operating risk, the output of the model, obtained at Group level and used for management purposes, is re-allocated on the basis of: i) past loss criteria, ii) estimates provided by the top management, and iii) income information (*gross income*). In addition, the Total Economic Capital is also composed of the results, in terms of shift and sensitivity, of the economic value derived from the internal Asset & Liability Management model, in line with the best practices of the sector. The business risk is measured as risk factor referred to the rigidity of the cost structure relative to changes on the business structures induced both by external market components and by internal strategic decisions. The equity investment portfolio risk is the risk deriving from the volatility of the market valuations referred to the equity investments held in the portfolio. Property risk is defined as the risk to incur potential losses deriving from unexpected changes in the property portfolio.

As stated above, the liquidity risk, which has undergone significant developments due to the provision of appropriate

monitoring procedures, is not measured in the quantification of the Economic Capital. In any case, the MPS Group has adopted operating limits and a formal liquidity risk management policy, to be applied both in normal situations and in market stress situations. In particular, on the basis of predefined tolerance thresholds, specific contingency planning procedures were defined and formalised, to be activated in case of need. For the other risks that cannot be measured with quantitative approaches (e.g. reputation risk), specific mitigation policies have been defined.
The Economic Capital on individual risk factors therefore descends from the corresponding risk quantification management parameters. The VaR measurements on individual risk factors preserve their "individual" significance, according to the provisions of both current laws in force and international best practice and they are determined with holding periods and confidence intervals that are generally differentiated.
The Total Economic Capital therefore ensues from the joint measurements of the single risk factors listed; these measurements are standardised over both the chosen time frame (holding period of one year) and confidence interval, in line with the rating assigned to the MPS Group by the official ratings agencies, and are subject to "intra-risk" and "inter-risk" diversification. The final output provides the Total Economic Capital or Total Internal Capital at the Group level, broken down by the different types of risks, with the indication of the incidence of "inter-risk" diversification with respect to the building block approach that, instead, does not provide for its quantification.
All of these macro risk factors, which, in particular, have a direct impact on the equity of the MPS Group, are regularly measured by the Parent Company Risk Management Department, which draws up the periodic documentation for the Parent Company's Risk Committee and for its own Board of Directors.

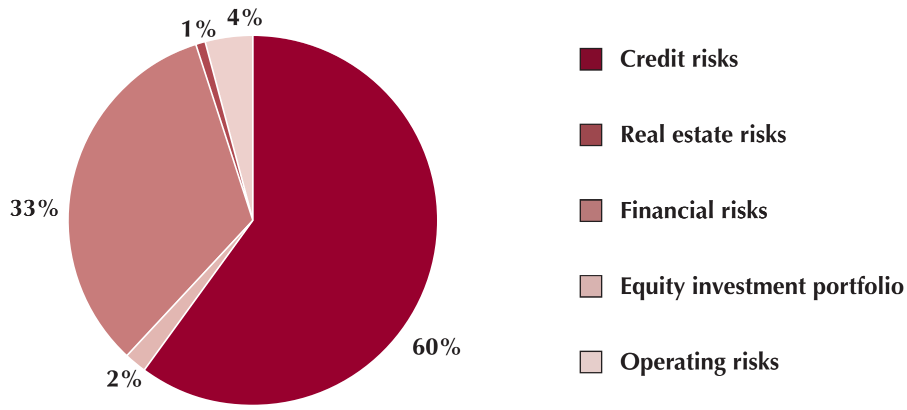
The following table illustrates the main features of the single internal models adopted for the main types of risks and, in the last column, their treatment in respect of risk integration for the determination of the total Economic Capital.

MAIN FEATURES OF THE MODELS

Type of risk	Measure	Model	Risk factors	Connections	Treatment for Economic Capital
Performing loans	1 Y VaR, 99.93%	Credit VaR internal model	PD and LGD broken down by counterparty, CCF broken down by product	Correlation between share trends	t-Student coupling
Equity investments	3 M VaR, 99%	Montecarlo VaR	Volatility of share trends and ***comparable*** indices	Correlation between ***proxy*** indices	1 Y, 99.93%, t-Student coupling
Market (Banking Book)	1 Y, shift sensitivity for 25 bp	Maturity Gap	***Bucketing*** on nodes Parallel shifts and interest rate ***twists***		1 Y, 99.93%, t-Student coupling
Market (Trading Book)	1 day VaR 99%	VaR historical simulation -full revaluation	All Market Risk factors (IR, EQ, FX, CS,...)	Implicit values of full revaluation historical simulation	1 Y, 99.93%, t-Student coupling
Real Estate	1 Y VaR, 99.9%	LDA complete inclusion of external data, plus qualitative Self Assessment	*Frequency* and *severity per event type*	Perfect correlation for conservative reasons	99.93%, t-Student coupling
Business	1 Year 99%	Parametric EaR	Volatility of costs and revenues	Correlation between costs and revenues	99.93%, t-Student coupling
Operations	1 Y VaR, 99%	Parametric VaR	Volatility of real estate indices	Correlation between ***proxy*** indices	99.93%, t-Student coupling

As of 31 December 2012, the Total Diversified Economic Capital of MPSCS (excluding intra-group operations) was 67% attributable to credit risk (including counterparty and issuer risk), 4% attributable to equity investment portfolio risk and 5% to operational risk. Risk management capital covering financial risks (comprising the typical risks of the trading portfolio and the ALM-Banking Book) amounts to approximately 24% of the Total Economic Capital, whilst capital covering property risks is almost negligible.

DIVERSIFIED ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31 DECEMBER 2012



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 2012 was as follows:

	(a) MPSCS employees	*(b) MPSCS employees at Group companies or subsidiaries*	*(c) Group company employees at MPSCS*	*Workforce (a-b+c)*
Executives	29	7	7	**29**
Managers	311	106	46	**251**
Professionals	220	88	14	**146**
Total	**560**	**201**	**67**	**426**

Actual employees	*31/12/2012*	*31/12/2011*	*Changes from 12/2011*	
			Absolute	*%*
Executives	29	30	(1)	(3.33)
Managers	251	258	(7)	(2.71)
Professionals	146	144	2	1.39
Total	**426**	**432**	**(6)**	**(1.39)**

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

- Inflows (total of 9):	
2	ordinary hirings
2	incoming transfers
5	termination of outgoing transfers
- Outflows (total of 15):	
4	workers on transfer to the Parent Company BMPS and the BMPS network
4	termination of outgoing transfers
5	resignations
2	deaths

DISTRIBUTION BY AGE GROUP AND AVERAGE AGE

The following information pertains to the “workforce” situation as at 31 December 2012:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	*age*
Women	10	51	63	41	165	43
Men	10	68	123	60	261	44
Total 2012	**20**	**119**	**186**	**101**	**426**	**44**
Incidence	4.7%	27.9%	43.7%	23.7%	100.0%	
Total 2011	**21**	**147**	**174**	**90**	**432**	**43**
Incidence	4.9%	34.0%	40.3%	20.8%	100.0%	

WORKERS HIRED

The Bank has provided for the hiring of one qualified professional, for the expansion of the control units (Compliance Office) and 1 employee to replace the death of a permanent worker (in implementation of the specific provisions of the Company's complementary contract regarding the hiring of spouses).

TRANSFERS

The operational integration processes agreed with the Parent Company gave rise, during the year to the acceptance of 2 employees at the Bank and the return of 5 employees previously on transfer (termination of out-going transfer). These employees, in particular, reinforced the Corporate Customer Desk, the Quants Staff and other supporting structures. At the same time, 4 of the Bank's employees were on transfer to other Group entities, and the transfers of of the Parent Company's 4 employees finished.

TERMINATION OF THE EMPLOYMENT RELATIONSHIP

During the year in question, two of the Bank's employees died. In addition, 5 workers of the Global Market Direction and the Corporate Finance Direction left the Company.

PERSONNEL TRAINING

Training in 2012 focused on specialist and/or obligatory training activities addressed to all categories of employees, in particular:
- executive and management personnel, to further develop their managerial qualities and to assist the management action in the particular period of economic difficulty;
- the remaining personnel, to increase their knowledge of technical-legal matters with specific impact on the Bank's activities (money laundering, market abuse, Mifid, health and safety).

Participation in external specialist courses was also authorised in several cases, held by consultants of proven professional qualification. The total issue of training amounted to 9,105 hours, of which 8,618 in the classroom and 487 on-line (in 2011 these were respectively 5,928, 4,514 and 1,774).
It must be noted that procedures are in progress to obtain Fondir and FBA financing for courses aimed at corporate management development and at satisfying needs on technical-legal matters.
The main areas in which training was provided were:
- finance (582 hours);
- legal/juridical, compliance and auditing (4,649 hours);
- management skills development (2,768 hours);
- production, organisation and process systems (102 hours);
- other courses (1,004 hours).
- 396 of the Bank's workers were involved in training out of the total personnel of 426 (93%).

EMPLOYMENT AND TRADE UNION RELATIONS

At the beginning of August 2012, trade union procedures were opened regarding the effects on personnel of the

definition of the objectives and strategic lines of the 2012-2015 Business Plan.
Last December, after complex and articulated talks, a framework agreement was reached aimed at achieving operational efficiency targets, also by a significant reduction in personnel and in the relative cost. The several initiatives include the “Solidarity Fund” which involves 13 persons. To provide for the costs of resignation incentives and for access to the Solidarity Fund, costs for €2.7 million have been posted on the financial statement (discounted back on the basis of the forecast dates of the future disbursements).
The other protective systems to limit labour costs, with both immediate effect and with a structural value, regard the following macro-items.

- holidays (constant monitoring of the use on the part of employees of holidays accrued during 2012, together with a plan for disposing of holidays not take and accumulated at the end of 2011);
- banking hours and overtime (the implementation of a policy for containing additional service thanks to improved and efficient distribution of the activities among the dedicated employees and/or those available to the Bank);
- missions and car/accommodation rental.

Organisational and Technological Dynamics

The main project areas addressed in 2012 were:

Adaptation of the Internal Regulations and Conformity Aspects
The most significant investments were made with regard to: Provisions on Usury and Transparency, the Group's Code of Ethics and the Company Code of Conduct, Traceability of Financial Flows as per the Antimafia Law 136/2010. Also in respect of money laundering, the Bank continues to pursue the uninterrupted improvement of protection in this sense and to increase the efficiency of the computerised procedures by the activity of a special work group coordinated by the manager of the "Anti money laundering" department. Similarly, the Bank has conformed to the Group's provisions on "Related Parties" and on the more recent provisions of the Bank of Italy" on "Connected Subjects", in the process of being adopted.

Increase of organisational efficiency
In the framework of the constant pursuit of regulatory evolution, the evolution of the market and of the efficiency of processes, adaptation and updating has been carried out on the regulatory documents on: the Trading Direction, Anomalous credit management, the Securitisation & Principal Finance Office, the Capital Market Solutions Office.

Finance
The new TRADEWEB market platform has been activated. This will give the Bank continuity in actively presenting itself on the markets and of playing its role also at an international level. The question of French taxation on financial transactions has been faced and in the second part of the year the preparatory activities were carried out relative to the most important international provisions which will enter into force in the forthcoming years: the Dodd Frank Act and the EMIR (European Market Infrastructure Regulation), concerning OTC derivatives, and FATCA (Foreign Account Tax Compliance Act, which disciplines American taxation issues).

Natural Disasters
Because of the floods in Liguria and northern Tuscany, and the earthquakes in Emilia Romagna, the Bank, consistent with the Parent Company's initiatives and the relative agreements at national level, the Bank has promoted and sustained every request from the clientèle, immediately adapting its own procedures.

SAP Liabilities Cycle and COMETA
The Group's two large administrative projects have been substantially completed. The SAP software for the management of the liabilities cycle is already giving benefits thanks to the greater integration of the processes, the auditing and the reporting. For COMETA, the software for accounting and preparation of financial statements, the roll-out in the production environment is pending. This changeover will give greater protection of the synthesising and decision-supporting processes, as well for the solidity and integrity of the financial statement data.

Securitisation of credit assets
The necessary activities have been started for compliance with the ECB instructions regarding input to a new European data bank (the so-called European Datawarehouse) of securitised assets. Certain management phases regarding the vehicle company have also been stabilised.

Confirmation of Health and Safety Certification and Environmental Certification
Downstream of the inspection activities of RINA Services, the annual renewal of the Environmental Management System Certification, according to the international ISO 14001 standard, has been obtained, as well as Occupational Health and Safety Management System Certification (SSL) according to the OH SAS 18001 standard.

Business Continuity
Again this year the Bank participated on the national test with the CODISE structure of the Bank of Italy. The positive result of this activity, which has by now become routine every year, shows the adequacy and preparation of the safeguard of the MPS Group, a difficult task which protects the financial system and the customers.

Internal Audit

The MPSCS System of Internal Audits, in compliance with the Group's Directive on this matter, is controlled by the Internal Audit Office which operates hierarchically directly below the Board of Directors and in close collaboration with the Bank's other control departments, and with the equivalent department of the Parent Company.

By constant implementation of this System, which is disciplined by the internal document dedicated not only to the prescriptions issued in the various process documents, but which also pursues the aim of contributing to a healthy and prudent management of the risks, consistently with the pre-established corporate aims of the Group and with the evolution of the legal and regulatory framework of reference.

The entire organisation is subjected to audit, at all levels, with, among other things, separation between the “business” and the control departments, in order to avoid situations of conflicts of interests in assigning duties, also by protective segregation and disclosure mechanisms.

To maintain a correct Internal System of Controls involves a series of risk assessment activities including identification, measuring, management and monitoring processes relative to the main risks. All these activities contributes to the determination of an annual audit plan which contemplates revisions and verifications of activities considered exposed to greater risk or involving potentially critical factors (finance and credit), identified by the assessment of the combination of factors of relevance in the areas of inquiry and the risk level associated to the same, and which takes into account the need to include, over a period of several years, all the operating structures.

The revision activity carried out by the Internal Audit department, also through targeted actions on subjects of transversal interest, other relative to aspects inherent to compliance with internal and external provisions, others addressed to the assurance of the top management and control bodies, is also accompanies by follow up initiatives to check the solution of the problems found during the investigations, as well as accompaniment and validation activities, above all aimed at verifying the consistency of the controls indicated by the process regulations in respect of the overall System of Controls.

The series of activities carried out in the financial year 2012, which is reported six-monthly to the Board of Directors with the presentation of specific reports, allows for assessing that the Bank's Internal System of Controls is substantially adequate.

This assessment is also the result of the knowledge of the careful monitoring and control of the credit, market and operating risks, carried out with the provision of precise operating and control activities assigned to the company structures, within the operating limits defined by the Board of Directors and the Top Management according to the directives issued by the Parent Company BMPS for the single topics. Risk quantification is centralised within the Parent Company's Risk Management Department, guaranteeing that specialist controls and the measurement of the various risk components are carried out.

Continuing on from previous years, the Internal Audit department has addressed its attention to the credit selection and issuing process, in particular by verifying the methods adopted for granting credit to positions qualified as anomalous risks, and the use of the overriding faculties in the determination of the counterparty borrower's rating and the coherence of the relative reasons. The process adopted for granting loans to so-called “art. 136 subjects” has also been examined. The Parent Company's Internal Review Area, which carried out an extraordinary sector review of the quality of the performing loans portfolio, has also been given assistance. Lastly, in compliance with the requests of the Bank of Italy, subject to verification within the scope of the MPS Group of non-performing loans, the recoverable value of the credit of certain positions classified as non-performing according to the specific criteria of prudence identified by the Supervisory Body itself, was estimated.

With regard to the finance sector, examinations were carried out on the management process of the regulatory reporting and the determination of the supervisory capital was examined, the market risk, the contractual management process, the controls on OTC derivatives, the correctness of the negotiating activity for the systematic DDT internaliser, the correct execution of operations with brokers in the performance of investment services, and the correct execution of certain departments including compliance with the MiFID Directive. In addition, specific action was carried out on the market making activity on bonds and hybrid capitalisation instruments (financial instruments not deducted from the supervisory capital), relevant for the prudential supervisory provisions, the results of which, substantially positive,

were reported to the Board of Auditors and the Board of Directors.
Always relative to risk protection, specific verifications were carried out in the period on the so-called regulatory and compliance processes. Respect for the provisions on privileged information (market abuse) was checked, and on the application of Law 262/2005 on general accounting (in particular, on the process followed for general expenses and on the management and use of other credit and debit items). Anti-money laundering controls also continued, and there is a specific long-term audit plan on this topic to control all related components. Always regarding transversal processes, verifications were carried out on the functioning of the governance system, operating risks management and business continuity management.

Compliance

The activity of the Compliance Office in 2012 regarded the issues described in the “2012 Compliance Plan”; in particular, the conformation activity regarded the adoption within company regulations and processes, of the main changes in legislation, identified as necessary within the “Compliance Plan” drawn up for the year 2012.
The analysis conducted shows an essential compliance for topics with a significant impact; this compliance was also found in the results of the assessment model adopted, with improvement areas, described more fully below, limited to investment services and anti-money laundering.

With regard to the conformity of the investment services, and especially the trading of hedge instruments of the OTC (over the counter - traded on regulated markets), the new series of contracts was issued, aimed at eliminating the transitory documents used since November 2007. With regard to the systematic internalisation (DDT), however, the regulation of the same was updated and expanded to conform to the variation in the Market Committee component of the systematic DDT internaliser and to more precisely define the price variation tolerance of certain instruments admitted for listing.
In the first six months, the procedural activities on the part of the Group's Operating Consortium were concluded, aimed at adapting the processes for reporting transactions on financial instruments pursuant to the relative regulations “Transaction Reporting and Post Trade Transparency”, which also includes details emerging from the Consob's request for clarifications of April 2010, for the purpose of verifying apparent inconsistencies between the reports required by art. 23 (transaction reporting) of the Markets Regulation, and those of arts. 29 and 30 (post trade transparency of equity instruments) always of the same Regulation.
The Compliance Office continued to follow the issue of market abuse. The activities carried out, as usual, were aimed at monitoring possible suspect transactions in respect of market abuse, to be reported to the competent Supervisory Authority (Consob), by verifying the transactions proposed by the MAD procedure (Market Abuse Detection), and the trading desk activities relative to the financial instruments of issuers on the watch list and on the restricted list. The insider list was updated on the basis of the reports received from the individual business offices, subsequent to their acquisition of mandates for transactions on the securities of listed issuers or, in any case, the acquisition of privileged information preparatory to the signing of the said mandates.
With regard to the so-called personal transactions, as per art. 18 of the joint Bank of Italy/Consob Regulation, and in particular the procedures that the intermediary must adopt in order to avoid the situations disciplined by the said provision, the company regulatory document was issued in order to structure and adopt the Group process for monitoring the said transactions.

With regard to the conformity of the banking services, however, and specifically on anti-usury, there are no particular innovations to be reported. The activity was therefore limited to checking the conformity of the protective measures adopted in respect of the rates applied relative to the “threshold rates” in force, and their publication as requested by the law on bank transparency. It is also reported that the internal regulatory document on usury was updated, so that it now includes the amendments contained in the Decree Law 13 May 2011, n°70, which firstly introduced the new mechanism for calculating the “threshold rate”.
The “231 self assessment” process relative to the various Bank departments, in the second half of 2012, was not activated, according to what was carried out by the Parent Company, and the results are therefore those of the 2011 analyses. We mention, however, that the Official Journal of 13 November 2012 contained publication n° 265 of the Law of 6 November 2012 n° 190 “Provisions for the prevention and repression of corruption and illegality in the public administration” hereinafter, the “Anti Corruption Law) which entered into force on 28 November, pursuant to which the field of application of Legislative Decree 231/01 is expanded to include the offences of corruption between private subjects in the cases contemplated by section three of the renewed art. 2635 of the civil code (art. 25/ter, section 1, letter s-bis) and for undue induction to give or promise gain as contemplated by art. 319-quater of the criminal code introduce by the Anti Corruption Law (art. 25).
In the period in question, the undersigned Office, together with the other offices of the Bank, assisted the sales

departments of the same for the correct identification of transactions with related parties. Similar collaboration was given on the correct application of the discipline of art. 136 of the Consolidated Banking Act. Furthermore, in virtue of the new discipline on transactions with related parties issued by the Consob in implementation of art. 2391-bis of the civil code with Resolution 17221 of 12 March 2010, as successively amended, and the issue of the relative Group Directive and the procedure issued by BMPS, adopted by the MPSCS Board of Directors with resolution provision of 11 January 2011, the Compliance Office provided periodic information to the Parent Company's Compliance Area for the reporting activities, required by the discipline, to the BMPS Board of Directors, conforming to the Parent Company's provisions and the instructions of the above-mentioned Consob Resolution.

On the subject of money laundering and terrorism, the activity to prevent these continued in 2012. The work carried out in the year continued to focus in particular on two objectives: on one side, the recovery and filing of documentation for the purpose of assessing pre-existing customers (especially the Declaration as per art.21 and the KYC questionnaire); on the other side, the management of the Single Electronic Archive was rendered more efficient. For the recovery and filing of the documentation for the assessment of pre-existing customers, this activity led to obtaining satisfying results since on 31 December 2012 customers were adequately assessed for about 3000 positions (both new and old customers), representing about 40% of all the performing positions of the Bank.
In order to archive greater effectiveness of the controls on correct fulfilment of all the obligations linked to money laundering and preparatory to the Bank's activity, a function required of the Group's Operating Consortium is about to be issued, aimed at activating a control on the Company's Internal System, which will prevent the registration of a resolution (new or reviewed) without the flag which testifies to the acquisition of all the anti-money laundering documentation necessary.

Regarding investment services, two complaints were presented in the period relative to the secondary securities market, for that matter accepted. However, 13 complaints were presented on banking services, of which 4 were accepted.

Environmental Issues

There are two types of impacts of our activities on the environment: direct and indirect. Direct impacts are linked to operations (consumption of paper, water and energy, production of waste and greenhouse gases), while indirect impacts are attributable to activities of suppliers and customers (in relation to the environmental risk of activities financed, the improvement in ecological efficiency encouraged through customised financing and for polluting activities of suppliers or the products purchased).
During the year, activities to maintain the Management System continued, and periodic monitoring on the management procedures as well as controls on compliance with applicable environmental regulations were conducted.
In May/June 2012, the RINA certification Agency carried out its usual annual visit to confirm the ISO 14001 certification. The Management System's area of application has expanded. It currently includes disbursement of credit, Corporate Finance services, consulting and services offered to the Public Administration relative to publicly subsidised loans, and it also includes structured finance services, investment services and activities on the capital market.
The results of the verification were positive and no no-conformities were found, merely points for continuous improvement.

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 2012. Part H "Transactions with Related Parties" - in the Explanatory Notes - gives a breakdown of the existing relations with Group companies as of 31 December 2012. The main important aspects are commented below.
Given that the guidance, control and support provided by the Parent Company over MPSCS' operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constructive cooperation, with the Parent Company issuing specific guidelines (instructions) which were fully brought to the attention of the MPSCS Board of Directors.
The outsourcing of activities to other MPS Group organisations and companies has enabled MPSCS to maximise synergies and economies. Services outsourced to and financial transactions carried out with MPS Group counterparties, summarised below, are as a rule governed on the basis of regular market conditions regulated by dedicated agreements between the Parties (called Service Level Agreements (SLA)).
As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the market carried out as part of the strategic mission of MPSCS, set forth in detail in the paragraphs above;
- the agreement stipulated at the time by the MPS spin-off Finance Banca Mobiliare S.p.A. (January 2003) governing the relations with Group companies and regarding the methods for the Bank to reacquire the innovative financial products, created by the Bank and placed by the Group's commercial networks;
- the granting of temporary loans and medium/long-term loans by Banca MPS and its subsidiary MPS Ireland, for the purpose of funding the Bank's normal operations; all the above was carried out in accordance with the indications of the Parent Company's ALM Business Unit, as a result of the centralised management of the process pertaining to medium/long term interest rate and liquidity risks by the Parent Company;
- debt collection for problem loans carried out by MPS Paschi Gestione Crediti (a Group bank specialised in carrying out collection procedures for loans which have become uncollectable), and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to MPSCS;
- the presence of employees of MPSCS seconded to the Parent Company and some of its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised supervision of risk management by the Parent Company's Risk Management Department;
- technological supervision, maintenance and development of the IT system assigned to the Consorzio Operativo Gruppo MPS, with which a specific SLA has been defined;
- the administrative activities typical of the B.O. of the finance area centrally managed by the Group's Operational Consortium; the relative SLA is about to be defined;
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of Centralised Group Purchasing;
- the registration and payment of the liabilities cycle, outsourced to the Group's Operational Consortium, with which the relative SLA will be drawn up;
- the conferment of the delegated management of the expense items of the real estate sector and of credit recovery, for respectively the Parent Company's Real Estate Assets Management Area and the MPS Bank Credit Management;
- the lease of premises owned by the Group.

"In the course of 2012 ""atypical or unusual"" transactions were not carried out which in terms of significance and/or relevance could have given rise to doubts regarding the preservation of the company assets, either with related parties or with parties other than related parties."

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

The Bank's operations in 2012, from the balance sheet date and the date of approval of these financial statements, substantially developed in continuity with the past, and according to the guidelines of the Parent Company BMPS. One of the most significant events which occurred after the closure of the year 2012, which we mention informally, was that Moody's rating agency declared that it had placed the ratings of both Banca Monte dei Paschi di Siena and MPS Capital Services under observation for a possible downgrade; in particular:

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2012 Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Explanatory Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to allocate the profit for 2012 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2012

- to the ordinary reserve (1/20)	**Euro**	**63,820.21**
- to the reserve required by the Articles of Association		
pursuant to Article 26 (1/20)	**Euro**	**63,820.21**
- to the extraordinary reserve	**Euro**	**1,148,763.86**
PROFIT FOR 2012	**Euro**	**1,276,404.28**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2012*	*31/12/2011*	*Changes*	
				absolute	*%*
10.	Cash and cash equivalents	1,308	1,666	(358)	(21.49%)
20.	Financial assets held for trading	25,684,425,865	35,479,341,542	(9,794,915,677)	(27.61%)
40.	Financial assets available for sale	236,062,290	72,028,333	164,033,957	227.74%
60.	Due from banks	7,205,651,105	4,571,815,458	2,633,835,647	57.61%
70.	Loans to customers	13,919,550,781	14,340,697,144	(421,146,363)	(2.94%)
100.	Equity investments	20,112,647	19,532,713	579,934	2.97%
110.	Property, plant and equipment	14,837,918	15,307,539	(469,621)	(3.07%)
130.	Tax assets	153,671,565	92,424,089	61,247,476	66.27%
	a) current	*13,000,000*	*10,413,386*	*2,586,614*	*24.84%*
	b) prepaid	*140,671,565*	*82,010,703*	*58,660,862*	*71.53%*
140.	Non-current assets and groups of assets subject to disposal	972,000		972,000	
150.	Other assets	29,333,285	22,590,980	6,742,305	29.85%
	Total Assets	47,264,618,764	54,613,739,464	(7,349,120,700)	(13.46%)

Balance Sheet

	Liabilities and Shareholders' Equity	*31/12/2012*	*31/12/2011*	*Changes absolute*	*%*
10.	Payables to banks	7,827,290,789	7,236,232,360	591,058,429	8.17%
20.	Due to customers	10,591,772,735	11,804,064,586	(1,212,291,851)	(10.27%)
30.	Outstanding securities	106,616,376	243,790,453	(137,174,077)	(56.27%)
40.	Financial liabilities held for trading	27,393,448,866	34,017,201,649	(6,623,752,783)	(19.47%)
60.	Hedging derivatives	2,071,433	1,111,240	960,193	86.41%
80.	Tax liabilities	26,907,825	16,678,825	10,229,000	61.33%
	a) current	*26,907,825*	*16,678,825*	*10,229,000*	*61.33%*
	b) deferred				
100.	Other liabilities	111,811,369	89,901,977	21,909,392	24.37%
110.	Severance indemnities for personnel	2,187,997	2,168,161	19,836	0.91%
120.	Provisions for risks and charges:	75,163,205	35,550,440	39,612,765	111.43%
	a) pensions and similar obligations	*5,531,851*	*5,834,354*	*(302,503)*	*(5.18%)*
	b) other provisions	*69,631,354*	*29,716,086*	*39,915,268*	*134.32%*
130.	Valuation reserves	(16,930,743)	(3,176,469)	(13,754,274)	433.01%
160.	Reserves	638,478,531	620,285,134	18,193,397	2.93%
170.	Share premiums	228,089,231	228,089,231	-	-
180.	Capital	276,434,746	276,434,746	-	-
200.	Profit for the period	1,276,404	45,407,131	(44,130,727)	(97.19%)
	Total Liabilities and Shareholders' Equity	47,264,618,764	54,613,739,464	(7,349,120,700)	(13.46%)

Income Statement

	Items	*31/12/2012*	*31/12/2011*	*Changes*	
				absolute	*%*
10.	Interest income and similar income	701,929,787	757,462,251	(55,532,464)	(7.33%)
20.	Interest expense and similar charges	(401,042,682)	(483,635,407)	82,592,725	(17.08%)
30.	**Net interest income**	**300,887,105**	**273,826,844**	**27,060,261**	**9.88%**
40.	Fee income	110,314,914	114,489,847	(4,174,933)	(3.65%)
50.	Fee expense	(77,166,109)	(72,217,578)	(4,948,531)	6.85%
60.	**Net fee and commission income**	**33,148,805**	**42,272,269**	**(9,123,464)**	**(21.58%)**
70.	Dividend and similar income	53,353,836	84,806,253	(31,452,417)	(37.09%)
80.	Net trading gains (losses)	140,895,965	(99,555,062)	240,451,027	(241.5%)
90.	Net hedging gains (losses)	(7,880)	(4,405)	(3,475)	78.89%
100.	Gains (losses) on disposal or repurchase of:	(12,647,615)	(811,411)	(11,836,204)	1458.72%
	a) loans	*(7,968,598)*		*(7,968,598)*	-
	b) financial assets available for sale	*(4,679,017)*	*(811,411)*	*(3,867,606)*	*476.65%*
	c) financial assets held to maturity			-	-
	d) financial liabilities			-	-
120.	**Net interest and other banking income**	**515,630,216**	**300,534,488**	**215,095,728**	**71.57%**
130.	net value adjustments/write-backs due to impairment of:	(365,030,984)	(126,768,213)	(238,262,771)	187.95%
	a) loans	*(355,192,639)*	*(113,486,423)*	*(241,706,216)*	*212.98%*
	b) financial assets available for sale	*(6,994,406)*	*(373,539)*	*(6,620,867)*	*1,772.47%*
	c) financial assets held to maturity			-	-
	d) other financial transactions	*(2,843,939)*	*(12,908,251)*	*10,064,312*	*(77.97%)*
140.	**Net income from financial activities**	**150,599,232**	**173,766,275**	**(23,167,043)**	**(13.33%)**
150.	Administrative expenses	(76,457,904)	(79,786,287)	3,328,383	(4.17%)
	a) personnel expenses	*(36,419,340)*	*(42,725,548)*	*6,306,208*	*(14.76%)*
	b) other administrative expenses	*(40,038,564)*	*(37,060,739)*	*(2,977,825)*	*8.03%*
160.	Net provisions for risks and charges	(37,321,598)	(14,391,942)	(22,929,656)	159.32%
170.	net value adjustments/write-backs on tangible assets	(469,621)	(528,533)	58,912	(11.15%)
190.	Other operating income/charges	4,654,195	4,328,004	326,191	7.54%
200.	**Operating costs**	**(109,594,928)**	**(90,378,758)**	**(19,216,170)**	**21.26%**
210.	Profit (loss) on equity investments	(2,109,106)	3,859,280	(5,968,386)	(154.65%)
250.	**Profit /loss on current operations gross before taxes**	**38,895,198**	**87,246,797**	**(48,351,599)**	**(55.42%)**
260.	Income taxes for the period from current operations	(37,618,794)	(41,839,666)	4,220,872	(10.09%)
290.	**Profit (loss) for the period**	**1,276,404**	**45,407,131**	**(44,130,727)**	**(97.19%)**

Basic and Diluted Earnings per Share

	31/12/2012	*31/12/2011*
Basic earnings per share		
- from current operations	0.00143	0.03055
- on groups of assets subject to disposal		
Diluted earnings per share		
- from current operations	0.00143	0.03055
- on groups of assets subject to disposal		

Statement of Comprehensive Income

	Items	*31/12/2012*	*31/12/2011*
10.	**Profit (loss) for the period**	**1,276,404**	**45,407,131**
	Other revenue components net of taxes		
20.	Financial assets available for sale	(13,754,274)	(496,134)
30.	Property, plant and equipment		
40.	Intangible assets		
50.	Foreign investment hedging		
60.	Cash flow hedging		
70.	Exchange differences		
80.	Non-current assets held for sale		
90.	Actuarial income (losses) on definite benefit plans		
100.	Portion of equity investments revaluation reserves		
	booked to shareholders' equity		
110.	**Total other revenue components net of taxes**	**(13,754,274)**	**(496,134)**
120.	**Comprehensive income (Item 10+110)**	**(12,477,870)**	**44,910,997**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2011 - 31/12/2012

				Allocation of the result of the preceding financial year		Changes for the period								
						Shareholders' Equity transactions								
	Balances as at 31/12/2011	Changes in initial balances	Balances as at 01/01/2012	Reserves	Dividends and other allocations	Change in Reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivates on treasury shares	Stock options	Total income 2012	Shareholders' equity as at 31/12/2012
Capital:	**276,434,746**		**276,434,746**											**276,434,746**
a) ordinary shares	***276,434,746***		***276,434,746***											**276,434,746**
b) other shares														
Share premiums	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**620,285,134**		**620,285,134**	**18,164,933**		**28,464**								**638,478,531**
a) profit	***373,954,890***		***373,954,890***	***18,164,933***		***28,464***								***392,148,287***
b) other	***246,330,244***		***246,330,244***											***246,330,244***
Valuation reserves	**(3,176,469)**		**(3,176,469)**										**(13,754,274)**	**(16,930,743)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**45,407,131**		**45,407,131**	**(18,164,933)**	**(27,242,198)**								**1,276,404**	**1,276,404**
Net equity	**1,167,039,773**		**1,167,039,773**	**0**	**(27,242,198)**	**28,464**							**(12,477,870)**	**1,127,348,169**

Note:

the positive change of €28,464 in profit reserves derives from the allocation to reserve of the payable to shareholders related to dividends resolved by the Shareholders' Meeting of 18 April 2007 (distribution of profits from 2006) not collected by Shareholders.

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

				Allocation of the result of the preceding financial year		Changes for the period								
							Shareholders' Equity transactions							
	Balances as at 31/12/2010	*Changes in initial balances*	*Balances as at 01/01/2011*	*Reserves*	*Dividends and other allocations*	*Change in Reserves*	*Issue of new shares*	*Purchase of treasury shares*	*Extraordinary dividend distribution*	*Change in equity instruments*	*Derivates on treasury shares*	*Stock options*	*Total income 2012*	*Shareholders' equity as at 31/12/2011*
Capital:	**276,434,746**		**276,434,746**											**276,434,746**
a) ordinary shares	**276,434,746**		**276,434,746**											**276,434,746**
b) other shares														
Share premiums	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**567,924,943**		**567,924,943**	**52,337,945**		**22,246**								**620,285,134**
a) profit	***321,594,699***		***321,594,699***	***52,337,945***		***22,246***								***373,954,890***
b) other	***246,330,244***		***246,330,244***											***246,330,244***
Valuation reserves	**(2,680,335)**		**(2,680,335)**										**(496,134)**	**(3,176,469)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**82,420,165**		**82,420,165**	**(52,337,945)**	**(30,082,220)**								**45,407,131**	**45,407,131**
Net equity	**1,152,188,750**		**1,152,188,750**	**0**	**(30,082,220)**	**22,246**							**44,910,997**	**1,167,039,773**

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

Statement of Cash Flows (indirect method)

(amounts in Euros)

A.	**OPERATING ACTIVITIES**		
1.	**Operations**	**(212,559,772)**	**(404,789,657)**
	- result of the period (+/-)	1,276,404	45,407,131
	- gains/losses on financial assets held for trading and on financial assets/liabilities posted at fair value	(571,400,054)	(528,321,000)
	- net value adjustments/write-backs due to impairment	359,674,578	119,034,213
	- net value adjustments/write-backs to property, plant and equipment and intangible assets	469,621	528,533
	- net provisions to risks and charges and other costs/revenues	37,321,598	14,391,942
	- taxes not paid	39,642,509	40,330,331
	- other adjustments	(79,544,428)	(96,160,807)
2.	**Cash flows absorbed by financial activities:**	**10,327,480,775**	**(4,590,536,045)**
	- financial assets held for trading	10,516,617,945	(6,342,631,131)
	- financial assets available for sale	(170,228,159)	124,362
	- receivables from banks - other receivables	(491,713,469)	(226,723,133)
	- due from customers	472,156,243	1,956,778,205
	- other assets	648,215	21,915,652
3.	**Cash flows generated by financial liabilities:**	**(10,214,451,125)**	**6,652,963,463**
	- payables to banks - other payables	(1,680,700,301)	(274,953,587)
	- due to customers	(1,232,104,034)	723,711,776
	- securities in issue	(137,788,461)	(37,155,109)
	- financial liabilities for trading	(6,720,835,528)	6,437,534,548
	- other liabilities	(443,022,801)	(196,174,165)
	Net cash flows absorbed/generated by operating activities	**(99,530,122)**	**1,657,637,761**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**1,440,000**	**3,183,500**
	sale of equity investments	-	485,500
	- dividend collected from equity investments	1,440,000	2,689,000
	- sale of property, plant and equipment	-	9,000
	- sale of intangible assets	-	-
2.	**Cash flows absorbed by:**	**(3,661,040)**	**(12,527)**
	- purchase of equity investments	(3,661,040)	-
	- purchase of property, plant and equipment		(12,527)
	- purchase of intangible assets		-
	Net cash flows absorbed by investing activities	**(2,221,040)**	**3,170,973**
C.	**FUNDING ACTIVITIES**		
	issue/purchase of treasury shares	-	-
	issue/purchase of equity instruments	-	-
	distribution of dividends and other purposes	(27,242,198)	(30,082,220)
	Net cash flows absorbed by funding activities	**(27,242,198)**	**(30,082,220)**
D.	**(A+B+C) NET LIQUIDITY ABSORBED/GENERATED IN THE PERIOD**	**(128,993,360)**	**1,630,726,514**

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

Reconciliation

(amounts in Euros)

Items	*31/12/2012*	*31/12/2011*
Cash and cash equivalents at the beginning of the period	(2,271,179,666)	(3,901,906,179)
Total net cash flows absorbed/generated during the period	(128,993,360)	1,630,726,514
Cash and cash equivalents: effect of changes in currency rates		-
Cash and cash equivalents at the end of the period	(2,400,173,026)	(2,272,179,665)

Note:
Cash and cash equivalents include on demand payables and receivables and deposits with banks, posted under asset item 60 "Due from banks" and liability item 10 "Due to banks".

EXPLANATORY NOTES

Part A
Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 - STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These Financial Statements, in application of Legislative Decree no. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, and in force at 31 December 2012.
The International Accounting Standards were also applied with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework").
In the absence of an accounting standard or interpretation specifically applicable to a transaction, other event or circumstance, the Company Management used its own judgement in developing and applying an accounting standard, in order to provide disclosure that is:

- significant for the purposes of financial decisions made by users of the financial statements;
- reliable, so that the financial statements
  - provide a true representation of the equity-financial position, income statement and cash flows of the Bank;
  - reflect the economic substance of the transactions, other events and circumstances, and not merely their legal form;
  - are neutral, i.e. unbiased;
  - are prudent;
  - are complete, with reference to all significant aspects.

In exercising said judgement, the Company Management referred to and considered the applicability of the following sources, in decreasing order of importance:

- the provisions and application guidelines contained in the Accounting Standards and Interpretations dealing with similar or related cases;
- the definitions, recording criteria, and measurement concepts for the recognition of assets, liabilities, revenues and costs contained in the Framework.

In expressing judgements, the Company Managements may also consider

- the provisions most recently issued by other entities responsible for ratifying accounting standards, which use a conceptually similar framework in developing the accounting standards;
- other accounting literature;
- generally accepted practices in the sector.

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

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

The Financial Statements have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and subject to mandatory enforcement in 2012. Additionally, the provisions of Bank of Italy Circular no. 262, governing the format and rules for the preparation of

bank financial statements, amended by the first revision on 18 November 2009 and the successive revisions, including Attachment 1 to the circular of 15 January 2013.
The company's financial statements include:
• balance sheet
• income statement
• statement of comprehensive income
• statement of changes in shareholders' equity
• cash-flow statements
• explanatory notes
and are accompanied by the directors' report on operations.
The Bank, controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements.
The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. - with registered office in Piazza Salimbeni no. 3 - Siena, enrolled in the Banking Register and the Banking Groups Register with no. 5274 - and are made available to the public at said registered office.
The financial statements have been prepared with clarity, and provide a true and accurate representation of the equity, financial and income situation for the year.
"If the disclosure required by the International Accounting Standards and the provisions contained in the Bank of Italy ""revised 262 Circular"" is not sufficient to provide a true, accurate, meaningful, reliable, comparable and understandable representation, then supplementary information required for this purpose is provided in the Explanatory Notes."
The balance sheet, income statement and statement of comprehensive income consist of numbered items, sub-items (identified by letters), and by additional details (the "of which" of the items and sub-items). The items, sub-items and related details constitute the financial statement accounts.
The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income. If the account balances are not comparable, the prior-year balances are adjusted. The lack of comparability and the restatement or the impossibility of restatement are noted and discussed in the Explanatory Notes.
Assets and liabilities and costs and revenues are not offset, except where allowed or required by the International Accounting Standards or the provisions of the Bank of Italy's 262 Circular.
Balance sheet, income statement and statement of comprehensive income items with a zero balance for the year and for the prior year are not presented. If an asset or liability can be booked to more than one balance sheet item, the explanatory notes provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary for the purpose of understanding of the financial statements.
Revenues are reported in the income statement and the related section of the explanatory notes without a +/- sign, while costs are indicated in parentheses. In the statement of comprehensive income, negative amounts are indicated in parentheses.
In compliance with Article 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in units of Euro, whilst the explanatory notes are in thousands of Euro. Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. Tables that do not contain any values are omitted in the explanatory notes.
The Financial statements have been drawn up with the view of the company as a going concern, in accordance with the matching principle, the principle of the importance and significance of information, and the principle of the prevalence of substance over form, as well as in order to favour consistency with future presentations.

Section 3 - EVENTS AFTER THE REPORTING PERIOD

IAS 10, "Events after the Reporting Period" expressly governs the treatment to be applied to favourable or unfavourable events occurring between the balance sheet date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to Financial Statement data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important.
There are no events after the reporting period pursuant to international accounting standard IAS 10, "Events after the Reporting Period".
These financial statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern. With regard to the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, Consob and Isvap, as updated, the Bank has the reasonable expectation of continuing with its operating existence in a foreseeable future and, therefore, it has prepared its Financial Statements in view of its continuation as a going concern, since the uncertainties resulting from the current economic situation do not generate doubts concerning the company's capacity to continue operating as a going concern.
The measurement criteria adopted are consistent with that assumption and comply with the matching principle, the principle of the importance and significance of information, and the principle of the prevalence of economic substance over legal form. Those criteria have not changed since last year.

Section 4 - OTHER INFORMATION

List of IAS/IFRS international accounting standards and SIC/IFRIC interpretations whose application is mandatory as from the 2012 financial statements

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2012, the following are noted. For the sake of full information, we point out that these changes have had no significant impact on the drafting of these financial statements.
IAS 7 - Financial instruments: additional information The amendment, issued by the IASB on 7 October 2010, was endorsed by the European Commission with Regulation 1205/2011 of 02 November 2011, and is applicable starting from the financial statements for the years starting after 30 June 2011. The changes influence only disclosure, without any impact on the Company's equity or economic or financial situation. More specifically, it increases the information requisites of IFRS7 on transactions involving the transfer of financial assets; i.e. more specific information is required on the assets sold but not cancelled from the financial statements and additional information on assets cancelled but which involve exposure even after the sale. The amendment will allow users of the financial statements to improve their understanding of the possible effects of any risks that may remain with the company that sold the asset. The guidelines of the former IAS 39 on the cancellation of financial assets remain unchanged. The Bank of Italy has accepted the new information requisites, amending the circular 262 "The bank's financial statement: framework and rules for drafting" with the circular of 15 January 2013.
IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2012.

Pursuant to IAS 8, paragraphs 30 and 31, we point out that as of 03 March 2013 the European Commission had endorsed certain standards and interpretations issued by the IASB, whose mandatory application is effective after 31 December 2012; in these cases, the Bank did not exercise its right of early application in any cases which may have occurred. Said standards and interpretations are indicated below.
In December 2010, the IASB published an amendment to **IAS 12 "Deferred taxes: recovery of the underlying assets"**. IAS 12 sets forth that deferred tax assets and liabilities must be calculated considering the methods for recovering the book value of the asset, whether through sale or through use. The way in which the book value of an asset or liability

is recovered (for example through sale rather than through depreciation) can in fact determine both a different tax rate at the time of recovery and a different tax base. An entity measures deferred tax assets and liabilities using rates and tax bases consistent with the expected manner of asset recovery. In order to decrease subjectivity in estimating the asset's expected manner of recovery, a rebuttable presumption was introduced based on which it is assumed that the assets measured at fair value pursuant to IAS 40 are recovered through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendments also incorporate into IAS 12 the guidance previously contained in SIC-21 "Income Taxes—Recovery of revalued non-depreciable assets". The amendment, endorsed by the European Commission with Regulation 1255/2012 of 11 December 2012, is applicable starting from the financial statements for the years starting after 11 December 2012 (therefore as from the financial statements relative to the financial year 2013).

In May 2011, the IASB published the new accounting principles **IFRS 10 "Consolidated financial statements", IFRS 11 "Joint control agreements"** and **IFRS 12 "Disclosure of interests in other entities".** The issue of IFRS 10 summarised within a single principle the consolidation criteria previously contained in IAS 27 and, for Special Purpose Entities, in SIC 12; the rules contained in IFRS 10 now apply to all entities. IFRS 10 introduces a new concept of control: an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The issue of IFRS 10 led to the revision of IAS 27 "Consolidated and separate financial statements" which, renamed "Separate financial statements" now contains, for separate financial statements, the accounting criteria and disclosure requirements relative to investments in subsidiaries, associates and companies subject to joint control. IFRS 11 "Joint control agreements" replaced IAS 31 "Interests in Joint Ventures"; the principle requires that the entity determine the type of joint arrangement in which it is involved and verify the rights and obligations deriving from the agreement; if the entity is in a joint venture, it must show the investment in the financial statements using the equity method in compliance with IAS 28, which was renamed "Investments in associates and joint ventures". Joint ventures can no longer be consolidated with the proportionate method. The new standards IFRS 10, IFRS 11 and IFRS 12, the new versions of IAS 27 and of IAS 28, together with the suppression of IAS 31, were approved by the European Commission on 11 December 2012 with Regulation n° 1254/2012 and must obligatorily be applied as from the financial years which start as from 1 January 2014.

Also in May 2011, the IASB published the new accounting standard **IFRS 13 "Fair value measurement"**. The publication of IFRS 13 collected within a single standard the fair value definitions issued to date in several different standards, and thus eliminated the existing inconsistencies. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (exit price). The definition of fair value contained in IFRS 13 highlights that measurement techniques are market based and not entity specific.
The standard was approved by the European Commission on 11 December 2012 with Regulation n° 1255/2012 and it must obligatorily be applied from the financial periods which start as from 1 January 2013.

In December 2011, the IASB published the amendment to IAS 32 **"Offsetting financial assets and financial liabilities"**, which introduced some paragraphs into the application guidance which clarify the methods for applying the current rules (par. 42 of IAS 32) which discipline compensation of financial assets and liabilities on the balance sheet. Also in December 2011, the IASB published an **amendment to IFRS 7 "Disclosures - offsetting financial assets and financial liabilities"**, which introduced new disclosure requirements related to financial assets and financial liabilities which are offset pursuant to paragraph 42 of IAS 32. The amendment was approved by the European Commission on 13 December 2012 with Regulation n° 1256/2012 and it must obligatorily be applied from the financial periods which start as from 1 January 2013.

In June 2011, the IASB published the amendment to IAS 1 **"Presentation of items of other comprehensive income"**.

The most significant change consists of the obligation to distinguish, in the statement of other comprehensive income, the items which are reclassified to the income statement in specific situations (sale, impairment) from those which are never reclassified to the income statement. The standard, which was approved by the European Commission on 5 June 2012 with Regulation n° 475/2012, must obligatorily be applied from the financial periods which start as from 01 July 2012.

In June 2011, the IASB published the revised version of **IAS 19 "Employee benefits"**. The review of the standard is the result of a project aimed at improving the comparability and the quality of information provided regarding post-employment benefits. The amendments made to the standard mainly regard
• the way of presenting changes in assets and liabilities arising from defined benefit plans;
• the treatment of plan amendments, curtailments and settlements;
• the disclosure to be provided for defined benefit plans;
• other less significant issues.
The standard, which was approved by the European Commission on 5 June 2012 with Regulation n° 475/2012, must obligatorily be applied from the financial periods which start as from 1 January 2013.

In December 2010, the IASB published two amendments to **IFRS 1 "First time adoption**". The first amendment replaces the references to a set transition date "1 January 2004" with the "the date of transition to IFRSs", thereby exempting first-time adopters from having to restate past transactions that occurred before their transition to IFRSs. The second amendment provides instructions on how to present IFRS financial statements (or present them for the first time) after a period of severe hyperinflation of the functional currency. Both the amendments, approved by the European Commission on 11 December 2012 with Regulation n° 1255/2012, must obligatorily be applied from the financial periods which start as from 1 January 2013.

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

For these principles and interpretations, the date on which application is mandatory as set forth by the IASB, which is in any case after 31 December 2012, is indicated. It should be considered that for companies located in European Union countries, the mandatory application date will be set forth in the endorsement regulations.
IFRS 9 - Financial instruments - comprehensive review project. In response to the requests for simplification of the accounting rules applicable to financial instruments, submitted both by political bodies and by international institutions, the IASB initiated a project for the replacement of the current IAS 39. The project was divided into three distinct phases: 1) classification and assessment of financial assets, 2) amortised cost and impairment, 3) hedges. For phases 2) and 3) the IASB has not yet published any standard, but only Exposure Drafts.
However, regarding the first phase, on 12 November 2009 the IASB issued the accounting standard **"IFRS 9 - Financial instruments"**. The new accounting standard pertains to the classification and assessment of financial assets. Portfolio categories were reduced to three (amortised cost, fair value with changes in income statement and fair value with changes in other comprehensive income). The "Held To Maturity" and "Available For Sale" categories have been eliminated. Changes were also made to the classification rules of the three categories in question, including those for the Fair Value Option (FVO). The IFRS 9 uses a single method to determine whether a financial asset is measured at amortised cost or at fair value. The method is based on the financial instrument management model adopted by the entity (business model) and on the contractual characteristics of the cash flow of the financial assets.
On 28 October 2010, the IASB completed the accounting standard IFRS 9 with the part pertaining to the classification and measurement of financial liabilities. The IASB opted for the substantial maintenance of the framework of the current IAS 39. Consequently, it confirmed the current obligation to separate the derivatives embedded in financial liabilities; the full recording of fair value changes as offset entries in the income statements is prescribed, for instruments other than derivatives, only for financial liabilities held for trading. For the financial liabilities designated

within the FVO, 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 or exacerbates the accounting mismatch, in which case the entire change in fair value is recorded in the income statement. That amount recorded among other comprehensive income is not reversed to the income statement when the liability is settled or extinguished.
For the sake of full information, we mention that in November 2012 the IASB published the Exposure Draft 2012/4 **“Classification and Valuation: limited amendments to IFRS 9 - Proposed amendments to IFRS 9 (2010)”** proposing the introduction of a new portfolio “Fair value through other comprehensive income (FVOCI)” to be used for debt instruments held by an entity on the basis of its own business model.

On 13 March 2012 the IASB issued an amendment to **IFRS 1** entitled **“Public loans**”. The amendment introduces an exception to the backdated application of the IFRS standards for the “first time adopters”: the future application is required of the standards IFRS 9 “Financial instruments” and IAS 20 “Accounting of public contributions and disclosures on public assistance” to public loans existing at the date of the transition to the IFRS. The backdated application is allowed only if the information necessary for backdated application can be obtained at the moment of the first registration of the loan. The amendment must be applied for financial periods beginning on or after 1 January 2013.

On 17 May 2012 the IASB published the document “**Consolidated financial statements, Agreements on joint control and Information on equity investments in other entities: guide to the transition”,** containing clarifications on the problems of first application of the standards IFRS 10, IFRS 11 and IFRS 12 (the obligatory application of which starts from the financial statements of 2014).

“Improvements to International Accounting Standards - 2009-2011 cycle” Project

On 17 May 2012, the IASB published a set of changes to the IFRS within the scope of this project. Below are mentioned those indicated by the IASB as amendments that will entail a change in the presentation, recognition and assessment of the financial statement entries, ignoring instead those that will only determine terminology changes or editorial changes with minimal effects in accounting terms.

- **IFRS 1 “First adoption of the IFRS”: repeated application**. It is specified that an entity which has already applied IFRS 1 in the past and which has successively interrupted the application of the IFRS, can apply IFRS 1 again if the last annual financial statement does not contain an explicit and unconditioned declaration of conformity to the IFRS. The entity which does not choose to reapply IFRS 1 must backdate the application of the IFRS as if there had been no interruption.
- **IFRS 1 “First adoption of the IFRS”: financing costs**. Financing costs capitalised before the first application of the IFRS can be maintained without adjusting the capitalised amount at the date of the first application.
- **IAS 1 “Presentation of the financial statements”: clarifications on the requisites of comparative information**. It is specified that, as far as concerning comparative information, at least two balance sheets, two income statements and the other income components, two cash flow statements and two statements of changes in shareholders' equity must be presented. It is not necessary to present any other comparative information, except the above. If additional comparative information is given, it must be given in conformity to the IFRS. However, it is necessary to present, in addition to the minimum comparative information requested, a third balance sheet schedule at the start of the previous period, in the case of a change in accounting policies or of backdated restatement which has a material impact on the shareholders' equity at the start of the previous period.
- **IAS 16 “Fixed assets, plant and machinery”: classification of service equipment**. Spare parts and maintenance equipment must be classified as fixed assets, plant and machinery when they can be defined according to the

definition of these items contained in IAS 16; otherwise they must be classified as inventories.

- **IAS 32 "Financial instruments: presentation": effects on taxation of distributions to the holders of equity instruments**. Income items relative to distributions to holders of equity instruments and the costs of transactions on equity operations must be posted pursuant to IAS 12 "Income taxes".
- **IAS 34 "Interim reports": interim financial reports and sector information**. The amount of the total assets and liabilities of a specific sector must be indicated on the intermediate reports only if the amount is regularly reported to the top management bodies holding operational decisional power and if there is a material change in the amount indicated in the last annual financial statement.

In October 2012, the IASB 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 in order to provide them with investment services, undertaking to pursue the increase of the invested capital and to maximise the profitability, assessing the results of practically all its own assets on the basis of fair value. For such entities, an exception to the general role that all subsidiaries must be consolidated is contemplated. I particular, the amendment rules that such entities must assess the controlling interests at fair value in contra items on the income statement of both the consolidated financial statement and the separate financial statement. Amendments to IFRS 12 and IAS 27 have also been introduced, regarding the disclosures to be provided. The amendment must be obligatorily applied for financial periods beginning on or after 1 January 2014.

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 2012 are described below.

1) FINANCIAL ASSETS HELD FOR TRADING

a) initial recognition

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

b) classification criteria

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

c) measurement criteria
After the initial recognition, financial assets held for sale are assessed at fair value, recording changes as offsetting entries in the income statement.
Please see section A.3 "Fair value disclosure", below, for a description of the criteria used to determine the fair value of financial instruments.
Equity instruments and the related derivatives whose fair value cannot be reliably determined according to the guidelines above, are stated at cost, adjusted for any impairment losses. These impairment losses are not written back.
Considering that financial instruments such as repurchase agreements and securities lending are short-term transactions, their fair value is represented by the initial recognition value including the economic component accrued as of the reference date.
In determining the cost of the securities portfolio, the Bank applies the "weighted average daily cost" method.

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

e) income recognition
The effects of measurement, transfers and/or closures are booked to Item 80 of the income statement, "Net income from trading activities", while coupon income or any remuneration accrued for activities regarding repurchase agreements or securities lending are recorded in the income statement, under Item 10 "Interest income and similar income" and Item 20 "Interest expense and similar charges".
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, under Item 70 "Dividends and similar income".
The differentials of transactions in derivative instruments are registered on the income statement under the appropriate item according to the managerial nature of the contracts, as also the adjustments made on the occasion of the valuation of exposures for impaired derivatives.

2) FINANCIAL ASSETS AT FAIR VALUE

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

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

b) classification criteria
Financial assets to be measured at fair value through profit and loss (with the exception of equity instruments lacking a reliable fair value) are classified under this category when:
- the designation at fair value eliminates or reduces the significant distortions in the accounting representation of the financial performance of the financial instruments;

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

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

c) measurement criteria
Subsequent to initial recognition, these assets are measured at fair value.
The criteria used to determine the fair value of financial instruments are described in section A.3 “Fair value disclosure”, below, which should be referred to for additional details.

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

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

3) FINANCIAL ASSETS AVAILABLE FOR SALE

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

b) classification criteria

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

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

c) measurement criteria

After the initial recording, assets available for sale continue to be assessed at fair value, with the recording in the income statement of the interest portion as it results from the application of the depreciated cost and with the allocation in a dedicated shareholders’ equity reserve of the profits/losses deriving from the fair value change net of the related tax effect, liability item 130 “Valuation reserves”, with the exception of impairments. Exchange rate changes relating to non-monetary instruments (equity securities) are recorded in the specific shareholders’ equity reserve, while those relating to monetary instruments (receivables and debt securities) are recorded in the income statement. Equity instruments whose fair value cannot be reliably determined are stated at cost, adjusted for any impairment losses. For more details of the procedures for determining fair value, please see section A.3 “Fair value disclosure” below.

Impairment testing is carried out at the close of each set of financial statements or interim report. Impairment testing is carried out at the close of each set of financial statements or interim report. Indicators of a possible impairment are, for example, significant financial distress of the issuer, breaches or failure to pay interest or principal, the possibility that the beneficiary may file for bankruptcy or is subjected to another insolvency procedure, the disappearance of an active market for the asset. In particular, regarding equity instruments listed on active markets, objective evidence of impairment is considered the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the original purchase cost, or the prolonged presence for over twelve months of a market value lower than cost. If additional reductions occur in the following years, they are recorded directly in the income statement. Regardless of whether debt securities are listed on active markets, their impairment is recognised in the income statement strictly in relation to the issuer's ability to fulfil its obligations and therefore to pay the required remunerations and to repay the principal at the maturity date. Therefore, it is necessary to assess whether there are indications of a loss event which could have a negative impact on expected cash flows. If there are no actual losses, no loss is recorded on the security, and any capital loss is accounted for in the negative shareholders' equity reserve. The amount of any write-down resulting from the impairment test is recorded in the income statement as a cost for the year. When the reasons for the impairment no longer apply, as a result of an event occurring subsequent to the recognition of impairment, the amounts are written back in the shareholders’ equity for equity instruments and in the income statement for debt securities.

d) derecognition

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

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

e) income recognition

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

- under item 100 “Profits (losses) on the sale or repurchase of: b) financial assets available for sale”, in the case of disposal or repurchase. The result also includes the difference accrued in the period;
- in item 130 “Net value adjustments/write backs for impairment of: b) financial assets available for sale”, if a loss in value is found.

If the reasons for the value impairment are removed subsequent to an event occurring after the recording of the impairment, value write backs are entered: i) on the income statement (under the aforesaid item 130) if the loss is relative to debt and credit instruments; ii) in the shareholders' equity, items 130 of the liabilities “Valuation reserves”, if relative to instruments representing capital. However, the amount of the write-back cannot exceed the amortised cost of the instrument had there been no prior adjustments. Subsequent increases exceeding the cost must be posted to shareholders’ equity as revaluation reserves.
The effective interest accrued is booked to the income statement, under Item 10 “Interest income and similar income”.
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, which generally corresponds to the year in which the dividend is paid, under Item 70 “Dividends and similar income”.

4) FINANCIAL ASSETS HELD TO MATURITY

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

b) classification criteria
This category includes non-derivative financial assets with fixed or determinable payments and set maturities, which the Bank has the intent and the ability to hold until maturity. “If, following a change in intent or ability, it is no longer deemed feasible to hold an investment to maturity, the investment is reclassified under assets available for sale and for the next two years, it will not be possible to include it in the category “”Financial assets held to maturity””.”
Whenever sales or reclassifications are material in terms of quantity or quality, any remaining investment held to maturity must be reclassified as available for sale.

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

occurs after the recognition of the impairment, write-backs are made with booking to the income statement under the same item 130.

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

5) RECEIVABLES

a) initial recognition
Initial recognition takes place:
• for a receivable:
  - at the disbursement date;
  - when the creditor acquires a right to the payment of the amounts agreed contractually;
• for a debt security:
  - on the settlement date.
The initial amount is quantified on the basis of the financial instrument's fair value, normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual instrument, which can be defined from the beginning of the transaction, even if settled subsequently. Costs that have the aforementioned characteristics but are reimbursed by the debtor counterparty or which can be classified as normal internal administrative expenses are excluded.

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

c) measurement and income recognition criteria
After initial recording, receivables are measured at the amortised cost, equal to the originally recorded value decreased/increased by repayments of principal, value adjustments/write-backs and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/income directly related to the individual receivable. The effective interest rate is the rate that renders the current value of future credit flows, both in terms of principal and interest, estimated in the expected lifetime of the credit equal to the amount disbursed, including the costs/income attributable to the receivable. The economic effect of the costs and income is distributed throughout the expected residual life of the receivable.
The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible. These receivables are shown at their original book value. 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. In particular, exposures are classified under restructured impaired exposures if the contractual terms and conditions have been

modified because of the debtor's financial difficulties and the Bank has sustained a loss. Financial debt or capital instruments issued by the debtor which are possibly underwritten by the Bank within the sphere of a restructuring operation are posted on the financial statement, at fair value, at the moment of the underwriting.
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, and performing exposures, as well as watch-list and restructured exposures which, according to the analytical analysis, do not present any value adjustments. With regard to impaired exposures, in compliance with the indications provided in the latest update issued by the Bank of Italy in Circular 262/2005, the changes in collective measurement in the tables of the explanatory notes is represented in any case as an analytical measurement.
For receivables subject to analytical measurement, the amount of the value adjustment to each loan is equal to the difference between the book value 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 expected future cash flows takes into account the modification of 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 a reasonable certainty exists that principal and interest will be recovered in a timely manner, the original value of the receivables is restored in the subsequent years to the extent to which the reasons that led to the adjustment no longer hold true, provided that this assessment is objectively connectible 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, any additional value adjustments or write-backs are recalculated, using differential calculation methods, with reference to the entire portfolio of receivables at the same date.
All value adjustments and write-backs linked to the measurement of loans are recorded under Item 130 “Net value adjustments/write-backs due to impairment of loans”. The adjustment component attributable to the discounting of cash flows is recognised on an accruals basis using the effective interest rate method, and booked to write-backs.

d) derecognition
Receivables transferred are written off of the assets in the financial statements only when the transfer results in the

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

6. HEDGING OPERATIONS

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

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

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

The hedging transaction must be related to a predefined risk management strategy, and must be consistent with the risk management policies adopted. Moreover, the derivative instrument is designated as a hedging instrument if there is official documentation regarding the relationship between the instrument hedged and the hedging instrument, and if it is effective both at the time the hedging begins and throughout the life of the hedge.
Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the intended goal of the Bank at the time the hedge was established.
A hedge is effective when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) the changes in the hedged instrument,

resulting from the risk element being hedged.
The effectiveness of the hedge is carried out at the end of each year, using:
• Prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
• retrospective tests, which highlight the degree of hedging effectiveness reached during the related period.

d) derecognition - ineffectiveness
If the tests do not confirm the effectiveness of the hedge, both retrospectively and prospectively, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among instruments held for trading, while the financial instrument being hedged is once again measured based on its original class.
For fair value hedges, when the hedging transaction is interrupted, the positive or negative adjustment made to the hedged item until the date that the hedge is no longer applied is transferred to the income statement. Specifically, if the hedged item was not derecognised from the financial statements, that transfer is carried out over a time horizon corresponding to the remaining lifetime of the hedged item, through the change in the effective interest rate of that item; if the hedged item is derecognised (for example, if repaid early), the adjustment is entirely posted to the income statement when the hedging transaction is interrupted.
For cash flow hedges, any reserve is transferred to the income statement when the hedged item, still existing, generates its effects on the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred to the income statement immediately.

7) EQUITY INVESTMENTS

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

b) classification criteria
Associated companies are those in which 20% or more of the voting rights are held and those companies which, due to particular legal ties, such as participation in shareholders' voting pacts, must be considered to be subject to significant influence.
Within the sphere of such classification, the existence or otherwise of legal status is not taken into account and when ascertaining the voting rights, the potential voting rights which can currently be exercised are also considered.

c) measurement and income recognition criteria
The measurement criterion adopted for interests in subsidiaries and associates and in joint ventures is cost. At each balance sheet date or interim report, any objective evidence that the equity investment has undergone impairment is assessed.
When a parent company relinquishes control over an associated company but nonetheless continues to hold a minority interest in the company, it shall measure the retained interest in the balance sheet at fair value and allocate any profits or losses deriving from the loss of control to the income statement.
If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of said equity investment represented by the higher amount between the fair value net of sale costs and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.
If the recovery value is lower than the book value, the related difference is stated in the income statement under item 210 "Profit (losses) from equity investments". On the other hand, if the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, write-backs are made with booking to the

income statement under the same aforesaid item 210.
Income relating to these investments is recorded in the income statement regardless of whether they were generated by the investee company before or after the acquisition date. If as a result of the recording of a dividend the book value of the investment in the separate financial statements exceeds the book value in the consolidated financial statement of the net assets of the same investment, including the related goodwill, the Bank assesses whether there is an indication that the investment has undergone impairment.

d) derecognition
The financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits.
If the Bank is engaged in a sale plan that entails loss of control on an associated company, all of the subsidiary's assets and liabilities shall be reclassified among assets held for sale, even if, after the sale, the Bank will still hold a minority interest in the subsidiary.

8) PROPERTY, PLANT AND EQUIPMENT

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

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

c) measurement and income recognition criteria
Property, plant and equipment, including properties not used for business purposes, are measured at cost, less any accumulated depreciation and impairment losses.
The fixed assets are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. The specific sections of the Explanatory Notes show the depreciation rate and the consequent expected useful life of the main asset categories.
Assets held as a result of financial lease agreements are depreciated with reference to their estimated useful life as are owned assets, or, if lower, on the basis of the expiry deadlines of the lease agreements.

On closure of each set of financial statements or interim report, the presence of any signs of impairment is checked, meaning indications which demonstrate that an asset may have undergone a loss in value.
In the event of the presence of said signs, the book value of the asset is compared to its recoverable value, i.e. the lower of the fair value, net of any costs to sell, and the related value in use of the asset, taken to be the current value of the cash flows originated by the asset. Any adjustments are recorded in the income statement under item 170 "Net value adjustments/write-backs to property, plant and equipment". Periodic depreciation is recorded in the same item.
If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.
Leasehold improvement costs (typically on leased property), other than those referable to this section, are capitalized in item 150 "Other assets", whilst the related depreciation is recorded in item 190 "Other operating income/charges".

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

9) INTANGIBLE ASSETS

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

b) classification, measurement and income recognition criteria
The cost of intangible fixed assets is amortized on a straight-line basis over the related useful life. If the useful life is indefinite, the asset is not amortized, but merely subjected to a periodic check of the adequacy of the value recorded for the fixed assets in the financial statements. Intangible assets deriving from software developed internally or acquired from third parties are amortized on a straight-line basis as from the completion and bringing on stream of the application on the basis of the related useful life.
On closure of each set of financial statements, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement item "180 Net value adjustments/write-backs to intangible fixed assets", is equal to the difference between the book value of the assets and the recoverable value. Periodic depreciation is recorded in the same item.
Recorded goodwill is not amortised but subject to periodic checks on its book value, carried out annually or more frequently in the presence of signs of an impairment in value. For such purposes, the cash generating units to which the goodwill is to be allocated are identified. The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented

by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recorded in the income statement item 230 "Value adjustments to goodwill". 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 book value or fair value net of costs to sell, whichever is lower.

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

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

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

11) CURRENT AND DEFERRED TAXATION

a) initial recognition
The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.
Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity. The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.
In detail, current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances and other tax credits for withholdings made. Current assets also include tax assets whose repayment was requested from the cognisant Tax Authorities. Tax assets transferred

to secure own payables also remain recorded in this item.
Prepaid and deferred taxes are determined on the basis of the timing differences - without time-limits - between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes, applying the so-called balance sheet liability method.
Prepaid tax assets are recorded in the financial statements to the extent that there is a probability they will be recovered, assessed on the basis of the ability of the Bank to generate positive taxable income on an on-going basis. The probability of recovery prepaid taxes relative to goodwill, other intangible assets and impaired credit must be maintained as automatically satisfied by the effect of the provisions of law which contemplate the transformation of tax credit into losses of the period according to civil and/or tax legislation. Specifically:

- in the case of a loss in the period according to civil legislation, the prepaid taxation relative to goodwill, other intangible assets and credit impairment will be subjected to partial transformation into tax credit pursuant to the provision of art. 2, section 55, of Decree Law n° 225 of 29 December 2010, converted with amendments by Law n° 10 of 26 February 2011. The transformation takes force as of the date of approval, on the part of the shareholders' meeting, of the financial statement on which the loss is posted, as contemplated by art. 2, section 56, of the said Decree Law 225/2010.
- in the case of a loss in the period according to tax legislation, the relative prepaid taxation, relative only to the part generated by deductions regarding goodwill, other intangible assets and credit impairment will be subjected to transformation into tax credit pursuant to the provision of art. 2, section 56-bis, of the said Decree Law225/2010, introduced by art. 9 of decree law n° 201 of 6 December 2011, converted with amendments by Law n° 214 of 22 December 2011. The said transformation takes effect as of the date of the presentation of the tax return relative to the financial year in which the loss is recorded.

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.
Prepaid and deferred taxes are registered at the capital level by offsetting at the level of the same tax.

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 book value of deferred tax assets is reviewed as of each balance sheet date to check the continuance of the condition of recoverability and, if necessary, it is reduced to the extent it is no longer probable that sufficient taxable income exists for the purpose of permitting the full or partial recovery of said assets.
Moreover, the balance of the tax provisions is adjusted to cover the charges that may derive from assessments already notified or otherwise from current disputes with the tax authorities.
As a result of compliance with the tax consolidation system, the liability relating to tax charges for IRES (company earnings' tax) which may be realistically predicted on the basis of legislation or current tax regulations, stated on the basis of a prudent estimate of the taxable income, has been recorded in relation to the Consolidating Entity under item 100 "Other liabilities". In the presence of tax losses, the Consolidating Entity recognises the credit (to be classified under item 150 "Other assets") to the extent that, if the Bank did not participate in tax consolidation, the Bank itself could have used the losses as compensation against its own taxable income according to the limits contemplated by law (i.e. as if the Bank had not adhered to the tax consolidation system). The credit which may be recorded vis-à-vis the Parent Company for this purpose is measured each year so as to check the status of the recoverability conditions.

c) income recognition

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

12) PAYABLES AND OUTSTANDING SECURITIES

a) initial recognition

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

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

b) classification criteria

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

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

c) measurement and income recognition criteria

After initial recognition, financial liabilities are measured at the amortised cost with the effective interest rate method. Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the collected value. With regard to structured instruments, if the requirements envisaged by IAS 39 are observed, the embedded derivative is separated from the host agreement and stated at fair value as an asset or liability held for trading. In this latter case, the host agreement is recognised at the amortised cost.

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

d) derecognition

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

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

The re-placing of own securities on the market subsequent to their repurchase is considered as a new issue with statement at the new re-placement price, without any effect on the income statement.

In compliance with the provisions of IAS 32, the potential commitment to purchase treasury shares due to the issue of put options is represented in the financial statements as a financial liability with a reduction in the shareholders' equity for present value of the contractually set repayment amount as a direct offsetting entry.

13) FINANCIAL LIABILITIES HELD FOR TRADING

a) initial recognition

For purchase and sale transactions involving standard financial instruments, financial liabilities are initially recorded

on the settlement date (the so-called *regular way*), for which the payment terms are generally established by regulations or agreements of the markets concerned, and for derivative contracts on the stipulation date of the transaction.
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 criteria
This category contains:
- derivatives (with the exception of derivatives which are designated and effective hedging instruments), including embedded derivatives separated from structured financial instruments in accordance with the indications of IAS 39;
- the liabilities relative to technical overdrafts on securities, posted in the sub-items of payables to banks and to customers;
- repurchase agreements and security lending transactions.

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

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

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

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

c) measurement criteria
Subsequent to initial recognition, financial liabilities are stated at fair value.
Please see section A.3 “Fair value disclosure”, below, for a description of the criteria used to determine the fair value of financial instruments.

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

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

15) PROVISIONS FOR RISKS AND CHARGES

a)initial recognition, classification, measurement criteria, and income recognition criteria
Allocations to the provisions for risks and charges are made solely when
• there is a current (legal or implied) obligation as a result of a past event;
• it will probably be necessary to use resources able to produce economic benefits to meet the obligation;
• the amount of the obligation can be estimated reliably.
If the temporal element is significant, the allocations 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 international accounting standard IAS 19 “Employee benefits” for the purpose of making good the technical deficit of the supplementary welfare funds with defined benefits. Pension plans are divided up into the two categories “defined benefits” and “defined contributions”. While for defined contribution plans the liability of the company is established in advance, with regard to defined benefit plans, the liability is estimated and must take into account any insufficiency in the contributions or an insufficient return on the assets in which these contributions are invested, when required.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the afore-mentioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method. In detail, the obligation is calculated as the algebraic sum of the following values:
• current average value of the pension benefits determined considering, for employees in service, solely the years of service already accrued and making reference to hypotheses which take into account future salary increases;
• less the current value of any plan assets;
• subtracted (or added) any actuarial loss or gain not recorded in the financial statements, on the basis of the “corridor” method.
The corridor method envisages that the actuarial gains and/or losses, defined as the difference between the book

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

16) FOREIGN CURRENCY TRANSACTIONS

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

b) classification, measurement, derecognition and income recognition criteria
At the end of every financial year or interim period, foreign currency items are measured as follows:
- cash items are converted at the exchange rate in force on the balance sheet date;
- non-cash items are carried at their historical cost converted at the exchange rate in force on the date of the transaction;
- non-cash items designated at fair value are converted at the exchange rate in force on the balance sheet date.

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

17) Other information

■ Treasury shares
Any treasury shares held are recorded in the financial statements under their own item and charged directly against

shareholders' equity. No gain or loss is recorded in the income statement on the purchase, sale, issue or cancellation of the Bank's equity instruments. The amount paid or received is directly recorded under shareholders' equity.

■ Share-based payments

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

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

■ Other assets and other liabilities

The other assets and liabilities posted in the balance sheet, respectively in the asset item 150 "Other assets" and the liability item 100 "Other liabilities", refer mainly to

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

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

■ Dividends and recognition of revenues and costs

Revenues are recognised when they are obtained or in any case: for sales of goods or services, when it is likely that

future benefits will be received and such benefits can be quantified reliably; for services, when they are rendered.
Specifically:
- Dividends are recorded in the income statement when their distribution is resolved (usually coinciding with the date of resolution by the shareholders' meeting of the investee company which approves the financial statements and the related profit allocation proposal) and thus the right to receive the payment is established;
- interest is recognised pro rat temporise 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;
- the costs are posted on the income statement in the period in which the relative revenues are registered. The costs that cannot be linked to revenues are immediately posted on the income statement;
- any estimation errors on the costs provided in previous years are recorded in the pertinent individual items.

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

■ Amortised cost
The amortised cost of a financial asset or liability is the value at which it has been gauged on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.
The effective interest rate is that which equals the current value of the contractual flows of the future payments or collections in cash until maturity or as of the subsequent date for the recalculation of the price at net book value of the financial asset or liability. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).
The effective interest rate must be re-determined if the financial asset or liability was subjected to fair value hedging and 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. For debt instruments posted under the assets available for sale, the amortised cost is calculated only in order to enter on the income statement the interests on the basis of t effective interest rate (the difference between the fair value and the amortised cost is posted in a special reserve of the shareholders' equity).
Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds with the amount disbursed or paid inclusive - for instruments valued at amortised cost - of the transaction costs and the directly attributable commission such as fees and commission paid to agents, consultants, brokers and operators, as well as contributions collected by regulatory bodies and by the Stock Exchanges, taxes and transfer charges. These costs, which must be directly ascribable to the individual financial asset or liability, weigh into the original effective return and render the effective interest rate associated with the transaction different to the contractual interest rate.
The calculation of the amortised cost does not taken into account the costs which the Bank should incur irrespective of the transaction (for example: administrative, stationery, communication costs), those which, despite being specifically attributable to the transaction, belong to the normal loan management activities (for example: assets for the purpose of disbursing the credit facility).
With particular reference to receivables, the flat-fee reimbursements of costs incurred by the Bank for the performance of a service must not be booked as a decrease of the cost of disbursing the loan but, since they are able to adopt the form of other operating income, the related costs must be charged to their own income statement item.

■ Securitisations

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

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

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

As regards point b), please see the description in section A.3 “Fair value disclosure”, below; while for the other cases, the most relevant and significant qualitative issues subject to discretion are illustrated in more detail below.

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 book value of the assets is not fully recoverable.
Impairments exist if and only if there is objective evidence of a reduction in future cash flows, relative to the originally estimated ones, as a result of specific events which take place after the initial recognition; the impairment must be reliably quantifiable and be related to current, not merely expected events.
Impairments can also be caused by the combined effect of different events, rather than by a single event.
The objective evidence that a financial asset or a group of financial assets has undergone an impairment includes measurable data that become known with respect to the following events:

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

or

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

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

The segmentation drivers used for this purpose are composed of: 1) sector of economic activity, ii) geographic localisation, and iii) clientèle segments (sales). Based on the latter indicator, the main segmentations of the portfolio are identified

- Retail;
- Small and Medium Enterprise Retail;
- Small and Medium Enterprise Corporate;
- Corporate;
- Large Corporate;
- Banks;
- Other.

For each portfolio segment, the loss rate is determined identifying the greatest possible synergies (to the extent allowed by the different regulations) with the approach prescribed for supervisory purposes by the provisions of the "New Capital Adequacy Agreement" called Basel II. In particular, the amount of the period impairment of each loan belonging to a given homogeneous class is given by the difference between carrying value and the recoverable amount on the evaluation date, determined using the parameters of the calculation model prescribed by the new supervisory provisions, represented by the PD (probability of default) and by the LGD (loss-given default).
If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be objectively connected to an event that occurred after the recognition of the impairment (such as an improvement in the debtor's financial solvency), the impairment loss recognised previously is reversed (by recording under income statement item 130 "Net adjustments/write-backs due to impairment").
With reference to the receivables that are not subject to restructuring with their partial or full conversion into shares of the borrower companies, in compliance with the indications provided in joint Bank of Italy/Isvap/Consob Document no. 4 of 03 March 2010, these positions are evaluated taking into account the fair value of the shares received. In particular, in cases of impaired exposures this classification is also maintained for financial instruments received in conversion and, in the case of classification in the category "Assets available for sale", the capital losses recognised after conversion are allocated directly to the income statement.
With regard to the financial assets recognised in the balance sheet item "Assets available for sale", the impairment is recorded in the income statement when a fair value write-down was recognised directly in the shareholders' equity and the aforesaid "objective evidence" exists. In such cases, the cumulative loss that was recognised directly in the shareholders' equity must be reversed and recognised in the income statement even though the financial asset has not been eliminated. The amount of the total loss that is reversed from the shareholders' equity and recognised in the income statement is given by the difference between the purchase cost (net of any repayment of principal and interest) and the current fair value, deducting any impairment losses on that asset previously booked to the income statement.
Impairment losses booked to the income statement for an investment in an equity instrument classified as available for sale must not be reversed with effect booked to the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can objectively be correlated to an event that occurs after the impairment loss had been booked to the income statement, the impairment loss must be eliminated, with the reversed amount booked to the income statement. On the contrary, the existence of a negative reserve is not sufficient in itself to determine the recording of a write-down in the income statement.
The nature and number of the assumptions used in identifying impairment factors and quantifying the impairment and the value recovery, represent elements of the uncertainty of the estimate.
In any case, regarding equity instruments listed on active markets, the following are considered objective evidence of impairment: i) the presence of a market price at least 30% lower than the original purchase cost; or ii) the prolonged presence for 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.

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

Equity investments
The impairment process provides for the determination of the recoverable value, represented by the fair value net of costs to sell or value in use, whichever is the higher. Value in use is the present value of the expected financial flows deriving from the impaired assets; it reflects the estimate of the cash flows expected from the asset, the estimate of the possible changes in the amount and/or in the timing of the cash flows, the cash value of time, the price able to remunerate the riskiness of the business and other factors that may influence the appreciation, by market operators, of the expected cash flows deriving from the asset. Therefore, to estimate the congruity of the recognition value of the equity investments, numerous assumptions are necessary; consequently, the result of this test inevitably discounts a certain level of uncertainty.
Other tangible and intangible assets
Tangible and intangible assets with defined useful life are subjected to impairment test if there is an indication that the carrying value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
The fair value of properties is mainly determined on the basis of an appraisal. The property is periodically re-appraised each time there is a change in the performance of the real estate market which leads to the belief that the previous estimates are no longer valid. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the book value. Also for these values and for the consequent checks on the persistence of the value, the nature and number of the assumptions represent elements of uncertainty.

a) quantification of personnel funds and provisions for risks and charges
The Bank is the defendant in a wide range of legal cases and tax disputes. The complexity of situations that can be at the basis of the existing disputes, together with the interpretative problems regarding the applicable legislation, make it difficult to estimate the liabilities that could arise on conclusion of the cases pending. The estimation difficulties regard both the *an* and the *quantum* as well as when the possible liabilities will emerge.
productive or other similar non-recurrent circumstances.

a) The estimate and assumptions of the recoverability of deferred tax assets.
The equity assets include significant tax assets for prepaid taxes, deriving from temporary differences between the date of entry on the income statement of certain company costs and the date on which the same costs can be deducted. These assets refer to temporary differences generally originating from losses on receivables that can be recovered over a very long period of time, and they are posted in consideration of the assumption that the Bank, within the sphere of the Group's tax consolidation agreement, will be able to produce adequate taxable profit during the period in which they are paid. Furthermore, in application of Law 214/11, these assets for prepaid taxes can potentially be transformed entirely in tax credit in the case of a loss in the period (or a tax loss).

Section 2 - BUSINESS CONTINUITY

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

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

In compliance with IFRS, company Management must make assessments, estimates and assumptions which influence the application of accounting standards and the asset and liability and cost and revenue amounts recognised in the financial statements, and on the information on potential assets and liabilities. The estimates and relative assumptions are based on past experience and on other factors considered reasonable in the situation and are adopted to estimate the book value of assets and liabilities which cannot be easily deduced from other sources. In particular, estimation processes have been adopted in support of the recognition value of the most significant evaluated items posted to the financial statements at 31 December 2012 (as also applied in the previous period), as set forth by accounting standards and the reference regulations mentioned above. Said estimation processes are mostly based on estimates of future recoverability of the values posted to the financial statements according to the rules set forth by standards in force, and these are also carried out with a view to the business as a going concern, that is, not considering the forced liquidation of the items being assessed. Processing those estimates requires using the information available and making subjective evaluations. By their nature, the estimates and assumptions used may change from year to year and, therefore, it is possible that in subsequent years the current values in the financial statements may differ, even significantly, as a result of a change in the subjective evaluations used. Those estimates and evaluations are difficult to make and therefore inevitably involve some uncertainty, even in stable macroeconomic conditions.

A.3 - FAIR VALUE DISCLOSURE

A.3.1 Transfers between portfolios

The Bank did not apply the amendment to the accounting standards IAS 39 and IFRS 7 “reclassifications of financial assets” issued on 13 October 2010 by the IASB and endorsed by the European Commission on 15 October 2010 with Regulation 1004/2010. Therefore, no transfer was made in the financial years 2010-2011, or in the current year.

A.3. Fair value hierarchy

In March 2011 the IASB published an amendment to the accounting standard IFRS 7 “Financial instruments: additional disclosures”, which introduced the fair value hierarchy, in short, relative to the approaches adopted for determining fair value.

The fair value hierarchy is applied to all financial instruments for which fair value assessment is recorded in the balance sheet. IAS 39 defines fair value as the amount at which an asset could be exchanged, or a liability discharged, in an unrestricted transaction between informed and independent parties. The existence of official quotes in an active market constitutes the best evidence of the fair value of a financial instrument. If they are not present or not available, the fair value is determined using internal evaluation models, based, for some types of instruments, on data obtainable on the market, or on estimates and assumptions formulated by the appraiser, which use inputs not derived from parameters that cannot be directly observed on the market.

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

The manners of classification of financial instruments in the three levels of the fair value hierarchy are indicated below.

Level 1 (effective market quotes)

At this level are classified the financial instruments assessed using, without making adjustments, prices quoted on active markets for instruments identical to those being assessed.

According to IAS 39, a financial instrument is deemed to be quoted on an active market when the quoted price i) is promptly and regularly available in a stock exchange list or through an operator, a broker, a specialised firm or through quoting services, authorised agencies or regulatory authorities; ii) represents the fair value of actual market transactions that regularly took place in normal trades. If the quoted prices meet these requirements, they represent the best estimate of fair value and their use is mandatory to assess the financial instrument.

The definition contained in IAS 39 indicates that the concept of active market is typical of the single financial instrument subject to assessment and not of the market where it is listed; consequently, the circumstance that a financial instrument is listed in a regulated market is not, in itself, a sufficient condition for that instrument to be defined as listed on an active market.

Level 2 (comparable approach) and level 3 (mark-to-model approach)

Financial instruments not listed on active markets shall be classified in levels 2 or 3.

Classification in level 2 rather than 3 is determined on the basis of the observability on the markets of the significant inputs used to determine fair value. A financial instrument shall be classified in its entirety in a single level; when, for the purposes of assessing an instrument, inputs belonging to different levels are used, the level assigned to the assessed instrument is the same as that of the lowest-level significant input.

An instrument is classified in level 2 if all significant inputs are observable on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.

Level 2 inputs are the following

- prices quoted on active markets for similar assets or liabilities;
- vprices quoted for the instrument being examined or for similar instruments on non-active markets, i.e. those markets where i) there are few transactions, or ii) prices are not current or do not change substantially over time and among different market makers, or iii) public information is lacking;
- observable market inputs (interest rates or yield curves observable on different buckets, volatility, credit curves, etc.);
- inputs that derive mainly from observable market data whose relationship is supported by parameters such as correlation.

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

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

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

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

Financial asset / liabilities measured at fair value	*31/12/2012 Level 1*	*Level 2*	*Level 3*	*31/12/2011 Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	6,392,986	19,286,268	5,172	6,237,976	29,214,958	26,408
2. Financial assets designated at fair value						
3. Financial assets available for sale	283	193,073	42,706	677	32,695	38,656
4. Hedging derivatives						
Total	**6,393,269**	**19,479,341**	**47,878**	**6,238,653**	**29,247,653**	**65,064**
1. Financial liabilities held for trading	3,664,246	23,716,071	13,133	1,861,856	32,132,226	23,119
2. Financial liabilities designated at fair value						
3. Hedging derivatives		2,071			1,111	
Total	**3,664,246**	**23,718,142**	**13,133**	**1,861,856**	**32,133,337**	**23,119**

As shown in the table, the instruments classified at level 3, which present major discretion in the determination of the fair value, are a minor part of the total portfolio on the financial statements of both years, 2012 and 2011.

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

	FINANCIAL ASSETS held for trading	*at fair value*	*available for sale*	*hedging*
1. Opening balances	**26,408**		**38,656**	
2. Increases	**4,705**		**4,279**	
2.1 Purchases			2,500	
2.2 Income allocated to:				
2.2.1 Income statement	4,705		235	
- of which capital gains	*663*			
2.2.2 Shareholders' equity			1,544	
2.3 Transfers from other levels				
2.4 Other increases				
3. Decreases	**25,941**		**229**	
3.1 Sales	5,000			
3.2 Redemptions				
3.3 Losses allocated to:				
3.3.1 Income statement	20,941		229	
- of which capital losses	*20,829*			
3.3.2 Shareholders' equity				
3.4 Transfers from other levels				
3.5 Other decreases				
4. Closing balances	**5,172**		**42,706**	

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

	FINANCIAL LIABILITIES		
	held for trading	*at fair value*	*hedging*
1. Opening balances	**23,119**		
2. Increases	**4,586**		
2.1 Issues			
2.2 Losses allocated to:			
2.2.1 Income statement	4,586		
- of which capital losses	*4,135*		
2.2.2 Shareholders' equity			
2.3 Transfers from other levels			
2.4 Other increases			
3. Decreases	**14,572**		
3.1 Redemptions			
3.2 Repurchases			
3.3 Income allocated to:			
3.3.1 Income statement	14,572		
- of which capital gains	*14,572*		
3.3.2 Shareholders' equity			
3.4 Transfers from other levels			
3.5 Other decreases			
4. Closing balances	**13,133**		

A.3.3 Disclosures on the so-called "day one profit/loss"

The fair value of financial instruments, in situations of non active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.
The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at the initial recognition and the amount that would have been determined at the same date using the selected evaluation technique. The difference income/charges, must be registered on the first valuation after the "*initial recognition*": this "phenomenon" is known as "*day one profit/loss*".
This concept does not include the profits deriving from the characteristic intermediation of the investment banks if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and credit risks.
During the year, there were no cases to be reported and handled according to the above criteria.

Part B
Notes to the Balance Sheet

ASSETS

Section 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2012	*31/12/2011*
a. Cash in hand	1	2
b. Unrestricted deposits with Central Banks		
Total	**1**	**2**

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2012*			*31/12/2011*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	6,079,127	2,423,942	3,871	5,675,098	3,217,106	14,353
1.1 Structured securities	*345*	*83,349*	*1*	*1,001*	*167,437*	*11,468*
1.2 Other debt securities	*6,078,782*	*2,340,593*	*3,870*	*5,674,097*	*3,049,669*	*2,885*
2. Equity securities	104,224			*326,874*	*3,483*	
3. Units in collective investment undertakings	14,187	25,413		*95,011*	*24,735*	
4. Loans		4,494,313			9,680,038	
4.1 Repurchase agreements		*4,494,313*			*9,638,763*	
4.2 Other					*41,275*	
Total A	**6,197,538**	**6,943,668**	**3,871**	**6,096,983**	**12,925,362**	**14,353**
B. Derivative instruments						
1. Financial derivatives:	195,448	10,770,107	1,301	140,993	13,474,571	12,055
1.1 trading	*195,448*	*10,770,107*	*1,301*	*140,993*	*13,474,571*	*12,055*
1.2 associated with the fair value option						
1.3 other						
2. Credit derivatives		1,572,493			*2,815,025*	
2.1 trading		*1,572,493*			*2,815,025*	
2.2 associated with the fair value option						
2.3 other						
Total B	**195,448**	**12,342,600**	**1,301**	**140,993**	**16,289,596**	**12,055**
Total (A+B)	**6,392,986**	**19,286,268**	**5,172**	**6,237,976**	**29,214,958**	**26,408**

Note:
The above table includes the valuations on off-balance sheet transactions and the accrued coupon component.
Impaired assets, included under the sub-item "Debt securities - 1.2 Other debt securities", amount to €160 thousand and regard bonds bought during the year issued by Lehman Brothers Holdings Inc..
For the sub-item "Financial derivatives - 1.1 for trading" the past due differentials are posted relative to OTC derivative contracts stipulated with corporate clientèle for an amount net of analytical adjustments of €654 thousand (€1,869 thousand at 31 December 2011). Direct value adjustments amount to €22,486 thousand (of which €9,869 thousand for exposures towards customers in arrears and €4,705 thousand for watch-list debt instruments).

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	*31/12/2012*	*31/12/2011*
- *Index Linked*	12,049	3,520
- *Reverse convertible*		
- Convertible		
- *Credit linked notes*	1	11,468
- *Equity Linked*	3,581	49,116
- *Step - up, Step - down*	2,165	2,259
- *Dual Currency*		
- *Drop Lock*		
- *Target redemption notes*		
- *Cap Floaters*		
- *Reverse Floaters*	1,208	5,875
- *Corridor*		
- *Commodity*	12,409	61,702
- *Fund Linked*	41,546	28,116
- *Inflation*	1,340	1,405
- Others	9,396	16,445
Total	**83,695**	**179,906**

2.1.b Detail of debt instruments: junior instruments

Items / Values	*31/12/2012*	*31/12/2011*
- Debt securities	133,333	429,736
- Other loans		
Total	**133,333**	**429,736**

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

Items /Values	*31/12/2012*	*31/12/2011*
A. CASH ASSETS		
1. **Debt securities**	**8,506,940**	**8,906,557**
a) Governments and Central Banks	5,633,533	5,248,142
b) Other public entities	4	1,310
c) Banks	2,381,599	3,158,553
d) Other issuers	491,804	498,552
2. **Equity securities**	**104,224**	**330,357**
a) Banks	15,332	28,644
b) Other issuers	88,892	301,713
- insurance companies	*1,122*	*4,991*
- financial companies	*5,858*	*15,256*
- non-financial companies	*81,912*	*281,466*
- other		
3. **Units in collective investment undertakings**	**39,600**	**119,746**
4. **Loans**	**4,494,313**	**9,680,038**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	2,379,846	4,313,850
d) Others	2,114,467	5,366,188
Total A	**13,145,077**	**19,036,698**
B. DERIVATIVE INSTRUMENTS		
a) Banks	7,801,995	9,117,106
- *fair value*		
b) Customers	4,737,354	7,325,538
- *fair value*		
Total B	**12,539,349**	**16,442,644**
Total (A+B)	**25,684,426**	**35,479,342**

Note:
Of item "A. Cash assets", "1. Debt securities - a) Governments and Central Banks" is composed mainly of Italian government securities with short/medium term maturity (of which €1,123,775 thousand matures within one year; €3,477,910 thousand matures within 2018; and €886,131 matures within 2023).
The amount indicated in item "B. Derivative instruments", "b) Customers", related to 31 December 2012, includes €1,343,328 thousand as an exposure to LCH (London Clearing House), against €4,694,940 thousand registered at 31 December 2011.

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

	Categories/Balances	*31/12/2012*	*31/12/2011*
a.	Stock	716	5,691
b.	Bonds	237	3,747
c.	Balanced	7,262	69,377
d.	Hedge Funds	18,877	19,208
e.	Private Equity		
h.	Real estate		
i.	Other	12,508	21,723
	Total	**39,600**	**119,746**

2.3 Cash financial assets held for trading: annual changes

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	*Total*
A. Opening balances	**8,906,557**	**330,357**	**119,746**	**9,680,038**	**19,036,698**
B. Increases	**102,537,810**	**1,219,394**	**655,894**	**125,785,446**	**230,198,544**
B1. Purchases	98,512,331	1,163,591	331,043	125,727,470	**225,734,435**
B2. Positive fair value changes	373,252	10,836	1,939		**386,027**
B3. Other changes	3,652,227	44,967	322,912	57,976	**4,078,082**
C. Decreases	**102,937,427**	**1,445,527**	**736,040**	**130,971,171**	**236,090,165**
C1. Sales	100,585,697	1,344,037	725,979	130,902,824	**233,558,537**
C2. Redemptions			411		**411**
C3. Negative fair value changes	251,720	5,359	5,305		**262,384**
C4. Transfers to other portfolios					
C5. Other changes	2,100,010	96,131	4,345	68,347	**2,268,833**
D. Closing balances	**8,506,940**	**104,224**	**39,600**	**4,494,313**	**13,145,077**

Note:
Sub-items B3 and C5 in the columns "Debt securities" and "Equity securities" include the components relating to technical overdrafts, included under "Financial liabilities held for trading" among the liabilities; while those in the "Loans" column relate to accruals for securities lending transactions and repurchase agreements accrued as of 31 December 2012.
Additionally, the sub-item A. "Opening balances", under the ""Debt securities"" column, contains the bonds issued by Lehman (impaired assets excluded in the changes of the year as indicated in the previous version of Circular 262 issued by Bank of Italy), already held in previous periods and sold in 2012.

Section 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

This year (and likewise as of 31 December 2011), the Bank has held no financial instruments classified in this category, in compliance with the guidelines set by the Board of Directors on 19 December 2007.

Section 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

4.1 Financial assets held for sale: breakdown by type

Items/Balances	*31/12/2012*			*31/12/2011*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
a. Cash assets						
1. Debt securities		130,278	37,705		8,991	36,155
1.1 Structured securities						
1.2 Other debt securities		*130,278*	*37,705*		*8,991*	*36,155*
2. Equity securities	283	61,177	5,001	677	22,000	2,501
2.1 Carried at *fair value*	*283*	*61,177*		*677*	*22,000*	
2.2 Measured at cost			*5,001*			*2,501*
3. Units in collective investment undertakings		1,618			1,704	
4. Loans						
Total	**283**	**193,073**	**42,706**	**677**	**32,695**	**38,656**

Note:
for both periods compared, there is a hedge against changes in interest rates (fair value hedge) on the debt securities indicated in level 3; this hedge was implemented through interest rate swap derivative contracts. The increase in level 2, in particular in the sub-item "other debt securities", is ascribable to positions assumed in securities issued by the Parent Company, for which MPSCS operates as market maker, and which, according to the sizes of such buy-backs, sale is deferred until a future date when market conditions will be more favourable than at present.

4.1.a Detail of debt instruments: structured instruments

The Bank holds no structured security in this category.

4.1.b Financial assets held for sale: junior instruments

Items / Values	*31/12/2012*	*31/12/2011*
- Debt securities	130,278	
- Loans		
Total	**130,278**	

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

	Items/Balances	*31/12/2012*	*31/12/2011*
1.	**Debt securities**	**167,983**	**45,146**
	a) Governments and Central Banks		
	b) Other public entities		
	c) Banks	128,356	
	d) Other issuers	39,627	45,146
2.	**Equity securities**	**66,461**	**25,178**
	a) Banks		
	b) Other issuers	66,461	25,178
	- insurance companies		
	- financial companies	*338*	*422*
	- non-financial companies	*66,123*	*24,756*
	- other		
3.	**Units in collective investment undertakings**	**1,618**	**1,704**
4.	**Loans**		
	a) Governments and Central Banks		
	b) Other public entities		
	c) Banks		
	d) Others		
	Total	**236,062**	**72,028**

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

	Items/Balances	*31/12/2012*	*31/12/2011*
a.	Stock		
b.	Bonds		
c.	Balanced		
d.	Hedge Funds		
e.	Private Equity		
f.	Real estate	1,618	1,704
g.	Other		
	Total	**1,618**	**1,704**

4.3 Financial assets available for sale subject to micro-hedging

Items/Balances	31/12/2012	31/12/2011
1. Financial assets with specific *fair value* hedges	37,705	36,155
a) interest rate risk	*37,705*	*36,155*
b) price risk		
c) exchange rate risk		
d) credit risk		
e) cumulative risks		
2. Financial assets with specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**37,705**	**36,155**

4.4 Financial assets held for sale: annual changes

	Securities Debt	Equity securities	Units in collective investment undertakings	Loans	Total
A Opening balances	**45,146**	**25,178**	**1,704**		**72,028**
B. Increases	**218,677**	**54,973**			**273,650**
B1. Purchases	214,270	47,458			261,728
B2. Positive fair value changes	630	462			1,092
B3. Write-backs		6,994			6,994
- booked to the income statement					
- booked to shareholders' equity		*6,994*			*6,994*
B4. Transfers from other portfolios					
B5. Other changes	3,777	59			3,836
C. Decreases	**95,840**	**13,690**	**86**		**109,616**
C1. Sales	66,896	294			67,190
C2. Redemptions					
C3. Negative fair value changes	24,165	6,402	86		30,653
C4. Write-downs due to impairment		6,994			6,994
- booked to the income statement		*6,994*			*6,994*
- booked to shareholders' equity					
C5. Transfers to other portfolios					
C6. Other changes	4,779				4,779
D. Closing balances	**167,983**	**66,461**	**1,618**		**236,062**

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

As of 31 December 2012 (and likewise as of 31 December 2011), 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 Receivables from banks: breakdown by type

Type of transaction /Balances	*31/12/2012*	*31/12/2011*
A. Due from Central Banks		
1. Restricted deposits		
2. Compulsory reserve		
3. Lending repurchase agreements		
4. Other		
B. Due from banks	**7,205,651**	**4,571,815**
1. Current accounts and unrestricted deposits	227,528	227,512
2. Restricted deposits	5,717,752	3,582,111
3. Other loans:	1,260,371	762,192
3.1 Lending repurchase agreements		
3.2 Financial lease		
3.3 Other	*1,260,371*	*762,192*
4. Debt securities		
4.1 Structured securities		
4.2 Other debt securities		
Total (book value)	**7,205,651**	**4,571,815**
Total (fair value)	**7,273,513**	**4,571,815**

Note:
The sub-item B. "Due from banks - 2. Restricted deposits" includes:
- *€3,859 thousand (€6.845 thousand in 2011), as mandatory reserve fulfilled indirectly (through the Parent Company Banca Monte dei Paschi di Siena);*
- *€5,146,715 thousand (€3,423,968 thousand at the end of 2011) as collateral for securities lending transactions with BMPS Group customers, restricted in their favour.*

The sub-item B. "Due from banks - 3. Other loans: 3.3 other" mainly includes receivables such as collateral with short-term maturities (which differ from those mentioned in the point above, since they are fully available to the counterparty), for pool and non-pool securities lending activities, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).
Additionally, the Bank holds a subordinated debt instrument for nominal €6,000 thousand issued by Banca Popolare di Garanzia, which was subjected to compulsory winding-up with decree of the Ministry of the Economy and Finance of 16 December 2009. The position is currently classified as non-performing and it was subjected to a value adjustment equal to its entire book value.

6.2 Receivables due from banks subject to micro-hedging
No financial assets classified in this category have been subject to micro-hedging.

6.3 Financial lease
There is no extant agreement.

Section 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Receivables from customers: breakdown by type

	31/12/2012			31/12/2011		
Type of transaction	*Performing*	*Impaired*		*Performing*	*Impaired*	
Balances		*purchased*	*other*		*purchased*	*other*
1. Current accounts	24					28
2. Reverse repurchase agreements						
3. Loans	9,877,986		3,333,257	10,695,241		2,742,778
4. Credit cards, loans personal and transfer of fifth	2,380					2,478
5. Financial lease						
6. Factoring						
7. Other transactions	639,485					789,161
8. Debt securities	65,278		1,141	109,876		1,134
8.1 Structured securities						
8.2 Other debt securities	65,278		1,141	109,876		1,134
Total book value	**10,585,153**		**3,334,398**	**11,596,784**		**2,743,912**
Total fair value	**11,199,721**		**3,334,398**	**12,697,718**		**2,743,912**

Note:
Sub-item 8.2 "Other debt instruments" includes the exposures deriving from a securitisation operation of the bank itself, entirely underwritten by the Originator (MPSCS), aimed at guaranteeing a reserve of liquidity for the vehicle. At 31 December 2012 the exposure amounted to €63,778 thousand (€71,183 thousand at 31 December 2011). "Receivables from the "" Siena SME 11-1""" vehicle, relating to cash flows collected by the vehicle for securitised receivables that should be reversed to the Originator, are reported in sub-item 7. " "Other operations" and amount to €45,895 thousand (€49,240 thousand at 31 December 2011).

7.1.a Receivables from customers: detail of impaired assets

Category / Balances	*31/12/2012*	*31/12/2011*
1. Non-performing	1,748,574	1,646,399
2. Watch-list	970,737	775,645
3. Restructured exposures	164,312	173,370
4. Past due exposures	450,775	148,498
Total book value	**3,334,398**	**2,743,912**

Note:
from 1 January 2012, as per Bank of Italy ruling, the "past due" category also includes the positions overdue by more than 90 days. Until 31 December 2011 the time limit was 180 days. This has led to a significant increase in the item in respect of the figure in the column referring to 31 December 2011.

7.1.b Receivables from customers: detail of other operations

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
1. Collateral credits	435,302	564,404
2. Deposits for disbursement of real estate credit transactions	80,378	133,146
3. Receivables from vehicle companies for the reversal of collections on loans	45,895	49,240
4. Other	77,910	42,371
Total	**639,485**	**789,161**

Nota:
Sub-item 1. "Collateral credit" relates to pool and non-pool securities lending, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).

7.2 Receivables from customers: breakdown by debtor/issuer

	31/12/2012			*31/12/2011*		
Type of transaction	*Performing*	*Impaired*		*Performing*	*Impaired*	
Balances		*purchased*	*other*		*purchased*	*other*
1. Debt securities:	**65,278**		**1,141**	**109,876**		**1,134**
a) Governments						
b) Other public entities						
c) Other issuers	65,278		1,141	109,876		1,134
- non-financial companies	*1,500*		*1,141*	*38,693*		*1,134*
- financial companies	*63,778*					*71,183*
- insurance companies						
- other						
2. Loans to:	**10,519,875**		**3,333,257**	**11,486,908**		**2,742,778**
a) Governments	8,159					12,543
b) Other public entities	16,357					16,776
c) Others	10,495,359		3,333,257	11,457,589		2,742,778
- non-financial companies	*9,225,623*		*3,238,876*	*10,106,977*		*2,596,859*
- financial companies	*1,079,075*		*35,900*	*1,182,528*		*85,871*
- insurance companies	*48,543*					*15,020*
- other	*142,118*		*58,481*	*153,064*		*60,048*
Total 10,585,153	**3,334,398**		**11,596,784**			**2,743,912**

7.3 Receivables due from customers subject to micro-hedging
No financial assets classified in this category have been subject to micro-hedging.

7.4 Financial lease
There is no extant agreement.

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

Name	Registered offices	Type of relationship	% of equity investment	Available votes %	Book value
A. Full subsidiaries					
B. Jointly controlled companies					
C. Companies subject to significant influence				**20,112**	
1. Re.Gi.Im. S.p.A.	Rome	connection	40.000	40.000	7,341
2. Interporto Toscano SpA	Leghorn	connection	36.303	36.303	6,260
3. Immobiliare Centro Milano S.p.A.	Milan	connection	33.333	33.333	0
4. Sviluppo Imprese Centro Italia S.p.A.	Florence	connection	29.000	29.000	1,507
5. Agricola Merse S.r.l.	Milan	connection	20.000	20.000	5,004
Total (A+B+C)					**20,112**

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

Name	Total assets	Revenue total	Profit (loss)	Shareholders' equity	Book value	Fair Value (if listed)
A. Full subsidiaries						
B. Jointly controlled companies						
C. Companies subject to significant influence					**20,112**	
1. Re.Gi.Im. S.p.A. *(1)*	30,155	-	(96)	9,076	7,341	N/A
2. Interporto Toscano SpA *(2)*	185,305	6,825	(1,541)	17,245	6,260	N/A
3. Immobiliare Centro Milano S.p.A. *(3)*	87,544	1	(8,662)	594	0	N/A
4. Sviluppo Imprese Centro Italia SpA	8,670	1,891	331	8,095	1,507	N/A
5. Agricola Merse Srl	82,999	2,303	(4,642)	43,002	5,004	N/A
Total (A+B+C)					**20,112**	

Note:
The figures refer to the latest financial statements approved at 31 December 2011.
(1) In 2012 the shareholders contributed, pro quota, further own means in the form of a capital increase (for €2 million) and in the form of conferments to the capital (for €7.2 million). These contributions have not yet influenced the shareholders' equity posted in the table (in as much as referring to the last approved financial statement at 31 December 2011), while the book value of the investment at 31 December 2012 has consequently increased by €3.7 million compared to that posted at 31 December 2011.
(2) The book value of the holding is reduced to €2,110 since a value adjustment has been made on the amount, aligning the book value to the corresponding fraction of the book value of the shareholders equity on the last approved financial statement (31 December 2011) of the investee, including the loss of €1,541 thousand (subsequent to the loss registered in 2010, equal to €997 thousand).
(3) The investment has been entire written off in the last year, there being objective evidence of the loss in value which is deemed as still existing.

10.3 Equity investments: annual changes

	31/12/2012	*31/12/2011*
A. Opening balances	**19,533**	**19,573**
B. Increases	**3,661**	
B1. Purchases	3,661	
B2. Write-backs		
B3. Revaluations		
B4. Other changes		
C. Decreases	**3,081**	**40**
C1. Sales		
C2. Value adjustments	2,109	40
C3. Other changes	972	
D. Closing balances	**20,113**	**19,533**
E. Total revaluations		
F. Total adjustments	2,149	40

Note to the 2012 financial statements.
B1. see note (1) below the table above.
C2. see note (2) below the table above.
C3. amount relative to the share packet representing 48% of MPS Venture SGR S.p.A. transferred to the item "Non-current assets and groups of assets pending disposal and associated liabilities" (IFRS5), for which negotiations for sale are in progress
Note to the 2011 financial statements.
C.2 see note (2) below the table above.

10.4 Commitments relating to equity investments in subsidiaries

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

10.6 Commitments relating to equity investments in companies under significant influence

Agricola Merse S.r.l.: the Bank has assumed a maximum commitment of €5,000 thousand, to be paid as a possible supplement to the price for the acquisition of the equity investment, if certain conditions contained in the agreement are met. The expiry of the commitment, originally planned for June 2011, was extended to December 2013.
Re.Ge.Im. S.p.A.: the Bank has a commitment for a maximum value of €9,059 thousand, relating to the residual capitalisation of the company, as a contribution to the capital. The commitment is connected to the completion of certain investments by the company. and expires at the latest in October 2015.

Section 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110

11.1 Tangible assets: breakdown of assets measured at cost

Assets / Balances	*31/12/2012*	*31/12/2011*
A. Assets for business purposes		
1.1 company owned	**567**	**736**
a) land		
b) buildings		
c) furniture	397	538
d) electronic systems	14	42
e) other	156	156
1.2 other held under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic systems		
e) other		
Total A	**567**	**736**
B. Assets held as investments		
2.1 company owned	**14,271**	**14,572**
a) land	10,426	10,426
b) buildings	3,845	4,14
2.2 other held under financial leases		
a) land		
b) buildings		
Total B	**14,271**	**14,572**
Total (A+B)	**14,838**	**15,308**

11.2 Tangible assets: breakdown of assets measured at fair value or revalued

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

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

	Land	*Buildings*	*Furniture*	*Electronic equipment*	*Other*	*Total*
A. Opening balances - gross			**1,231**	**446**	**189**	**1,866**
A.1 Total value reductions - net			693	404	33	1130
A.2 Net opening balances			**538**	**42**	**156**	**736**
B. Increases:						
B.1. Purchases						
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:			**141**	**28**		**169**
C.1 Sales						
C.2 Depreciation			141	28		169
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) tangible assets held						
for investment purposes						
b) assets held for sale						
C.7 Other changes						
D. Net closing balances			**397**	**14**	**156**	**567**
D.1 Total net value reductions			834	432	33	1,299
D.2 Gross closing balances			**1,231**	**446**	**189**	**1,866**
E. Measured at cost						

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

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

	Land	*Buildings*	*Total*
A. Opening balances	**10,426**	**4,146**	**14,572**
B. Increases:			
B.1. Purchases			
B.2 Capitalised improvement costs			
B.4 Positive fair value changes			
B.3 Write-backs			
B.5 Exchange gains			
B.6 Transfers from properties used for business			
B.7 Other changes			
C. Decreases:		**301**	**301**
C.1 Sales			
C.2 Depreciation		301	301
C.3 Negative fair value changes			
C.4 Value adjustments due to impairment			
C.5 Exchange losses			
C.6 Transfers to other asset portfolios:			
a) properties used for business			
b) non-current assets held for sale			
C.7 Other changes			
D. Closing balances	**10,426**	**3,845**	**14,271**

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

11.6 Tangible fixed assets: useful lifetime

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

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

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

Section 12 - INTANGIBLE ASSETS - ITEM 120

There are no such transactions for this financial statement item.

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

Current taxes

This item includes the estimated payable for current liabilities or liabilities referring to transactions from previous years.

At 31.12.2012 current tax liabilities amount to €26,908 thousand.

Current tax assets amount to €13,000 thousand and refer to IRAP advances paid with reference to the tax accrued in 2012.

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

Deferred taxation

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

Prepaid and deferred taxes are shown as the net balance of the respective balance sheet item, subsequent to offsetting at the same tax level and for each financial year, taking into account when payment is expected to fall due. Consequently, at 31 December 2012 the deferred tax liabilities have been completely offset with the deferred tax assets.

The rates used to calculate deferred and prepaid taxes for IRES and IRAP purposes are in line with the rates in force on the reporting date.

For the financial year 2012 there are no extraordinary events to report which have had a significant influence on the quantification of the tax liabilities for deferred taxes and of the tax assets for prepaid taxes, except for an increase in tax assets for prepaid taxes calculated on the value adjustments of credits exceeding the limit established by the tax laws.

13.1 Prepaid tax assets: breakdown

Prepaid tax assets, gross of offsetting against deferred tax liabilities, derive essentially result from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for €139,868 thousand and to IRAP for €2,598 thousand.

Specifically:

- the sub-item “receivables” represents the total amount of the write-downs to receivables exceeding the portion allowed for deduction for IRES purposes and carried forward in the eighteen subsequent years, as well as provisions for endorsement credits;
- prepaid taxes under the item “reserves for valuation of financial instruments”, posted as a contra item in the shareholders' equity, equal to €8,874 thousand, regard taxation on reserves for negative valuations of financial assets available for sale;
- the item “other” refers mainly to allocations for legal disputes and liabilities connected to external events.

Items / Balances	*31/12/2012*					*31/12/2011*
	Prepaid taxes contra item CE IRES	*Prepaid taxes contra item PN IRES*	*Prepaid taxes contra item CE IRAP*	*Prepaid taxes contra item PN IRAP*	*Total*	*Total*
Receivables	118,060				**118,060**	**74,357**
- of which art. 2 par. 55/58 DL 225/10	*115,885*				***115,885***	***69,784***
Other financial instruments						
Goodwill						
Deferred charges						
Tangible fixed assets	82		17		**99**	
- of which art. 2 par. 55/58 DL 225/10						
Entertaining expenses						
Personnel-related costs	734				**734**	**64**
Tax losses						
- of which art. 2 par. 55/58 DL 225/10						
Reserves for valuation of financial instruments		7,379		1,495	**8,874**	**9,252**
Other	13,613		1,086		**14,699**	**1,967**
Prepaid tax assets - gross	**132,489**	**7,379**	**1,103**	**1,495**	**142,466**	**85,640**
Offsetting against deferred tax liabilities	**(1,659)**	**(47)**	**(25)**	**(63)**	**(1,794)**	**(3,629)**
Net prepaid tax assets	**130,830**	**7,332**	**1,078**	**1,432**	**140,672**	**82,011**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for €1,706 thousand and IRAP for €88 thousand. They are mainly recorded as offsetting entries in the income statement for €1,684 thousand (versus €3,522 thousand for 2011) in addition to €110 thousand recorded as offsetting entries to the shareholders' equity, the latter fully recorded in revaluations of AFS securities (in 2011, they were €107 thousand).

The main taxable temporary differences which caused deferred taxes to be recognised are related to the sub-item "Financial instruments", in particular to valuation gains recorded for units in collective investment undertakings and equity investments:

	31/12/2012					31/12/2011
Items / Balances	*Deferred taxes contra item CE IRES*	*Deferred taxes contra item PN IRES*	*Deferred taxes contra item CE IRAP*	*Deferred taxes contra item PN IRAP*	*Total*	*Total*
Capital gains to be collected						
Goodwill						
Tangible and intangible fixed assets						
Financial instruments	1,511				**1,511**	**3,406**
Personnel-related costs	12				**12**	**12**
Reserves for valuation of financial instruments		47		63	**110**	
Other	136		25		**161**	**211**
Prepaid tax assets - gross	**1,659**	**47**	**25**	**63**	**1,794**	**3,629**
Offsetting against deferred tax liabilities	**(1,659)**	**(47)**	**(25)**	**(63)**	**(1,794)**	**(3,629)**
Net prepaid tax assets	**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 write-downs on receivables exceeding the deductible limit in the year for €50,844 (€6,883 thousand in 2011) and by the taxed allocations to provisions, made during the year, i.e. €16,757 thousand (€9,151 thousand in 2011). The decreases reported for the year include:

- the uses in 2012 of provisions taxed in previous years amounting to €13,308 thousand (versus €2,765 thousand in 2011);
- €4,742 thousand referable to write-downs on receivables split into eighteenths brought forward from previous years, for the portion deductible in the current year (versus €4,360 thousand in 2011).

		31/12/2012	*31/12/2011*
1.	**Opening balance 84,042 76,063**		
2.	**Increases 67,601 16,050**		
2.1	Prepaid taxes recorded in the year 67,601 15,977		
	a) relating to prior years		
	b) due to changes in accounting policies		
	c) writebacks		
	d) other	*67,601*	*15,977*
2.2	New taxes or increase in tax rates		73
2.3	Other increases		
3.	**Decreases**	**18,051**	**8,071**
3.1	Prepaid taxes annulled in the year	18,051	7,132
	a) reversals	*18,051*	*7,132*
	b) written down as now considered unrecoverable		
	c) change in accounting policies		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases		939
	a) transformation into tax credit as per law n° 214/2011		
	b) other		*939*
4.	**Closing balance**	**133,592**	**84,042**

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

	IRES	*IRAP*	*Total 31/12/2012*	*Total 31/12/2011*
1. Opening balance	**69,784**		**69,784**	**68,199**
2. Increases	**50,844**		**50,844**	**6,883**
3. Decreases	**4,743**		**4,743**	**5,299**
3.1 Transfers	4,743		**4,743**	5,299
3.2 Transformation into tax credit				
a) deriving from losses of the period				
b) deriving from tax losses				
3.3 Other decreases				
4. Closing balance	**115,885**		**115,885**	**69,783**

These are assets for prepaid taxes posted on the financial statement, potentially transformable entirely into tax credit, if there is a loss in the period (or a tax loss) as contemplated by Law 214/2011.

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.

	31/12/2012	*31/12/2011*
1. Opening balance	**3,522**	**3,571**
2. Increases	**5**	**255**
2.1 Deferred taxes recorded in the year	5	252
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*5*	*252*
2.2 New taxes or increase in tax rates		3
2.3 Other increases		
3. Decreases	**1,843**	**304**
3.1 Deferred taxes annulled in the year	1,843	304
a) reversals	*1,843*	*304*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**1,684**	**3,522**

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.

	31/12/2012	*31/12/2011*
1. Opening balance	**1,598**	**1,503**
2. Increases	**7,276**	**988**
2.1 Deferred taxes recorded in the year	7,276	973
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*7,276*	*973*
2.2 New taxes or increase in tax rates		15
2.3 Other increases		
3. Decreases		**893**
3.1 Deferred taxes annulled in the year		893
a) reversals		*893*
b) written down as now considered unrecoverable		
c) change in accounting policies		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**8,874**	**1,598**

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

The changes pertain to taxes measured on the changes in the shareholders' equity reserves relating to the financial assets available for sale measured at fair value. With regard to the revaluation of equity investments with the requisites for exemption, the deferred taxes are applied on 5% of the value.

	31/12/2012	*31/12/2011*
1. Opening balance	**107**	**87**
2. Increases	**32**	**43**
2.1 Deferred taxes recorded in the year	32	40
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*32*	*40*
2.2 New taxes or increase in tax rates		3
2.3 Other increases		
3. Decreases	**29**	**23**
3.1 Deferred taxes annulled in the year	29	23
a) reversals	*29*	*23*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**110**	**107**

13.7 Current tax assets

		31/12/2012	31/12/2011
1.	IRES advances		
2.	IRAP advances	13,000	10,413
3.	IRAP receivables		
4.	Other receivables and withholdings		
	Current tax assets - gross	**13,000**	**10,413**
	Offsetting against current tax liabilities	**-**	**-**
	Current tax assets - net	**13,000**	**10,413**

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

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

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

		31/12/2012	*31/12/2011*
A.	**Individual assets**		
A.1	Financial assets		
A.1	Equity investments	972	
A.2	Property, plant and equipment		
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A	**972**	
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	Receivables due from banks		
B.6	Loans to customers:		
B.7	Equity investments		
B.8	Property, plant and equipment		
B.9	Intangible assets		
B.10	Other assets		
	Total B		
C.	**Liabilities associated to non-current assets held for sale**		
C.1	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
D.	**Liabilities associated to discontinued operations**		
D.1	Due to banks		
D.2	Due to customers		
D.3	Outstanding securities		
D.4	Financial liabilities held for trading		
D.5	Financial liabilities at fair value		
D.6	Funds		
D.7	Other liabilities		
	Total D		

Note:
item "A.1 Equity investments" represents the 48% shareholding in MPS Venture SGR S.p.A., for which sale negotiations, coordinated by the Parent Company, are still in progress. The reclassification has been carried out as contemplated by IFRS5.

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

The economic-financial data of the financial statements 2011 of the company MPS Venture SGR S.p.A. are summarised in the tables below.

Name	*Total Assets*	*Revenue totals*	*Profit (loss)*	*Shareholders' equity*	*Book value*	*Fair value (if listed)*
MPS Venture SGR S.p.A.	9,368	8,034	3,878	6,978	**972**	N/A

Section 15 - OTHER ASSETS - ITEM 150

15.1. Other assets: breakdown

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
1. Amounts due from the tax authorities and similar	2,748	4,715
2. Items being processed	2,380	490
3. Amounts receivable associated with the supply of goods and services	413	39
4. Improvement and incremental costs on third party assets	1,512	1,964
5. Accrued income not attributable to own items	5,201	4,337
6. Prepaid expenses not attributable to own items	1,355	7
7. Receivable from consolidating entity for tax consolidation system	6,279	2,726
8. Receivables for reimbursement to personnel seconded with third parties	4,221	5,068
9. Other	5,224	3,244
Total 29,333 22,590		

Note:
the sub-item "Amounts due from the tax authorities and similar" include credit due from foreign tax authorities equal to €1,572 thousand (€3,004 in 2011).
The sub-item "Receivable from consolidating entity for tax consolidation system" represents credit relative to the higher IRES paid by effect of non-deduction of IRAP pursuant to art. 6 of Decree Law n° 185/2010 and Decree Law 16/2012. In fact, in consideration of the deductibility for IRES and IRAP purposes of the taxable amount of personnel costs, as contemplated by Decree Law 16 of 2 March 2012 (so-called "Simplification Decree"), a receivable of €1,916 thousand was posted in the year 2012.

LIABILITIES

Section 1 - DUE TO BANKS - ITEM 10

1.1 Receivables from banks: breakdown by type

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
1. Due to Central Banks		
2. Payables to banks	**7,827,291**	**7,236,232**
2.1 Current accounts and demand deposits	378,771	465,021
2.2 Restricted deposits	4,566,684	5,615,780
2.3 Loans	2,757,873	1,093,722
2.3.1 Repurchase agreements		
2.3.2 Other	*2,757,873*	*1,093,722*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other payables	123,963	61,709
Total	**7,827,291**	**7,236,232**
Fair Value	**8,349,527**	**7,243,211**

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

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

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

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

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

Section 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Receivables from customers: breakdown by type

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
1. Current accounts and unrestricted deposits		
2. Restricted deposits	3,152	3,106
3. Loans	10,493,325	11,658,412
3.1 Repurchase agreements		
3.2 Other	*10,493,325*	*11,658,412*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	95,296	142,547
Total	**10,591,773**	**11,804,065**
Fair Value	**11,190,580**	**12,340,502**

Note:
The sub-item "Loans - 3.2 Other" includes both medium-long term loans stipulated with MPS Ireland and collateral collected from institutional counterparties with short-term expiries for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).
The sub-item "Other payables" is mainly composed of deposits for the issue of real estate loan operations; it also includes:

- *the payable to the former Lehman Brothers Special Financing Inc. (LBSF) for € 47 thousand, relative to positions in derivatives, included in the compensation agreement stipulated at the time with the said counterparty (the amount has remained unchanged since 2008). A formal discovery procedure is in progress, by which the Company directors will be able to review the Bank's original decisions. In the light of the findings and the closure of the relative disputes pending with other ex Lehman companies (see details below), the Bank has deemed it opportune to review the debt exposure towards LBSE, registering an adjustment of € 3,952 thousand for the provisions for risks and charges;*
- *the debt towards the ex Lehman Brothers International Europe PLC amounts to a total of €3,011 thousand, of which €2,063 thousand is for the exposure in derivatives and €948 thousand is for repurchase and securities lending operations. Subsequent to the adjustment of the valuation parameters used at the time (2008), the capital part of the debt of the derivatives position has been redetermined and, consequently, also the relative interests on arrears, resulting in a total impact on the income statement of this financial statement equal to €1,446 thousand. The procedure has almost reached the final stage.*

For the sake of full information, we mention that the liquidation procedure relative to the ex Lehman Brothers Finance SA concluded in 2012, determining an greater disbursement of €1,409 thousand.

2.2 Analysis of Item 20 "Due to banks": subordinated liabilities
No subordinated liabilities in relation to customers are recorded in the financial statements.

2.3 Analysis of Item 20 "Due to banks": 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	*31/12/2012*				*31/12/2011*			
	Book value	*Fair value*			*Book value*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	106,616		106,281		243,790		243,745	
1.1 structured								
1.2 others	*106,616*		*106,281*		*243,790*		*243,745*	
2. other securities								
2.1 structured								
2.2 other								
Total	**106,616**		**106,281**		**243,790**		**243,745**	

Note:
the 2012 book value includes €614 thousand in interest accrued as of the balance sheet date (versus €1,791 thousand in 2011).

3.2 Analysis of Item 30 "Due to banks": subordinated liabilities

Name of security	*Currency*	*date of issue*	*maturity*	*interest rate*	*Book value 31/12/12*	*Book value 31/12/11*
1. IT0003535223 MPS MERC 13SUB 10NC5	Euro	30/09/2003	30/09/2013	variable	14,644	29,381
2. IT0003535280 MPSMERCH SUB13 TV	Euro	30/09/2003	30/09/2013	variable	1,403	2,815
3. IT0003595318 MPS B.VERDE 13 SUB	Euro	22/12/2003	22/12/2013	variable	10,003	20,012
4. IT0003878755 MPS B IMPR SUB15 TV	Euro	30/06/2005	30/06/2015	variable	30,000	40,485
5. IT0004563125 MPSBCI TV 09/12 TIERIII	Euro	21/12/2011	17/01/2012	variable	-	151,097
6. IT0004809601 MPSCS-TV 12/22	Euro	30/03/2012	30/03/2022	variable	50,566	-
					106,616	**243,790**

Main features of the subordinated securities

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

3. repayment shall be in five straight-line principal instalments on 22 December of each year as from the end of the sixth year of duration; partial or total early repayment is possible, subject to the authorisation of the Bank of Italy, as from 22 December 2009.
4. 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.
5. repayment shall be in a single instalment upon maturity; early repayment is not possible
6. repayment shall be in a single instalment upon maturity; early repayment is not possible

The subordination clause provides that, in case of Bank liquidation, the loans shall be reimbursed only after all other creditors not equally subordinated are satisfied. The Bank may freely acquire on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy.
As of 31 December 2012, the Bank did not hold any portions of these securities in its receivable portfolio.

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

Section 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction / Balances	*Total 31/12/2012*				
	Nominal value or notional	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value(*)*
A. Cash liabilities					
1. Payables to banks	9,733,705	2,376,683	7,706,349		10,083,032
2. Due to customers	5,865,764	1,119,287	4,804,257		5,923,544
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	**15,599,469**	**3,495,970**	**12,510,606**		**16,006,576**
B. Derivative instruments					
1. Financial derivatives		168,276	9,608,593	13,133	
1.1 For trading		*168,276*	*9,608,593*	*13,133*	
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			1,596,872		
2.1 For trading			*1,596,872*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**168,276**	**11,205,465**	**13,133**	
Total (A+B)		**3,664,246**	**23,716,071**	**13,133**	

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

Note:
the sub-items "Due to banks" and "Due to customers" include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.

Type of transaction / Balances	Total 31/12/2012				
	Nominal value or notional	Fair value			Fair value(*)
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Payables to banks	8,395,590	110,022	8,288,009		8,398,031
2. Due to customers	9,790,461	1,596,284	8,221,348		9,817,632
3. Debt securities					
3.1 Bonds					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A	**18,186,051**	**1,706,306**	**16,509,357**		**18,215,663**
B. Derivative instruments					
1. Financial derivatives		155,550	12,875,392	23,119	
1.1 For trading		*155,550*	*12,875,392*	*23,119*	
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			2,747,477		
2.1 For trading			*2,747,477*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**155,550**	**15,622,869**	**23,119**	
Total (A+B)		**1,861,856**	**32,132,226**	**23,119**	

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

Note:
the sub-items "Due to banks" and "Due to customers" include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.

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

Name of liability	*Currency*	*date of issue*	*maturity*	*interest rate*	*book value*
A. Due to banks					**34,586**
BPOP MILANO 05/15 TV	EUR	29/06/2005	29/06/2015	variable	1,340
BMPS 05/17 TV	EUR	30/11/2005	30/11/2017	variable	156
BMPS 05/18 TV	EUR	20/12/2005	15/01/2018	variable	905
BMPS 06/16 5.75	GBP	31/05/2006	30/09/2016	fixed	99
BMPS 06/16 4,875	EUR	31/05/2006	31/05/2016	fixed	72
BPOP VICEN 07/17 TV	EUR	20/12/2007	20/12/2017	variable	1,060
UNICREDIT 08/18 6.7	EUR	05/06/2008	05/06/2018	fixed	372
INTESA 08/49 TM	EUR	20/06/2008	29/06/1949	variable	257
INTESA 09/19 5	EUR	23/09/2009	23/09/2019	fixed	2,217
INTESA 09/49 TM	EUR	14/10/2009	29/10/1959	variable	255
BMPS 10/20 5	EUR	21/04/2010	21/04/2020	fixed	10,829
INTESA 10/20 5.15	EUR	16/07/2010	16/07/2020	fixed	209
BMPS 10/20 5.6	EUR	09/09/2010	09/09/2020	fixed	13,955
INTESA-TM 10/49	EUR	01/10/2010	01/06/1949	variable	54
UNICRED 11/21 6,125	EUR	19/04/2011	19/04/2021	fixed	302
MPS CAP T I 01/49 TM	EUR	07/02/2001	07/02/1949	variable	479
COMM BK FU 6/49 TM	EUR	30/03/2006	12/04/1949	variable	2,025
B. Due to customers					**625**
ANTONV CAP 01/49 TV	EUR	27/06/2001	27/06/1949	variable	216
GENERALI F-TM 06/49	GBP	16/06/2006	29/06/1949	variable	409
Total (A+B)					**35,211**

4.3 *Analysis* of Item 40 "Financial liabilities held for trading": structured liabilities
There are no structured liabilities.

4.4 Cash financial liabilities held for trading (excluding "technical overdrafts"): annual changes

	Changes/ Types	*Due to banks*	*Due to customers*	*Outstanding securities*	*Total 31/12/12*	*Total 31/12/11*
A.	**Opening balances**	**8,281,252**	**8,211,015**		**16,492,267**	**15,426,879**
B	**Increases**	**178,926,934**	**866,771,765**		**1,045,698,699**	**1,126,445,927**
	B.1 Issues					
	.2 Sales	178,887,053	866,759,455		1,045,646,508	1,126,398,305
	B.3 Positive fair value changes				-	-
	B.4 Other changes	39,881	12,310		52,191	47,622
C	**Decreases**	**179,516,078**	**870,178,902**		**1,049,694,980**	**1,125,380,539**
	C.1 Purchases	179,498,792	870,148,566		1,049,647,358	1,125,344,271
	C.2 Redemptions				-	-
	C.3 Negative fair value changes				-	-
	C.4 Other changes	17,286	30,336		47,622	36,268
D.	**Closing balances**	**7,692,108**	**4,803,878**		**12,495,986**	**16,492,267**

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

Section 5 - FINANCIAL LIABILITIES AT FAIR VALUE - ITEM 50

No positions have been classified in this category.

Section 6 - HEDGING DERIVATIVES - ITEM 60

6.1 Hedge derivatives: breakdown by type of hedge and hierarchical level

Items/Balances	*31/12/2012*				*31/12/2011*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*Level 3*	*Notional value*
A. Financial derivatives		2,071		37,500		1,111		37,500
1. *Fair value*		*2,071*		37,500		*1,111*		37,500
2. Cash flows								
3. Foreign investments								
B. Financial derivatives								
1. *Fair value*								
2. Cash flows								
Total		**2,071**		**37,500**		**1,111**		**37,500**

6.2 Hedge derivatives: breakdown by portfolio hedged and by hedge type

Transactions / type of coverage	*Fair value*						*Cash flows*		
	Micro					*Macro*	*Micro*	*Macro*	*Invest. foreign*
	risk of rate	*risk of currency exchange*	*credit risk*	*risk of price*	*severale risk*				
1. Financial assets available for sale	2,071								
2. Receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**2,071**								
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

Items / Balances	*31/12/2012*		*31/12/2011*	
	taxation to shareholders' equity	*taxation to income statement*	*taxation to shareholders' equity*	*taxation to income statement*
1. IRES payables				
2. IRAP payables		26,908		16,679
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**26,908**		**16,679**
Offsetting against current tax assets		-		-
Amounts due for current taxes - net		**26,908**		**16,679**

This item includes the estimated payable for current liabilities or liabilities referring to transactions from previous years. With regard to tax liabilities relating to IRES, following the Bank's participation in the tax consolidation system of the MPS Group, the IRES liability is classified under Other liabilities in the item "Amounts due to the Parent Company for tax consolidation".
During the second half of 2011 the Bank deposited €2,043 thousand (this amount includes penalties) following an in-court conciliation procedure related to a report on findings received in December 2011 from the Tuscany Regional Management. The said report contested that the Bank had obtained an undue tax benefit, although it was obtained by correctly applying the regulations in force at the time (called abuse of right), related to some trading transactions carried out in 2007.

8.2 Deferred tax liabilities

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

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

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

Section 10 - OTHER LIABILITIES - ITEM 100

10.1 Other assets: breakdown

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
1. Taxes due to the tax authorities and similar	4,080	4,115
2. Amounts due to social security and welfare institutions	1,750	493
3. Amounts due to the Parent Company for tax consolidation	71,693	36,050
4. Sums available to customers	1,236	385
5. Liabilities for payment agreements on Parent Company shares	-	-
6. Other amounts due to employees	2,271	5,398
7. Items being processed	1,927	3,287
8. Amounts payable associated with the payment of supplies of goods and services	13,167	8,881
9. Guarantees given	7,910	16,630
10. Payables for reimbursement of cost of personnel seconded to Bank	1,478	1,595
11. Deferred income not attributable to own items	527	661
12. Accrued liabilities not attributable to own items	5	-
13. Other	5,767	12,407
Total	**111,811**	**89,902**

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: annual changes

	31/12/2012	*31/12/2011*
A. Opening balances	**2,168**	**2,277**
B Increases	**51**	**82**
B.2 Provision for the year	51	82
B.3 Other increases		
C Decreases	**31**	**191**
C.1 Liquidations carried out	31	191
C.3 Other decreases		
D. Closing balances	**2,188**	**2,168**

Following the supplementary welfare reform pursuant to Italian Legislative Decree n° 252 of 5 December 2005, the portions of severance indemnity accrued as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or transferred to the Treasury Funds managed by INPS (National Institute of Social Insurance). The said portions do not appear in the table of movements.

11.2 Other information

11.2.1 Main actuarial hypothesis used

Main actuarial hypotheses / Percentages	*31/12/2012*	*31/12/2011*
1. Average discounting back rate (*)	3.6789%	2.7311%
2. Estimated salary increase rates	1.8%	1.8%
Annual inflation rate	2.0%	2.0%

Note:
(*) *in 2011 the curve of the zero coupon spot rates was used; while at 31 December 2012, for adaptation to market practice, the Eur Composite A curve was used, taken from the information provider Bloomberg. The curve refers to a basket of securities issued by corporate investment grade issuers in rating class A resident in the Euro area belonging to diverse sectors. This change has not had a relevant impact.*

11.2.2 Amount of liabilities pursuant to Article 2424-bis of the Italian Civil Code
Pursuant to Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity is € 3,111 thousand (3,050 as at 31 December 2011).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2012*	*31/12/2011*
1. Company pension funds	5,532	5,834
2. Other provisions for risks and charges:	69,631	29,716
2.1 legal disputes	*12,537*	*10,173*
2.2 personnel expenses	*2,670*	-
2.3 other	*54,424*	*19,543*
Total75,163	**35,550**	

Note:

the sub-item "Other provisions for risks and charges: "2.1 legal disputes" includes allocations for liabilities deemed likely in relation to miscellaneous ordinary cases with customers and for actions for revocation, accounting for 94% and 6%, respectively, of the total shown in the table (93% and 7% at 31 December 2011)..

The sub-item "Other provisions for risks and charges: 2.2 personnel costs" include allocations for resignation incentives and for access to the solidarity fund, involving 13 employees, due to the activation of the "Solidarity Fund".

The sub-item "Other provisions for risks and charges: 2.3 other" includes reliable estimates of probable charges to the Bank connected with subsidised operations, and certain types of operational transactions, such as, for example, derivatives with corporate and institutional customers (ex Lehman Brothers Special Financing Inc., see note on item 20 of the liabilities "Payables to customers), as well as liabilities arising for events of an external nature. The item also includes the effect of the verification of the assets used as collateral for the overall exposure of the Group "La Fenice Holding S.p.A."; in fact, after the closure of the period, in view of the complexity, it was deemed opportune to make a prudential estimate of their recoverability.

12.2 Provisions for risks and charges: annual changes

		Pension funds	Other provisions	Total
A.	**Opening balances**	**5,834**	**29,716**	**35,550**
B.	**Increases**	**273**	**48,722**	**48,995**
B.1	Provision for the year	273	48,439	48,712
B.2	Changes due to the passage of time		133	133
B.3	Changes due to discount rate changes		150	150
B.4	Other increases			
C.	**Decreases**	**575**	**8,807**	**9,382**
C.1	Uses in the year	575	77	652
C.2	Changes due to discount rate changes			
C.3	Other changes		8,730	8,730
D.	**Closing balances**	**5,532**	**69,631**	**75,163**

12.3 Defined-benefit company pension funds

12.3.1 Description of the funds

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

12.3.2. Changes in the year in company pension funds

Items / Balances	*31/12/2012*		*31/12/2011*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**5,834**		**6,158**	
Increases	**273**		**289**	
Welfare cost relating to current work services				
Borrowing costs				
Members contributions to plan				
Actuarial losses				
Exchange losses				
Welfare cost relating to past work services	273		289	
Other changes				
Decreases	**575**		**613**	
Indemnities paid	575		613	
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	**5,532**		**5,834**	

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

12.3.3.a Fair value of the plan assets: breakdown
No specific asset is classified under plan assets.

12.3.4 Reconciliation between the current value of the funds, current value of the plan assets, and assets and liabilities recorded in the balance sheet
No specific asset is classified under plan assets.

12.3.5 Main actuarial hypotheses used

Main actuarial hypotheses / Percentages	*31/12/2012*	*31/12/2011*
1. Average discounting back rate	4.20%	4.20%
2. Estimated salary increase rates	1.50%	1.50%
Annual inflation rate	2.00%	2.00%

Section 13 - REFUNDABLE SHARES - ITEM 140

There are no such transactions for this financial statement item.

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

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

Items / Balances	*31/12/2012*	*31/12/2011*
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	638,479	620,285
4. (Treasury shares)		
5. Valuation reserves	(16,931)	(3,176)
6. Equity instruments		
7. Profit (loss) for the year	1,276	45,407
Total	**1,127,348**	**1,167,040**

Note:
Valuation reserves comprise a positive tax effect of €8,763 thousand, attributed to the category "Financial assets available for sale" (for 2011, the positive effect was €1,491 thousand). The gross amount of said reserves, without tax effect, would be €(25,694) thousand (for 2011, €(4,667) thousand).

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

14.1.a Share capital: breakdown

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

14.1.b Treasury shares: breakdown
As of the balance sheet date, the Bank did not hold any treasury shares.

14.2 Capital - number of shares: annual changes
In the course of 2012, the number of outstanding shares did not change.

14.3 Capital: other information
The share capital, amounting to €276,435 thousand, is fully subscribed and paid-in.

14.4 Reserves of profit: other information
Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital. Part of these reserves, pursuant to art. 2359 bis of the Civil Code, is to protect the shares issued by the Parent Company Banca Monte dei Paschi di Siena, within the limits and terms contemplated by the shareholders' resolutions; these purchases are made within the sphere of the brokering operations on share indices and listed options.
The Bank does not hold any investment in Parent Company stock as of 31 December 2012.

Items / Balances	*31/12/2012*	*31/12/2011*
Legal reserve	38,522	36,252
Reserve of treasury shares and shares of the Parent Company		
Statutory reserve	31,842	29,572
Reserve ex art. 13 Lgs. Decree 124/93		
Extraordinary reserve	322,836	309,183
Other reserves	(1,052)	(1,052)
Total392,148	**373,955**	

14.5 Capital instruments: breakdown and annual changes
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	*31/12/2012*	*31/12/2011*
1. Financial assets available for sale	(25,694)	(4,667)
2. Property, plant and equipment		
3. Intangible assets		
4. Foreign investment hedging		
5. Cash flow hedging		
6. Exchange differences		
7. Non-current assets held for sale		
8. Special revaluation laws		
9. Tax effect	8,763	1,491
Total	**(16,931)**	**(3,176)**

14.6.1.2 Valuation reserves: annual changes

	Assets financial available for sale	*Assets Non-current held for sale*	*Laws special revaluation*	*Effect taxation*	*Total*
A. Opening balances	**(4,667)**			**1,491**	**(3,176)**
B. Increases:	**9,626**			**(975)**	**8,651**
B.1 Fair value increases	8,534			(734)	7,800
B.2 Other changes	1,092			(241)	851
C. Decreases	**30,653**			**(8,247)**	**22,406**
C.1 Fair value decreases	30,653				30,653
C.2 Other changes				(8,247)	(8,247)
D. Closing balances	**(25,694)**			**8,763**	**(16,931)**

14.6.1.3 Valuation reserves of financial assets available for sale: breakdown

Assets / Balances	*31/12/2012*		*31/12/2011*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities		26,832	3	4,832
2. Equity securities	1,020		558	600
3. Units in collective investment undertakings	118		204	
4. Loans				
Total	**1,138**	**26,832**	**765**	**5,432**

Note:
Sub-item "1. Debt securities" shows a total valuation reserve of minus €26,832 thousand, mainly for the following securities, due to the reduction in fair value:
- *BMPS 08/18 TV for €23,655 thousand*
  - *IMPREGILO 10/15 6,526 for €2,026 thousand (hedged by a derivative for the rate risk, as shown in the tables of reference)*
- *TITAN EUR 07/17 TV for €953 thousand*

14.6.1.5 Reserves from valuation of financial assets available for sale: annual changes (gross of the tax effect)

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(4,829)**	**(42)**	**204**	
2. **Positive changes**	**2,162**	**7,464**		
2.1 Increases in fair value	630	462		
2.2 Transfer to income statement of negative reserves	1,532	7,002		
for impairment		*6,994*		
for disposal	*1,532*	*8*		
2.3 Other changes				
3. **Negative changes**	**24,165**	**6,402**	**86**	
3.1 Decreases in fair value	24,165	6,402	86	
3.2 Transfer to income statement of positive reserves				
for disposal				
3.3 Other changes				
4. Closing balances	**(26,832)**	**1,020**	**118**	

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

				Summary of uses made in previous three years	
	Amount	*Possibility of utilisation (*)*	*Shake available*	*for coverage of loss*	*for other reasons*
Capital	**276,435**				
Capital reserves	**363,865**	A,B,C,	**363,865**		
Profit reserves	**449,304**	A,B,C	**410,782**		
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**25,836**	A,B,C	**25,836**		
TOTAL RESERVES	**849,637**		**811,115**		
Profit for 2012	1,276				
Total Equity	**1,127,348**				

(*) 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 which is the merger surplus consequent to the incorporation of the ex MPS Bancaverde S.p.A. into ex MPS Merchant S.p.A. in 2004, according to art. 172 of the Consolidated Income Tax Law, section 6 (specifically, the merger surplus is subject to the same tax system applicable to the reserves of the incorporated company).
The item "Other IAS reserves" includes €1,052 thousand as the negative reserve of profit, originating on the first application of the IAS (financial year 2005 relative to the financial statement 2004).

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	31/12/2012	31/12/2011
1. Financial guarantees given	300,380	321,779
a) Banks	*1,049*	*1,049*
b) Customers	*299,331*	*320,730*
2. Commercial guarantees given	26,805	25,582
a) Banks		
b) Customers	*26,805*	*25,582*
3. Irrevocable commitments to grant finance	2,856,567	2,808,633
a) Banks	148,939	136,786
- certain to be called on	*148,939*	*136,786*
- not certain to be called on		
b) Customers	2,707,628	2,671,847
- certain to be called on	*1,916,637*	*1,383,558*
- not certain to be called on	*790,991*	*1,288,289*
4. Commitments underlying derivatives on receivables: hedge sales	27,178,748	38,082,767
5. Assets lodged as collateral for third party bonds	729,553	643,249
6. Other commitments	307,663	410,060
Total	**31,399,716**	**42,292,070**

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

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

Portfolios	31/12/2012	31/12/2011
1. Financial assets held for trading	6,223,416	6,087,724
2. Financial assets designated at fair value		
3. Financial assets available for sale	37,705	36,155
4. Financial assets held to maturity		
5. Due from banks	6,424,554	4,295,551
6. Loans to customers	435,274	601,862
7. Property, plant and equipment		

Note:
mainly assets used as collateral for repurchase, security loans and derivatives operations

2.2 Other information: guaranteed deposit transactions
The securities used as collateral, not posted under the balance sheet assets, amount to €11,586,734 thousand (€11,283,871 thousand at 31 December 2011), mainly from repurchase, security loans and collateral operations, as well as from securities underwritten and relative to self-securitisation (€1,216,366 thousand).

3 Information on operating leases

Items / Balances	*31/12/2012*	*31/12/2011*
- Within 1 year	617	593
- Between 1 and 5 years	263	494
- Over 5 years	-	-

4 Management and brokerage on behalf of third parties

Type of services	*31/12/2012*	*31/12/2011*
1. Execution of order on customers' behalf		
a) Purchases	8,980,145	8,354,461
1. Settled	*8,883,244*	*8,229,498*
2. Not settled	*96,901*	*124,963*
b) Sales	7,778,667	4,135,208
1. Settled	*7,699,634*	*4,101,057*
2. Not settled	*79,033*	*34,151*
2. Portfolio management		
a) Individual		
b) Collective		
3. Custody and administration of securities		
a) Third party securities deposited with the Bank associated with its role as custodian bank (excluding asset management)		
1. Securities issued by the bank which draws up the financial statement		
2. Other securities		
b) Third party securities on deposit (excluding asset management): other	10,133,215	14,749,597
1. Securities issued by the bank which draws up the financial statement		
2. Other securities	*10,133,215*	*14,749,597*
c) Third party securities deposited with third parties	10,084,903	14,692,072
d) Bank's securities deposited with third parties	8,824,663	10,915,983
4. Other transactions	**13,679,044**	**7,487,526**

Note:
The amounts indicated in point 3 "Custody and administration of securities" concern the par value of the securities.
The sub-items "securities of third parties" include €604,524 thousand as guarantees received for security landing and derivative activities (€354,276 thousand in 2011), as well as securities received for repurchase and security lending operations for a nominal value of €9,394,014 thousand (€14,244,824 thousand at 31 December 2011). The aggregate has a total fair value of €10,474,007 thousand (€13,656,005 at 31 December 2011).
"Other transactions", in point 4, include volumes managed both for the activity of orders receipt and collection (totalling €489,594 thousand in 2012, against €762,525 thousand last year) and for placement with or without guarantees (totalling €13,189,450 thousand in 2012, compared to €6,725,001 thousand last year)."

Part C
Notes to the Income Statement

Section 1 - INTEREST - ITEMS 10 AND 20

Interest and other income: breakdown

Items / Technical forms	*Debt securities*	*Loans*	*Other transactions*	***Total 31/12/12***	***Total 31/12/11***
1. Financial assets held for trading	176,563	64,319		**240,882**	**331,489**
2. Financial assets available for sale	9,225			**9,225**	**2,790**
3. Financial assets held to maturity					
4. Due from banks		66,891	1,311	**68,202**	**27,308**
5. Loans to customers	1,058	382,558		**383,616**	**395,875**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets			5	**5**	
Total	**186,846**	**513,768**	**1,316**	**701,930**	**757,462**

Note:
the interest accrued during the year relating to positions classified as "impaired" amounts to €50,720 thousand (€36,655 as of 31/12/2011). Default interest was fully written down and is measured for accounting purposes only at the time of collection.

1.2 Interest income and similar income: other information

	31/12/2011	*31/12/2010*
1. Interest income on foreign currency financial assets	12,913	20,712
2. Interest income on financial lease transactions		-

1.3 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/12***	***Total 31/12/11***
1. Due to Central Banks				**-**	**-**
2. Payables to banks	(130,360)			**(130,360)**	**(80,577)**
3. Due to customers	(216,283)			**(216,283)**	**(242,532)**
4. Outstanding securities		(3,712)		**(3,712)**	**(7,587)**
5. Financial liabilities held for trading	(50,282)			**(50,282)**	**(152,655)**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			(405)	**(405)**	**(284)**
Total	**(396,925)**	**(3,712)**	**(405)**	**(401,042)**	**(483,635)**

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

Types /Items	*31/12/2012*	*31/12/2011*
A. Positive differentials relating to hedging transactions		
B. Negative differentials relating to hedging transactions	(405)	(284)
C. Balance (A-B)	**(405)**	**(284)**

1.5 Interest expense and similar charges: other information

	31/12/2012	*31/12/2011*
1. Interest expense on foreign currency liabilities	(4,401)	(18,122)
2. Interest expense on liabilities for financial lease transactions		

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

	Type of services / Balances	*31/12/2012*	*31/12/2011*
a)	guarantees given	3,470	2,729
b)	credit derivatives		
c)	asset management, brokerage and consultancy services:	66,679	68,837
	1. financial instrument trading		
	2. foreign exchange trading		
	3. portfolio management		
	3.1. individual		
	3.2 collective		
	4. custody and administration of securities		
	5. depositary bank		
	6. placing of securities	*50,068*	*47,269*
	7. order reception and transmission	*2,556*	*1,978*
	8. advisory services	*14,055*	*19,590*
	8.1 on investments	*2,882*	*2,144*
	8.2 on financial structure	*11,173*	*17,446*
	9. distribution of third-party services		
	9.1. portfolio managements		
	9.1.1. individual		
	9.1.2. collective		
	9.2. insurance products		
	9.3. other products		
d)	collection and payment services		
e)	securitisation services	96	18
f)	factoring services		
g)	tax collection and State lottery services		
h)	management of multilateral trading systems		
i)	holding and managing current accounts		
j)	other services	40,070	42,906
	Total	**110,315**	**114,490**

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

Type of services / Balances	*31/12/2012*	*31/12/2011*
a) for early repayment/termination of loans and mortgage loans	23,294	23,020
b) fees for services	2,047	2,042
c) fees for securities lending	2,459	5,688
d) other	12,270	12,156
Total	**40,070**	**42,906**

Note:
the sub-item "d) other" refers mainly to inquiry and secretarial fees, fees for non or late use of the line granted, disinvestment changes and agency fees.

2.2 Fee income: distribution channels of products and services

Channels / Balances	*31/12/2012*	*31/12/2011*
a) **at Bank branches:**		
1. asset management		
2. placing of securities		
3. third-party services and products		
b) **door-to-door sales:**		
1. asset management		
2. placing of securities		
3. third-party services and products		
c) **other distribution channels:**		
1. asset management		
2. placing of securities	50,068	47,269
3. third-party services and products		

2.3 Fee expense: breakdown

	Services / Balances	*31/12/2012*	*31/12/2011*
a)	guarantees received	(447)	(145)
b)	credit derivatives		
c)	management and brokerage services:	(51,924)	(41,466)
	1. financial instrument trading	*(15,950)*	*(18,584)*
	2. foreign exchange trading	*(6)*	*(4)*
	3. asset management:		
	3.1. treasury portfolio		
	3.2. portfolio of third parties		
	4. custody and administration of securities	*(458)*	*(345)*
	5. placing of financial instruments	*(35,510)*	*(22,533)*
	6. external marketing of financial instruments, products and services		
d)	collection and payment services	(17)	(20)
e)	other services	(24,778)	(30,586)
	Total	**(77,166)**	**(72,217)**

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

	Type of services / Balances	*31/12/2012*	*31/12/2011*
a)	presentation of loan applications	(12,758)	(11,051)
b)	handling of non-performing positions	(6,615)	(7,064)
c)	expense and fees paid to Barclays, Citibank and Clearstream	(3,509)	(4,929)
d)	fees for securities lending	(549)	(1,500)
e)	other	(1,347)	(6,042)
	Total	**(24,778)**	**(30,586)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2012*		*31/12/2011*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	51,632	233	81,914	127
B. Financial assets available for sale	17	32	22	54
C. Financial assets at fair value				
D. Equity investments	1,440		2,689	
Total	**53,089**	**265**	**84,625**	**181**

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

4.1 Net result of 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) 31/12/12*	*31/12/11*
1. Financial assets held for trading						
1.1 Debt securities	371,572	219,801	(19,729)	(69,630)	**502,014**	**(214,307)**
1.2 Equity securities	9,532	35,938	(5,239)	(91,467)	**(51,236)**	**(145,614)**
1.3 Mutual fund shares	1,636	3,440	(412)	(1,793)	**2,871**	**(9,180)**
1.4 Loans				(302)	**(302)**	**(498)**
1.5 Others						
2. Financial liabilities held for trading						
2.1 Debt securities	1,679	61,414	(231,992)	(111,313)	**(280,212)**	**141,389**
2.3 Payables						
2.2 Others	1,608	3,674	(5,012)	(5,368)	**(5,098)**	**2,529**
3. Other financial assets and liabilities:						
- exchange differences					**(245)**	**664**
4. Derivative instruments						
4.1. Financial derivatives:						
- on debt securities and interest rates	3,503,567	7,728,566	(2,937,987)	(8,168,282)	**125,864**	**(49,140)**
- on equity securities and share indices	88,674	894,977	(98,098)	(883,457)	**2,096**	**119,173**
- on foreign currency and gold					**(1,601)**	**(30,759)**
- other	15,345	165,528	(14,252)	(155,560)	**11,061**	**19,872**
4.2 Credit derivatives	1,379,419	1,440,817	(1,481,916)	(1,502,636)	**(164,316)**	**66,316**
Total	**5,373,032**	**10,554,155**	**(4,794,637)**	**(10,989,808)**	**140,896**	**(99,555)**

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

5.1 Net result of hedging activities: breakdown

	Income components / Balances	*31/12/2012*	*31/12/2011*
A.	**Income related to:**		
A.1	Fair value hedging derivatives		
A.2	Hedged financial assets (fair value)	914	1,441
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)	**914**	**1,441**
B.	**Costs related to:**		
B.1	Fair value hedging derivatives	(922)	(1,445)
B.2	Hedged financial assets (fair value)		
B.3	Hedged financial liabilities (fair value)		
B.4	Financial derivatives hedging cash flows		
B.5	Foreign currency assets and liabilities		
	Total expense from hedging activities (B)	**(922)**	**(1,445)**
C.	**Net income from hedging activities (A-B)**	**(8)**	**(4)**

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

6.1 Profit (loss) from sale/repurchase: breakdown

Items / Income components	*31/12/2012*			*31/12/2011*		
	Gains	*Losses*	*Net profit (loss)*	*Gains*	*Losses*	*Net profit (loss)*
1. Due from banks						
2. Loans to customers		(7,969)	(7,969)			
3. Financial assets available for sale	1,347	(6,026)	(4,679)	841	(1,652)	(811)
3.1 Debt securities	*1,288*	*(6,018)*	*(4,730)*	*841*	*(1,652)*	*(811)*
3.2 Equity securities	*59*	*(8)*	*51*			
3.3 Mutual fund shares						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**1,347**	**(13,995)**	**(12,648)**	**841**	**(1,652)**	**(811)**
Financial liabilities						
1. Payables 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 Specific*			*Write-backs Specific*		*Write-backs Portfolio*		*Total*	
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other recoveries*	*From interest*	*Other recoveries*	*31/12/2012*	*31/12/2011*
A. Due from banks									
- Loans									
- Debt securities									
B. Due from customers	(1,638)	(462,079)	(14,656)	74,594	48,586			(355,193)	(113,486)
B1. Impaired credits purchased									
- Loans									
- Debt securities									
B2. Other receivables									
- Loans	(1,638)	(462,079)	(14,656)	74,594	48,586			*(355,193)*	*(113,486)*
- Debt securities									
C. Total	**(1,638)**	**(462,079)**	**(14,656)**	**74,594**	**48,586**			**(355,193)**	**(113,486)**

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 recoveries*	*31/12/2012*	*31/12/2011*
A. Debt securities						
B. Equity securities		(6,994)			(6,994)	(374)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total		**(6,994)**			**(6,994)**	**(374)**

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

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other recoveries*	*From interest*	*Other recoveries*	*31/12/2012*	*31/12/2011*
A. Guarantees given		(610)	(2,423)		189			(2,844)	(12,908)
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**(610)**	**(2,423)**		**189**			**(2,844)**	**(12,908)**

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel costs: breakdown

Type of cost /Values	*31/12/2012*	*31/12/2011*
1. Employees	**(45,778)**	**(50,999)**
a) wages and salaries	(30,951)	(35,372)
b) social security contributions	(7,895)	(9,642)
c) retirement indemnities	(1,760)	(2,383)
d) other pension costs		
e) provision for personnel severance indemnities	(51)	(82)
f) provision for pensions and similar obligations:	(909)	(1,111)
- defined contribution	*(636)*	*(822)*
- definite benefits	*(273)*	*(289)*
g) payments to external supplementary welfare funds		
- defined contribution		
- definite benefits		
h) costs deriving from payment agreements based on Parent Company equity instruments (stock granting)		
i) other employee benefits	(4,212)	(2,409)
2. Other working personnel	**(118)**	**(543)**
3. Directors and Statutory Auditors	**(706)**	**(871)**
4. Retired personnel	**(33)**	**(32)**
5. Recovered expenses for employees seconded at other companies	**16,335**	**17,472**
6. Expense reimbursements for third party employees seconded at the Bank	**(6,119)**	**(7,752)**
Total	**(36,419)**	**(42,725)**

Note:
sub-item i) “other benefits in favour of employees” also includes the estimated cost of actions to reduce personnel, contemplated in the 2012-2015 business plan of the BMPS Group, and detailed in the level II contractual agreement signed with the trade unions on 19 December 2012. The amount of this item, calculated on the basis of IAS19 (termination benefits), amounts to €2,670 thousand.

9.2 Average number of employees by category

Employee categories /Average number	*31/12/2012*	*31/12/2011*
Employees:		
a) executives	**419**	**424**
b) managers	30	32
c) other employees	249	239
Other personnel Defined-benefit company pension funds: total costs	140	153
Items / Balances	**2**	**5**
Total	**421**	**429**

9.3 Defined-benefit company pension funds: total cost

Items / Balances	*31/12/2012*	
	Defined-benefit company pension funds	*Severance indemnities*
1. Welfare cost relating to current work services (+)		
2. Borrowing costs (+)		
3. Estimated return on plan assets (-)		(21)
4. Estimated return on possible redemption rights registered as assets (-)		
5. Actuarial gains and losses (±)		
6. Welfare cost relating to past work services (+)	(273)	(30)
7. Effect of any reduction or discharge		
8. Effect deriving from booking of assets		
Total	**(273)**	**(51)**

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

Items / Balances	*31/12/2012*	
	Defined-benefit company pension funds	*Severance indemnities*
1. Contributions to the Plan which the Banks estimates it will pay out in the next year	250	

9.5 Other administrative expenses: breakdown

	Items / Balances	*31/12/2012*	*31/12/2011*
1.	substitute tax	(11)	-
2.	municipal property tax	(103)	(42)
3.	stamp duty	(572)	(546)
4.	other taxes	(76)	(87)
5.	rental of bank properties	(2,719)	(3,436)
6.	fees for outside professionals	(5,995)	(5,368)
7.	maintenance of furnishings and property used for business purposes	(192)	(447)
8.	postal	(92)	(84)
9.	telephone	(194)	(354)
10.	advertising	(18)	(15)
11.	sundry rents and leasing	(6,519)	(7,098)
12.	information and inquiries	(1,417)	(1,072)
13.	transport	(337)	(263)
14.	electricity, heating and water	(49)	(66)
15.	surveillance	(45)	(68)
16.	reimbursement of staff vehicle and travel costs	(406)	(589)
17.	other personnel expenses	(1,873)	(1,745)
18.	contracts for cleaning of premises	(321)	(333)
19.	printed matter and stationery	(42)	(91)
20.	Insurances	(26)	(24)
21.	services outsourced from Group companies	(17,699)	(13,750)
22.	Association subscriptions	(354)	(628)
23.	entertaining expenses	(75)	(122)
24.	subscriptions and purchase of publications	(50)	(54)
25.	Sundry	(853)	(779)
	Total	**(40,038)**	**(37,061)**

Note:
the increase in sub-item 21) "services outsourced from Group companies" at 31 December 2011, for €3,949 thousand, is mainly ascribable to the depreciation on the part of the COG of the entire software in use, in view of certain internal and external impairment indicators such as: i) the worsening of the general economic prospects, those of the sector or those of the company; ii) the worsening of the economic results of the main customers, i.e. the MPS Group; iii) the evident state of obsolescence of the software by comparison with the fair value determined by the sum of the costs that the COG would have to sustain to buy assets with the same functions and uses as those evaluated, since it is difficult, if not impossible, to find market transactions for similar software to that in question. The value of the intangible assets linked to the software in question at 31 December 2012 was estimated with the aid of an independent advisor.

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

10.1 Net provisions for risks and charges: breakdown

Items /Balances	*31/12/2012*			*31/12/2011*		
	Personnel expenses	*Legal disputes*	*Other*	*Personnel expenses*	*Legal disputes*	*Other*
1. Provisions for the year		(3,587)	(42,465)		(7,068)	(8,712)
2. Write-backs		1,181	7,550		1,059	329
Total		**(2,406)**	**(34,915)**		**(6,009)**	**(8,383)**

Note:
the sub-item "Other" includes reliable estimates of probable charges to the Bank linked to the subsidised operations, and certain typical types of transactions, such as, for example, derivatives with corporate customers, or the liabilities caused by external events (for further details, see the note at the foot of table 12.1 of Section 12 Provisions for risks and charges - of Part B of the 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)*	*Adjustments in value for depreciation (B)*	*Write-backs (C)*	*Net profit (loss) (A+B-C)*	
				31/12/12	*31/12/11*
A. Property, plant and equipment					
A.1 **Owned by the Bank**	(470)			(470)	(528)
- for functional use	*(169)*			*(169)*	*(227)*
- for investment	*(301)*			*(301)*	*(301)*
A.2 **Acquired under financial lease**					
- for functional use					
- for investment					
Total	**(470)**			**(470)**	**(528)**

Section 12 - NET VALUE ADJUSTMENTS/WRITE-BACKS ON INTANGIBLES - 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	*31/12/2012*	*31/12/2011*
1. Amounts not receivable not attributable to own items	(37)	(35)
2. Out-of-period expense not attributable to own items	(136)	(15)
3. Amortisation of leasehold improvement costs classified		
among "Other assets"	(595)	(532)
4. Settlements paid for litigation	(82)	
5. Other	(1,272)	(969)
Total	**(2,122)**	**(1,551)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2012*	*31/12/2011*
1. Amounts not payable not attributable to own items	24	464
2. Out-of-period income not attributable to own items	41	14
3. Rental income from investment properties	166	312
4. Other costs charged back	5,411	5,028
5. Other	1,134	61
Total	**6,776**	**5,879**

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

14.1 Profit (loss) from equity investments: investments

Income components / Balances	*31/12/2012*	*31/12/2011*
A. Income		**3,899**
1. Revaluations		
2. Gains on disposal		3,899
3. Write-backs		
4. Other income		
B. Charges	**(2,109)**	**(40)**
1. Write-downs		
2. Value adjustments due to impairment	(2,109)	(40)
3. Losses on disposal		
4. Other expenses		
Net profit (loss)	**(2,109)**	**3,859**

Note to the 2012 financial statements;
The value adjustment due to impairment is from the valuation of the equity investment in Interporto Toscano S.p.A. (see note on the asset item 100. Equity investments")

Note to the 2011 financial statements;
The gain on disposal is fully a result of the sale of 22% of MPS Venture SGR S.p.A. in the last quarter of 2012.
The value adjustment due to impairment is from the valuation of the equity investment in Immobiliare Centro Milano. Please note that a full impairment of the equity investment was posted (totalling €40 thousand), deeming that the loss of the year from 2011 and the anticipated loss of 2012 (the relative financial statements were not yet approved by the shareholders' meeting) are objective proof of a write-off of the equity investment's value.

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

There are no such transactions for this financial statement item.

Section 16 - VALUE ADJUSTMENTS TO GOODWILL - ITEM 230

There are no such transactions for this financial statement item.

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

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 on revenues for the year from current operations: breakdown

	Components / Balances	*31/12/2012*	*31/12/2011*
1.	Current taxes (-)	(97,222)	(49,390)
2.	Changes in current taxes for previous years (+/-)	8,215	(478)
3.	Reduction in current taxes for the year (+)		
3bis.	Reduction in current taxes for the year for		
	tax credit as per law n° 214/2011 (+)		
4.	Change in prepaid taxes (+/-)	49,551	7,979
5.	Change in deferred taxes (+/-)	1,837	49
6.	**Taxes for the year (-)**	**(37,619)**	**(41,840)**

Note:

2012 accounting period. Sub-item 1. “Current taxes” represents the IRES and IRAP burden relative to the period. The tax variations of a permanent nature which have contributed to increasing the tax rate include the partial deductibility from the taxable income of the interest expense: this phenomenon has led to an increase in costs of €4,833 thousand (of which €3,940 thousand for IRES and €893 thousand for IRAP).

Sub-item 2. “Changes in current taxes of previous periods” includes the IRES rebates requested for non-deduction of IRAP relative to personnel expenses and similar (art. 2, section 1-quater, Decree Law 6 December 2011, n° 201) and the flow of the excess taxes allocated relative to previous periods.

The increase in sub-item 4. “Changes in prepaid taxes” regards the increase in the value adjustments on surplus receivables above the limit established by law, adjustments which, for the financial year 2012, have reached high levels, because of the country's economic-financial situation, as well as the larger allocations to the provisions for risks and charges that are not deductible in the year when they are posted,

Financial year 2011. The sub-item “current taxes” includes the IRES and IRAP tax burden accrued during the year 2011 (current IRAP tax was calculated at the rate of 5.57%, which includes the 0.75% increase introduced by Decree Law n° 98, of 6 July 2011, converted into Law n° 111 of 15 July 2011). The amount posted includes the permanent negative difference deriving from the partial deductibility of interest expense, equal to €5,037 thousand (of which €3,961 thousand for IRES and €1,076 thousand for IRAP), in accordance with Italian Law N° 133/08.

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

IRES

Items / Balances	*31/12/2012*		*31/12/2011*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	38,895		87,247	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**38,895**		**87,247**	
Theoretical tax charge - IRES with application of the nominal rate	**10,696**	**27.50%**	**23,993**	**27.50%**
- Non-deductible portion of interest expense	3,940		3,949	
- Non-deductible write-downs and losses on equity securities	2,503			
- Non-deductible costs	5,672		1,733	
- Other increases	161		1,971	
Total tax effect of increases	**12,276**		**7,653**	
- Capital gains and revaluations on exempt equity investments	13		1,019	
- Dividends	381		708	
- Change in current taxes for previous years	5,915		94	
- Other decreases	2,476		738	
Total tax effect of decreases	**8,785**		**2,559**	
IRES taxation to income statement	**14,187**		**29,087**	
of which:				
- Income taxes for the year from current operations	14,187		29,087	
- Income taxes for the year of discontinued operations held for sale				

IRAP

Items / Balances	*31/12/2012*		*31/12/2011*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	38,895		87,247	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**38,895**		**87,247**	
Theoretical tax charge - IRAP with application of the nominal rate	**1,808**	**4.65%**	**4,057**	**4.65%**
- Personnel expenses	1,693		1,666	
- Net value adjustments on receivables	16,974		4,944	
- Rate increases implemented by regions	4,250		3,692	
- Other increases	3,069		547	
Total tax effect of increases	**25,986**		**10,849**	
- Profits on equity investments				
- Prepaid taxes relating to previous years				
- Dividends	1,234		1,657	
- Other decreases	3,128		496	
Total tax effect of decreases	**4,362**		**2,153**	
IRAP taxation to income statement	**23,432**		**12,753**	
of which:				
- Income taxes for the year from current operations	23,432		12,753	
- 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 - GAIN PER SHARE

21.1 Weighted average reconciliation of outstanding ordinary shares

(number of shares)

Items / Balances	*31/12/2012*	*31/12/2011*
1. Weighted average of outstanding shares (+)	891,724,988	891,724,988
2. Diluting effect deriving from put options sold (+)		
3. Diluting effect deriving from ordinary shares to be assigned as a the result of share-based payments		
4. Diluting effect deriving from convertible liabilities (+)		
Weighted average of the outstanding ordinary shares for diluted earnings per share	**891,724,988**	**891,724,988**

21.2 Other information

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

(amounts in euros)

Items / Balances	*31/12/2012*	*31/12/2011*
1. Net profit (loss)	1,276,404	45,407,131
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**1,276,404**	**45,407,131**

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

(amounts in euros)

Items / Balances	*31/12/2012*	*31/12/2011*
1. Net profit (loss)	1,276,404	45,407,131
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	**1,276,404**	**45,407,131**

21.2.c Basic and diluted earnings per share

(amounts in euros)

Items / Balances	*31/12/2012*	*31/12/2011*
1. Basic earnings per share	0.00143	0.05092
2. Diluted earnings per share	0.00143	0.05092

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	*Gross amount*	*Income tax*	*Net amount*
10. Profit (loss) for the period	**38,895**	**(37,619)**	**1,276**
Other revenue components net of taxes			
20. Financial assets available for sale	**(21,027)**	**7,273**	**(13,754)**
a) fair value changes	(29,561)	7,779	(21,782)
b) transfer to income statement	8,534	(506)	8,028
- impairment adjustments	*6,994*		*6,994*
- gains/losses on disposal	*1,540*	*(506)*	*1,034*
c) other changes			
30. Property, plant and equipment			
40. Intangible assets			
50. Foreign investment hedging			
a) fair value changes			
b) transfer to income statement			
c) other changes			
60. Cash flow hedging			
a) fair value changes			
b) transfer to income statement			
c) other changes			
70. Exchange differences			
a) fair value changes			
b) transfer to income statement			
c) other changes			
80. Non-current assets held for sale			
a) fair value changes			
b) transfer to income statement			
c) other changes			
90. Actuarial income (losses) on definite benefit plans			
100. Portion of revaluation reserves of equity investments booked to shareholders' equity			
a) fair value changes			
b) transfer to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
110. Total other revenue components	**(21,027)**	**7,273**	**(13,754)**
120. Comprehensive income (Item 10+110)			**(12,478)**

Part E
Information on Risks and Related Hedging Policies

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects
As part of the strategic priorities established in the Parent Company's Business Plan, the Bank continues to pursue an improvement in the quality of its loan portfolio with the aim of contributing towards the generation of value, containing the cost of the credit risk and the flow of non-performing positions. The Parent Company's Credit Governance Department defines the strategic policies for the loan portfolio, both at Group level and for the individual subsidiaries, including MPSCS. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and systems developed aim to make use of trend-related information at the level of the individual relationship, and are characterised by deep awareness and strategic management of the position (credit culture).
In 2008, the MPS Group received from the Bank of Italy the authorisation to use advanced internal methods to determine capital requirements in view of credit risk (AIRB - Advanced Internal Rating Based). MPSCS uses the internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses and to retail customers.
To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.

2. Credit risk management policies

2.1 Organisational aspects, management gauging and control systems

2.1.1 Organisational aspects, management, measuring and control systems: bank portfolio
The Bank carries out medium and long-term lending related to extraordinary enterprise finance and corporate finance, in all its technical forms, directed at the growth of manufacturing and production sectors. When possible, a subsidised loan is arranged, although only in a remaining few cases since public aid is not limited to a few research and industrialisation projects. Operations have also been initiated with the use of the provision made available by the national Deposits and Loans fund in order to foster a greater inflow of medium-long term resources in favour of the SME.
To safeguard against the risk assumed, creditworthiness is rated by means of an analysis of the reimbursement sources on the basis of past, current and prospective income capabilities, as a function of the funded project and of the quality of management, the quality and quantity of the equity and financial means available to the companies, which can be appropriately complemented with the shareholders' intervention with adequate resources depending on the funded project. Secured guarantees (mortgages, liens) are acquired, or unsecured guarantees (sureties, patronage, joint facilities) to contribute to mitigating the underlying risk.
Transactions are grouped into categories of differing risk intensity (essentially real estate and non-real estate), on which the parameters of the decision-making autonomy limits for the credit of the various lower level appointed bodies are set; these limits undergo an increase or decrease depending on the rating assigned to said counterparty,

except for those assigned to the Board of Directors. In fact, the Bank assesses its own clientèle by the rating system; for clientèle shared with the BMPS Group, the rating is awarded by the Parent Company, while for the Bank awards the rating for its own exclusive customers.
In 2012, in agreement with the Parent Company, acquisition finance operations are also included in the perimeter, since once the leverage processes are completed, including the merger, the loans are directly taken over by the company acquired, thus becoming normal corporate loans with the application of the corresponding creditworthiness rating method.
The rating awarding process (started in May 2009) for specialised lending, specifically identified as IPRE (Income Producing Real Estate), Project Finance or Object Finance) is fully applied now; while the regulatory phase of the calculation of equity absorptions according to the rating has not yet been activated.
The use of the economic-mathematical model is still experimentally in use (the so-called Expert Model) to determine the project rating of Project Finance and "evolved" IPRE operations.
The competent departments of the Parent Company are carrying out the analysis activities, mainly concentrated on project operations, aimed at the evolutionary updating of i) the identification questionnaire and the slotting questionnaire, and ii) the "expert model" in order to make it compatible for more functional use both for granting credit lines and for reviewing.
The lending activity also involves granting credit lines for derivative transactions, aimed at mitigating the exposure of the contracting parties (corporate customers) relative to the market risks (rates, exchange and merchandise).

The General Management, on a consistent basis with the directives of the Credit Policies and Control Department of the Parent Company BMPS, establishes the criteria and methods for monitoring the portfolio, on an on-going basis making the best possible use of information about the credit facility position, which is made available within the MPS Group. At the organisational structure level, the Loan Division carries out the activity described above with the Bank's competent organisations, represented by:
• the Credit Assessment Department, with regard to the activities summarised below:
  - implementation of initiatives aimed at achieving the loan quality objectives by product/segment/other parameters within the framework of the overall economic consistencies outlined by General Management via the Planning, Management Control and Risk Management;
  - assessment of creditworthiness via i) the examination of the proposals originating from the peripheral Local Offices of the Sales Division, as well as loan applications from employees and ii) the analysis of the credit capacity of the applicant, the risk of the transaction and the guarantees backing the same, with the subsequent preparation of the report that summarises and sets out the assessment and appraisal work carried out;
  - merit surveys to assign counterparty and project rating;
  - decision on the counterparty rating for exclusive customers, possibly with override validation, and on the project rating, by validating the ""Specialized Lending"" Questionnaire. Both resolutions are taken by the validation of the specific section of the BI-PEF application (Banca Impresa Pratica Elettronica di Fido - Bank Company Electronic Credit Practice) and inserted into the investigatory model in use;
  - for advanced IPRE and PROJECT FINANCE only, validation of the expert model;
  - drafting of technical opinions by the Proposals Review Sector for all transactions proposed by the Loan Division and by the Corporate Finance Division for which the decision-making level is the General Manager or above.
• Credit Disbursement Department, with regard to the resolution of the credit facility proposals falling under its autonomy and the proposal of the others, with justified opinion, to the Supervising Bodies.
• Stipulations Department, relating to both the stipulation of the loan agreements, checking the documentation and necessary compliance, and the disbursement of the loan after having checked all the prescribed conditions.

Subsequent to disbursement of the balance, in the event of request for any type of changes, if it is performing the position returns to being the responsibility of the Post Disbursements sector of the Credit Assessment department,

responsible for the rating review process. Instead, the process of updating the project rating of transactions for which the Credit Assessment Department is responsible is carried out by the Credit Lines sector of that same Department.
The above topics are analytically regulated by specific corporate standards.
With respect to credit risk measuring models, please see sub-section D, “Models for measuring credit risk” below.

2.1.2 Organisational aspects, management, measuring and control systems: bank portfolio
The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department, is the responsibility of the counterparty Assessment Department. Usually, market counterparties are regulated intermediaries, such as banks, IMEL (Electronic money institutions), investment firms, financial firms (as per Art. 107 TUF), insurance companies, as well as territorial, governmental and supranational agencies, normally rated by the main international rating agencies.
The lending process also requires a decision by the Parent Bank BMPS to determine a limit “country risk” assigned to the Group’s individual corporate entities, among them also MPSCS, which, in compliance with this limit, autonomously approves its own credit lines, as regulated by the internal documents “Financial credit autonomy - autonomy for market risk, issuer risk, country risk” and “counterparty lending process for financial operations”. The Counterparty Assessment Department is taken with carrying out all stages of the lending process, from the preliminary investigation for the assessment of creditworthiness, from the loan proposal to the decision.
The credit line granted is dynamic, i.e. it may be used until reaching the overall limit for financial operations, in its various technical forms. “For the purposes of the absorption of the overall counterparty risk, weighing coefficients have been identified; they are differentiated in relation to the financial nature of the operations, to the duration and average volatility of the underlying asset.”
Credit lines have one-year validity and the Counterparty Assessment Department periodically reviews and revises the creditworthiness of each counterparty with a credit line. If, during the year, doubtful loan situations should emerge with negative consequences on the degree of reliability, the Department proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an adequate reduction to its amount. Each revision is immediately notified to the involved corporate functions.
With quarterly periodicity, the Counterparty Assessment Department produces a report for the Board of Directors concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdrafts relative to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit lines and the record of pre-lending investigations, the situation of collaterals and of the country risk.
The Parent Company BMPS is informed daily with updates on loans granted to counterparties and the related utilisations, by feeding a dedicated application (Zeta limit), in accordance with the directives issued by BMPS.
Regarding operational controls, the Counterparty Assessment Department oversees compliance with the total credit line limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit lines granted and on the record of their utilisation. The irregularities noted are notified to the Top Management and to the Internal Audit Department. Monitoring takes place through the Murex application which is supplied data by the position keeping systems, able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC application. In the presence of collateralisation agreements, exposure is measured net of the collateral deposited by the counterparties if the net market value is positive. Overdrafts - in terms of amount and duration - are monitored daily by the Counterparty Assessment Department.

2.2 Credit risk mitigation techniques
The Bank, for typical ordinary lending operations, and normally for transactions beyond the short term, essentially

requires the acquisition of secured guarantees. In particular, mortgages are currently acquired on property assets, related to real estate operations for acquisition, construction and restructuring of buildings, both those intended for sale and those for the direct use of the applicants for production investments.
Other secured guarantees acquired mainly concern securities, listed or unlisted on organised markets, and are also used to support short-term transactions.
Both short and medium-term loan transactions are sometimes backed by unsecured guarantees, provided essentially by private individuals (sureties) and sometimes by businesses (sureties and binding letters of patronage).
“Basel 2” legislation introduced important regulatory innovations on risk mitigation, specifically with regard to the management of secured and unsecured guarantees, enhancing the fundamental role that they cover in lending processes as a risk protection element.
Moreover, the New Capital Adequacy Agreement in fact offers banks the opportunity to endow themselves with an internal system dedicated to the handling of credit risk mitigation techniques (Credit Risk Mitigation, hereinafter CRM), which, when the prescribed qualitative and quantitative criteria are met, make it possible to mitigate risk and, consequently, to cut down capital absorption.
The mitigation effect is obviously only permitted in the presence of regulatory requirements established by the above legislation, diversified in relation to the various capital requirement calculation methods.
As already mentioned above, in the case of relations with market counterparties for operations in financial instruments (repurchase, security lending and OTC derivative operations, etc.), the Bank uses (bilateral) netting agreements which allow, in the case of default, for compensation within its own operating sphere of all the existing credit and debit positions.
To optimise the credit risk management and mitigation, MPSCS adopts the following protocols: ISDA (with CSA attachment for derivatives), GMSLA (Global Master Securities Lending Agreement for securities lending) and GMRA (Global Master Repurchase Agreement for repurchase agreements). To date, as collateral agreements, there are 108 CSA hedging operations in OTC derivatives, 70 GMRA agreements to hedge repurchase agreement operations and 44 OSLA-GMLA agreements to hedge securities lending operations. In the presence of particular circumstances and conditions, these agreements may contribute to reduce regulatory capital absorptions.
Another mitigation technique used by the Bank is adhesion to the “SwapClear” service, whose agreement was executed in the second half of 2010, through the brokers Barclays PLC and Morgan Stanley & Co. International P.l.c. (indirect adhesion) It is a clearing activity (performed by LCH Clearnet Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the clearer, through the novation legal mechanism. This “circuit” not only entails an initial margin, but also the liquidation of a daily variation margin on individual transactions, which automatically offsetting the mutual credit and debit positions.

2.3. Impaired financial assets

Management and control activities for impaired loans (with the exception of non-performing positions) are disciplined by the Bank’s internal Document “Administration of position under doubtful loan risk” and by the Parent Bank's directive which disciplines the more extensive category of “doubtful loans”. The internal document also disciplines the assessment and management methods of arrears connected to financial derivative operations carried out 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 Group company MPS Gestione Crediti Banca (hereinafter MPSGCB), specialising in this sector.
The Credit Management Division, which manages all impaired, not yet non-performing positions, has the objective

of i) recovering past due amounts and ii) returning the position to a performing status. On the basis of the analysis of each individual position and joining up with the other Group banks, it makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position.
The return of impaired loans to the performing class takes place in different ways, according to the category: for past due loans, the simple payment of the amounts in arrears for more than 90 days is enough, while for those on the watch list, the said payment is required and an subjective conditions which led to the classification must also have been resolved. With regard to "restructured positions", the instructions of the Supervisory Body must be followed. Non-performing loans can become performing loans if, as well as the payment of the arrears (and any instalments shortly falling due), the following conditions are fulfilled: i) the absence of executive procedures or reports of legal action to the Risk Authority; ii) the economic-financial difficulties which led to the classification must have been overcome. Since non-performing positions, as already previously mentioned, are handled by MPSGCB, returns to performing status must be analysed and proposed to the Bank by the assignee.
Every anomalous credit position is adequately analysed, including those deriving from outstanding derivative exposures. 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. With regard to the valuation of "non-performing" loans, the proposal to update the assessment obviously comes from MPSGCB which manages the position.
The Bank does not hold impaired credit, except for an insignificant amount (€160 thousand) of bonds purchased in the course of the year, issued by Lehman Brothers Holding Inc..

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Impaired and performing credit exposure: consistencies, value adjustments, dynamics, economic and geographical distribution

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

Portfolios / Quality	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other assets*	*Total*
1. Financial assets held for trading	160		332	1,477	25,538,633	**25,540,602**
2. Financial assets available for sale					167,983	**167,983**
3. Financial assets held to maturity						
4. Due from banks					7,205,651	**7,205,651**
5. Loans to customers	1,748,574	970,737	164,312	450,775	10,585,153	**13,919,551**
6. Financial assets posted at fair value						
7. Financial assets pending disposal						
8. Hedging derivatives						
Total 31/12/2012	**1,748,734**	**970,737**	**164,644**	**452,252**	**43,497,420**	**46,833,787**
Total 31 December 2011	**1,651,356**	**779,637**	**173,534**	**149,189**	**51,233,181**	**53,986,897**

Note:
the financial assets held for trading classified as "non-performing" are composed of investments made during the period in outstanding bonds issued by Lehman Brothers Holdings Inc.; while the categories "restructured exposures" and "past due exposures" are relative to cash flows for derivative contracts not regularly settled on maturity and the value of the contracts still in force with counterparties classified in the various impaired loan categories.
For further details, see the notes at the foot of table 2.1 "Financial assets held for trading: breakdown by type", section 2 of the balance sheet.

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

Portfolios / Quality	Impaired assets Gross exposure	Impaired assets Adjustments specific	Impaired assets Exposure net	Performing Gross exposure	Performing Portfolio value adjustments	Performing Exposure net	***Total (net exposure)***
1. Financial assets held for trading	32,367	(30,398)	1,969			25,538,633	**25,540,602**
2. Financial assets available for sale				167,983		167,983	**167,983**
3. Financial assets held to maturity							
4. Due from banks				7,206,431	(780)	7,205,651	**7,205,651**
5. Loans to customers	4,775,549	(1,441,150)	3,334,399	10,662,328	(77,176)	10,585,152	**13,919,551**
6. Financial assets posted at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives							
Total 31/12/2012	**4,807,916**	**(1,471,548)**	**3,336,368**		**(77,956)**	**43,497,419**	**46,833,787**
Total 31 December 2011	**3,805,746**	**(1,052,030)**	**2,753,716**		**(64,336)**	**51,233,181**	**53,986,897**

Details for performing exposure portfolios

Portfolio / Exposure category	*Subject to renegotiation*	*Other exposures*	*Total*
1. Financial assets held for trading		25,538,633	**25,538,633**
2. Financial assets available for sale		167,983	**167,983**
3. Financial assets held to maturity			
4. Due from banks		7,205,651	**7,205,651**
5. Loans to customers	1,074,291	9,510,861	**10,585,152**
6. Financial assets designated at fair value			
7. Financial assets pending disposal			
8. Hedging derivatives			
	1,074,291	**42,423,128**	**43,497,419**

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

Analysis of performing loans: seniority of past due positions

Type of exposure / Balances	*Gross exposure*			*Value adjustments*	*Net exposure*
	past due	*yet to expire*	*total*		
A. Exposures subject to renegotiation					
- without past due amounts		952,686	952,686	(7,125)	945,561
- with amounts past due up to 3 months	3,049	126,698	129,747	(1,017)	128,730
Total	**3,049**	**1,079,384**	**1,082,433**	**(8,142)**	**1,074,291**
B. Other exposures					
- without past due amounts		41,717,719	41,717,719	(63,423)	41,654,296
- with amounts past due up to 3 months	83,757	691,466	775,223	(6,391)	768,832
Total	**83,757**	**42,409,185**	**42,492,942**	**(69,814)**	**42,423,128**
Total A+B	**86,806**	**43,488,569**	**43,575,375**	**(77,956)**	**43,497,419**

A.1.3 Cash and off book exposures towards 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) On watch list				
c) Restructured exposures				
d) Past due exposures				
e) Other assets	12,096,233		(780)	12,095,453
Total A	**12,096,233**	**0**	**(780)**	**12,095,453**
B. Off-balance sheet exposures				
a) Impaired				
b) Other	9,472,307			9,472,307
Total B	**9,472,307**			**9,472,307**
Totable A+B	**21,568,540**	**0**	**(780)**	**21,567,760**

A.1.4 Cash credit exposures towards banks: dynamics of gross impaired exposures

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

A.1.5 Cash credit exposures towards banks: dynamics of total value adjustments

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

A.1.6 Cash and off book exposures towards customers: gross and net values

Type of exposure / Balances	*Gross exposure*	*Specific value adjustments*	*Portfolio value adjustments*	*Net exposure*
A. Cash exposures				
a) Non-performing	2,954,417	(1,205,682)		1,748,735
b) On watch list	1,164,671	(193,934)		970,737
c) Restructured exposures	180,350	(16,038)		164,312
d) Past due exposures	476,270	(25,496)		450,774
e) Other assets	18,941,603		(77,176)	18,864,132
Total A	**23,717,311**	**(1,441,150)**	**(77,176)**	**22,198,985**
B. Off-balance sheet exposures				
a) Impaired	86,588	(32,749)		53,839
b) Other	25,237,484		(5,559)	25,231,925
Total B	**25,324,072**	**(32,749)**	**(5,559)**	**25,285,764**
Totable A+B	**49,041,383**	**(1,473,899)**	**(82,735)**	**47,484,749**

A.1.7 Cash credit exposures towards customers: dynamics of gross impaired exposures

	Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A.	**Initial gross exposure**	**2,511,375**	**923,366**	**195,078**	**157,273**
	- of which: exposures sold and not cancelled				
B.	**Increases**	**544,422**	**567,581**	**99,777**	**464,150**
B.1	transfers from performing loans	169,283	383,768	59,610	456,862
B.2	transfers from other categories of impaired exposures	225,708	146,431	33,133	161
B.3	other increases	149,431	37,382	7,034	7,127
C.	**Other decreases**	**101,380**	**326,276**	**114,505**	**145,152**
C.1	transfers to performing loans		9,726	38,222	9,464
C.2	cancellations	15,577	30,512	1,597	30
C.3	collections	66,316	56,438	9,308	10,285
C.4	disposals	17,761		427	
C.5	transfers to other categories of impaired exposures		229,600	50,460	125,373
C.6	other decreases	1,726		14,491	
D.	**Gross closing balance**	**2,954,417**	**1,164,671**	**180,350**	**476,271**
	- of which: exposures sold and not cancelled				

A.1.8 Cash credit exposures towards customers: dynamics of total value adjustments

	Reasons / Categories	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*
A.	**Initial value adjustments**	**861,887**	**147,722**	**21,708**	**8,775**
	- of which: exposures sold and not cancelled				
B.	**Increases**	**465,682**	**109,218**	**18,776**	**17,677**
B.1	value adjustments	451,744	108,211	7,444	17,563
B.1bis	losses on disposal	1,712		5,338	
B.2	transfers from other categories of impaired exposures	12,135	823	5,993	3
B.3	other increases	91	184	1	111
C.	**Other decreases**	**121,887**	**63,006**	**24,446**	**956**
C.1	write-backs from valuation	99,826	10,287	7,582	
C.2	write-backs from collection	4,772	4,171	711	65
C.2bis	Gains on disposal				
C.3	cancellations	15,577	30,512	1,597	30
C.4	transfers to other categories of impaired exposures		18,033	65	856
C.5	Other decreases	1,712	3	14,491	5
D.	**Closing balance of overall value adjustments**	**1,205,682**	**193,934**	**16,038**	**25,496**
	- of which: exposures sold and not cancelled				

The increase in impaired loans (+26.82%, see the Explanatory Notes, Section 7, part B, "Loans to customers") demonstrates how financial tensions, which involved almost all economic sectors, have made it difficult for companies to respect bank loan repayment due dates. In order to prevent and limit transfers of loans to impaired status, the Bank continues its recovery of delinquent loans through accredited external companies and professionals, as regards both the most significant due dates and those characterised by previous late payment episodes.

EXPOSURE TO THE SOVEREIGN RISK

As contemplated by the main international accounting standards (in particular IAS 1 and IFRS7) relative to disclosures on exposures to the sovereign credit risk (such as issuers of debt securities, counterparties of OTC derivative contracts, reference entity of credit derivatives and financial guarantees), detail of the Bank's exposures at 31 December 2012 are given.

The total exposure to the sovereign credit risk, in net nominal values, amounts to €3,909 million, of which €3,982 million are long positions in of Italian securities, €50 million are short positions in those of other European countries, and lastly €23 million are short of the rest of the world.

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

Exposure to the sovereign risk

	Debt securities							*Loans*			*Credit derivatives*	*31/12/2012*
Country	*Financial assets held for trading*		*Financial assets available for sale*		*Receivables*			*Receivables*			*Financial assets held for trading*	*Total*
	Nominal	*Market value value of book*	*Nominal*	*Market value value of book*	*Nominal*	*Market value*	*Value of book*	*Nominal*	*Market value*	*Value of book/ nominal*	*Nominal*	*Nominal*
Argentina	5,045	3,091										5,045
Austria	(30,381)	(33,439)									11	(30,370)
China											(3,297)	(3,297)
Croatia	6,401	6,376										6,401
France	(16,509)	(17,924)									(6)	(16,515)
Germany	(53,239)	(61,915)									(6)	(53,245)
Italy	2,572,362	2,691,234						24,479	24,479	24,479	900,642	3,497,483
Lithuania	4,000	3,001										4,000
Mexico	1,400	1,754										1,400
Holland	(1,948)	(2,713)									(6)	(1,954)
Poland	2,000	1,531										2,000
Spain	12	13									(6)	6
Turkey	2,606	3,083										2,606
Hungary	5,518	5,959										5,518
Venezuela	1,062	814										1,062
Assets of others	1,989	2,206									34	2,023
Liabilities of others	(143)	(368)									(28)	(171)
TOTAL	**2,500,175**	**2,602,703**						**24,479**	**24,479**	**24,479**	**897,338**	**3,421,992**

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

A.2.1 Distribution of cash and "off book" credit exposures by external rating class

Exposures	External rating classes						Unrated	Total
	AAA/AA- Class 1	*A+/A- Class 2*	*BBB+/BBB- Class 3*	*BB+/BB- Class 4*	*B+/B- Class 5*	*Lower than B- Class 6*		
A. **Cash exposures**	460,012	5,502,820	11,906,725	196,991	28,755	79,265	16,161,088	**34,335,656**
B. **Derivatives**	2,445,328	8,170,918	6,209,522	577,037	185,718	11,545	13,359,642	**30,959,710**
1. Financial derivatives	*368,935*	*251,782*	*610,645*	*5,873*			*2,926,864*	***4,164,099***
2. Credit derivatives	*2,076,393*	*7,919,136*	*5,598,877*	*571,164*	*185,718*	*11,545*	*10,432,778*	***26,795,611***
C. **Guarantees issued**			729,553				568,902	**1,298,455**
D. **Commitments to grant finance**			98				1,098,556	**1,098,654**
E. **Other**	2,121	193,685	770,885				434,560	**1,401,251**
Total	**2,907,461**	**13,867,423**	**19,616,783**	**774,028**	**214,473**	**90,810**	**31,622,748**	**69,093,726**

The external rating classes adopted to fill out the table are those used by Standard & Poor's.
The exposures considered are those in the balance sheet, shown in the above Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) including UCITS.
Exposures in financial derivatives are expressed net of the short positions for counterparties with which compensation agreements are in force; they also include commitments for purchases to be settled. The commitments to issue finance refer mainly to mortgages stipulated and to be issued, unsecured loans and commitments to underwrite equity investments.
If several external ratings are assigned, the criteria adopted to choose the rating are those contemplated by the Bank of Italy (in the case of two ratings, the lower is used, and in the case of three or more ratings, the second is chosen). To assure that the information is significant, transcoding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

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

Exposures	Internal rating classes					Administrative default	Unrated	Total
	High quality	*Good quality*	*Quality sufficient*	*Mediocre quality*	*Quality weak*			
A. **Cash exposures**	371,540	1,530,360	4,192,798	2,217,403	697,212	3,604,199	21,850,675	**34,464,187**
B. **Derivatives**	340,518	207,941	132,391	50,363	1,603	2,015	30,224,879	**30,959,710**
1. Financial derivatives	*9,814*	*29,782*	*119,282*	*50,363*	*1,603*	*2,015*	*3,951,240*	***4,164,099***
2. Credit derivatives	*330,704*	*178,159*	*13,109*				*26,273,639*	***26,795,611***
C. **Guarantees issued**	16,696	24,719	134,938	114,181	107	12,866	994,947	**1,298,454**
D. **Commitments to grant finance**	30,247	98,569	507,710	134,677	22,247	93,305	211,900	**1,098,655**
E. **Other**							1,401,251	**1,401,251**
Total	**759,001**	**1,861,589**	**4,967,837**	**2,516,624**	**721,169**	**3,712,385**	**54,683,652**	**69,222,257**

The table describes the breakdown of the Bank's customer by risk classes attributed according to the rating assigned by internal models. For this purpose, only the exposures (counterparties) whose internal rating is periodically determined (Corporate and Private customers) without any transcoding from official rating to internal rating concerning instead sectors such as "banks", "non banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the positions referred to these latter segments - while provided with official ratings - were indicated as "unrated" in internal rating models. According to the Bank of Italy's instructions, cash exposures, unlike external ratings, include equity securities for a total value of €128,531 thousand.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)				*Unsecured guarantees (2)*								
						Credit derivatives				*Endorsement credits*				
						Other derivatives								
	Exposure value net	*fixed assets*	*fixed assets held under financial leases*	*securities*	*other secured guarantees*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	***Total (1) + (2)***
1. Credit exposures for guaranteed cash	**2,379,846**			**2,448,768**										**2,448,768**
1.1 fully secured	2,379,846			2,448,768										**2,448,768**
- of which impaired														
1.2 partially secured														
- of which impaired														
2. Credit exposures "off balance sheet" guaranteed	**552,791**				**536,443**									**536,443**
2.1 fully secured	188,447				207,564									**207,564**
- of which impaired														
2.2 partially secured	364,344				328,879									**328,879**
- of which impaired														

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty's full availability.
Secure guarantees backing "off book" exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties.

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)				*Unsecured guarantees (2)*								
						Credit derivatives				*Endorsement credits*				
						Other derivatives								
	Exposure value net	*fixed assets*	*fixed assets held under financial leases*	*securities*	*other secured guarantees*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	***Total (1) + (2)***
1. Credit exposures for guaranteed cash	**13,858,476**	**24,288,394**		**2,824,698**	**223,119**					**5,501**	**51,840**	**36,547**	**5,181,199**	**32,611,298**
1.1 fully secured	12,367,316	24,056,288		2,684,338	195,326					5,394	49,859	28,143	4,865,995	**31,885,343**
- of which impaired	*3,090,011*	*7,729,569*		*112,388*	*8,683*					*5,304*	*17,392*	*24,932*	*2,723,236*	***10,621,504***
1.2 partially secured	1,491,160	232,106		140,360	27,793					107	1,981	8,404	315,204	**725,955**
- of which impaired	*171,831*	*124,430*		*13,753*	*22*					*44*	*11*	*4,915*	*54,423*	***197,598***
2. Credit exposures "off balance sheet" guaranteed	**1,416,205**	**780,811**		**83,208**	**857,154**								**131,357**	**1,852,530**
2.1 fully secured	1,028,989	777,655		74,361	591,773								110,031	**1,553,820**
- of which impaired	*51,072*	*59,080*		*1,504*	*250*								*29,362*	***90,196***
2.2 partially secured	387,216	3,156		8,847	265,381								21,326	**298,710**
- of which impaired	*453*			*49*									*392*	***441***

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

Secure guarantees backing "off book" exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties.

B. EXPOSURE DISTRIBUTION AND CONCENTRATION

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

B.1.1 Sector distribution of exposures: cash exposures to customers (book value)

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Exposures Past due*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Governments							
- Net exposure					5,641,692	**5,641,692**	**5,260,685**
- Specific value adjustments							
- Portfolio value adjustments					(5)	**(5)**	**(6)**
Other public entities							
- Net exposure					16,927	**16,927**	**18,087**
- Specific value adjustments							
- Portfolio value adjustments					(98)	**(98)**	**(77)**
Finance companies							
- Net exposure	160	35,343		558	3,466,533	**3,502,594**	**7,258,273**
- Specific value adjustments	(2)	(18,680)		(25)		**(18,707)**	**(32,407)**
- Portfolio value adjustments					(4,550)	**(4,550)**	**(3,235)**
Insurance companies							
- Net exposure					64,996	**64,996**	**65,790**
- Specific value adjustments							
- Portfolio value adjustments							
Non-finance companies							
- Net exposure	1,714,871	917,170	164,312	443,664	9,532,161	**12,772,178**	**12,684,088**
- Specific value adjustments	(1,180,716)	(173,344)	(16,038)	(25,133)		**(1,395,231)**	**(984,910)**
- Portfolio value adjustments					(70,130)	**(70,130)**	**(57,095)**
Other operators							
- Net exposure	33,702	18,225		6,553	142,118	**200,598**	**213,112**
- Specific value adjustments	(24,965)	(1,909)		(338)		**(27,212)**	**(22,775)**
- Portfolio value adjustments					(2,392)	**(2,392)**	**(3,143)**

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Governments						
- Net exposure				10,938,918	**10,938,918**	**9,340,111**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				253,930	**253,930**	**344,120**
- Specific value adjustments						
- Portfolio value adjustments						
Finance companies						
- Net exposure		902		3,453,141	**3,454,043**	**5,855,546**
- Specific value adjustments		(1,500)			**(1,500)**	**(1,100)**
- Portfolio value adjustments				(49)	**(49)**	**(33)**
Insurance companies						
- Net exposures				1,465,765	**1,465,765**	**3,103,383**
- Specific value adjustments					**0**	
- Portfolio value adjustments						
Non-finance companies						
- Net exposure	66	2,107	50,660	9,057,714	**9,110,547**	**12,706,553**
- Specific value adjustments	(9,919)	(10,961)	(10,369)		**(31,249)**	**(17,558)**
- Portfolio value adjustments				(5,301)	**(5,301)**	**(3,737)**
Other operators						
- Net exposure			104	13,771	**13,875**	**41,003**
- Specific value adjustments						
- Portfolio value adjustments				(209)	**(209)**	**(140)**

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

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

B.2.1 Geographic distribution of exposures: cash exposures to customers (book value)

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Italy							
- Net exposure	1,744,977	970,734	164,312	446,386	17,733,478	**21,059,887**	**24,419,145**
- Total value adjustments	(1,192,935)	(193,934)	(16,038)	(25,250)	(75,677)	**(1,503,834)**	**(1,094,358)**
Other European countries							
- Net exposure	3,597	3		4,388	1,062,955	**1,070,943**	**985,817**
- Total value adjustments	(12,748)			(246)	(1,305)	**(14,299)**	**(9,133)**
America							
- Net exposure	160				67,351	**67,511**	**92,208**
- Total value adjustments					(194)	**(194)**	**(158)**
Asia							
- Net exposure					76	**76**	**96**
- Total value adjustments							
Rest of world							
- Net exposure					566	**566**	**2,769**
- Total value adjustments							

B.2.2 Geographic distribution of exposures: "off-balance sheet" exposures to customers" (book value)

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Italy						
- Net exposure	66	3,009	50,660	9,082,212	**9,135,947**	**7,201,753**
- Total value adjustments	(9,662)	(12,461)	(10,369)	(5,340)	**(37,832)**	**(22,392)**
Other European countries						
- Net exposure			104	14,132,326	**14,132,430**	**21,841,129**
- Total value adjustments	(257)			(191)	**(448)**	**(157)**
America						
- Net exposure				1,705,978	**1,705,978**	**1,969,425**
- Total value adjustments				(28)	**(28)**	**(19)**
Asia						
- Net exposure				89,654	**89,654**	**122,645**
- Total value adjustments						
Rest of world						
- Net exposure				173,071	**173,071**	**255,763**
- Total value adjustments						

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

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

B.3.1 Geographic distribution of exposures: cash exposures to banks (book value)

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Italy							
- Net exposure					10,800,519	**10,800,519**	**10,959,858**
- Total value adjustments					(461)	**(461)**	**(6,710)**
Other European countries							
- Net exposure					889,560	**889,560**	**857,976**
- Total value adjustments					(226)	**(226)**	**(56)**
America							
- Net exposure					405,374	**405,374**	**222,110**
- Total value adjustments					(93)	**(93)**	**(14)**
Asia							
- Net exposure							
- Total value adjustments							
Rest of world							
- Net exposure							**4,274**
- Total value adjustments							

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/12*	*Total 31/12/11*
Italy						
- Net exposure				1,949,739	**1,949,739**	**2,413,008**
- Total value adjustments						
Other European countries						
- Net exposure				5,472,921	**5,472,921**	**8,649,111**
- Total value adjustments						
America						
- Net exposure				637,010	**637,010**	**718,999**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure				60,072	**60,072**	**103,334**
- Total value adjustments						

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

B.5 Large risks

	31/12/2012	*31/12/2011*
a) amount of the nominal value	33,632,380	32,568,428
b) amount of the weighted value	4,173,833	4,305,879
c) number	28	28

In this section are measured the amounts and the number of the “positions at risk” that constitute a “significant risk” in accordance with the current supervisory regulations (Circular n° 155 issued by the Bank of Italy).

C.SECURITISATION AND ASSET SALE TRANSACTIONS

C.1 SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

The Bank acts as investor as well as market maker for issues where the Parent Company is the originator. The internal organisational structure which oversees these operations is the Credit Trading Desk. Its main objective involves providing liquidity and pricing for the transactions carried out by the MPS Group and support in terms of pricing to customers who have invested in the securitisations of the Group. For such purposes, ongoing and structured analysis is used on the underlying flows of these transactions principally attributable to residential mortgage loans and consumer credit disbursement activities of the Parent Company.

In relation to deals originated outside the MPS Group, the Desk's activities are oriented at seizing the various opportunities which the market offers, so as to maximise the portfolio's returns in terms of profit as an investor in this area. The process for assessing and measuring the risks connected to the positions temporarily held is centralised at the Risk Management Department of the Parent Company BMPS within the scope of market risk measurement, together with the MPSCS Finance Control Staff. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows, all by the use of advanced models (ABSXCHANGE software from Standard & Poor's).

In 2012, operations were carried out both through the trading channel on the secondary market and by credit lines made available through the ECB (in fact, they are mainly high rating securities, eligible for operations with central banks).

The amount held in the trading portfolio (item 20 of the assets "Financial assets held for trading") is equal to €304.6 million (€355.4 million at 31 December 2011); while the bank portfolio (item 40 of the assets "Financial assets available for sale) contains an amount of €1.9 million (€9 million in the previous year). The Bank only holds cash exposures (guarantees or credit facilities).

The Bank has no interests in special purpose vehicles.

For the sake of full disclosure, please note that the securitisation transaction in which the Bank was originator and whose total of liabilities issued (in this case, ABS securities) by the special purpose vehicle was fully subscribed will not be reported on in this section. As at 31 December 2012, the Bank has a single existing self-securitisation transaction ("Siena SME 11-1") carried out in November 2011, the details of which are provided at the end of "Section 3 - Liquidity risk" in line with the requirements of the updated Circular 262 of 18 November 2009.

QUANTITATIVE INFORMATION

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

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

Quality of underlying assets / exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Gross exposure	*Exposure net*	*Gross exposure*	*Exposure net*	*Gross exposure*	*Exposure net*
A. Own underlying assets						
a) Impaired						
b) Others						
B. Third party underlying assets	**272,618**	**272,618**	**33,891**	**33,891**	**0**	**0**
a) Impaired						
b) Others	*272,618*	*272,618*	*33,891*	*33,891*		
Total 31/12/2012	**272,618**	**272,618**	**33,891**	**33,891**	**0**	**0**
Total 31 December 2011	**303,927**	**303,927**	**60,487**	**60,487**		

There are no exposures either as guarantees given or as credit lines. For full information, we mention that the Bank, as technical exposure, holds a passive exposure for a total amount of €9.5 million (senior securities - performing home mortgages).

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

The Bank carried out a single transaction to self-securitise its own assets (financial year 2011), which is not included in this section.

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

Type of underlying assets	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Book value	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*
- analysis of home mortgages	45,318					
- analysis of non-residential mortgages	143,655		33,892			
- bonds	83,644					
- other assets						
Total 31/12/2012	**272,617**		**33,892**			
Total 31 December 2011	**303,927**		**60,487**			

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

C.1.3.1 Type of securitised assets: breakdown of home mortgages

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Book value	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*
MANTEGNA FI 03/37 TV	48					
SPOLETO MTG 04/35 TV	779					
CORDUSIO UB 06/42 TV	2,646					
CASSA CENTR-TV 07/43	10,527					
SIENA MTGEA2-TV10/70	70					
CLARF-TV 11/60 A2	16,344					
BERCR 9 A2-TV 11/54	9,950					
ATLAM 1 A 03-36 TV	1,108					
BCCM 1 A 38 TV	3,334					
RUTLN RAT 06/13 TV	512					
	45,318					

C.1.3.1 Type of securitised assets: breakdown of home mortgages

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Book value	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*
PATRIMONIO 06/21 TV			1,102			
TITAN EUR 07/17 TV			834			
FIP FUND 05/23 TV	21,588					
PATRIMONIO 06/21 TV	339					
CASAFORTE 10/40 CL A	121,728					
CASAFORTE CL B 10/40			31,956			
TOTALS	**143,655**		**33,892**			

At 31 December 2012, the transactions to be settled include the sales on the Casaforte 10/40 CL A security for a total net nominal value of €4.3 million.

C.1.3.3 Type of securitised assets: breakdown of bonds

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Book value	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*	*Book value*	*Adjustments/ write-backs*
CREDICO F3 A1 15 TV	7,412					
PATAGONIA F 1/80 ZC	72,875					
EMPYR 06/13 TV	461					
GREYL 06/14 TV	2,896					
TOTALS	**83,644**					

As of 31 December 2012, the transactions to be settled are the sales on the Patagonia F 1/80 ZC security for a total net nominal value of €0.2 million.

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

Exposures / portfolio	Financial assets held for trading	Financial assets-fair value option	Financial assets available for sale	Financial assets held to maturity	Receivables	Total 31/12/2012	Total 31/12/2011
1. Cash exposures	**304,573**		**1,936**			**306,509**	**364,414**
- "Senior"	272,617					272,617	303,927
- "Mezzanine"	31,956		1,936			33,892	60,487
- "Junior"							
2. Off-balance sheet exposures	**4,570**					**4,570**	**1,380**
- "Senior"	4,570					4,570	1,380
- "Mezzanine"							
- "Junior"							

C.1.5 Total amount of securitised assets underlying junior securities or other forms of credit backing
Other disclosures

C.1.6Interests in vehicle companies
The Bank owns no interests in special purpose vehicles relating to its own securitisations.

C.1.7 Servicer activity - collections of securitised credits and reimbursement of securities issued by the vehicle company
The Bank currently has a servicer agreement related to its own securitisation as of November 2011. The data in the table below area all related to the special purpose vehicle Siena SME 11-01.

Securitised assets (figure at the end of 2012)		***Credit collections during the year***		*Percentage share of securities repaid*					
				Senior		*Mezzanine*		*Junior*	
Impaired	*Performing*	*Impaired*	*Performing*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*
43,345	2,708,583	45	299,665	-	23.72%	-	-	-	22.32%

Note:
only the assets classified as past due are shown in the impaired assets.

Securitised assets (figure at the end of 2011)		***Credit collections during the year***		*Percentage share of securities repaid*					
				Senior		*Mezzanine*		*Junior*	
Impaired	*Performing*	*Impaired*	*Performing*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*	*Impaired assets*	*Performing assets*
1,289	2,995,889	-	49,223	-	-	-	-	-	-

C.2 DISPOSAL TRANSACTIONS

C.2.1 Financial assets sold and not cancelled: book value and full value

The financial assets sold and not cancelled are shown below at full and at book value.

Portfolio / Technical forms	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held maturity*	*Due from banks*	*Loans to customers*	*Total 31/12/2012*	*Total 31/12/2011*
A. Cash assets	**6,223,416**		**37,705**				**6,261,121**	**5,814,357**
1. Debt securities	6,179,140		37,705				**6,216,845**	**5,807,718**
2. Equity securities	44,276						**44,276**	**6,639**
3. Collective investment undertakings								
4. Loans								
B. Derivative instruments								
Total 31/12/2012	**6,223,416**		**37,705**				**6,261,121**	**5,814,357**
of which impaired								
Total 31/12/2011	**5,739,922**		**35,921**			**38,514**		**5,814,357**
of which impaired								

C.2.1.a Type of financial asset sale transactions relative to financial assets not cancelled

Type of transaction / Balances	*31/12/2012*	*31/12/2011*
Borrowing repurchase agreements	6,136,638	5,396,796
Securitisations		
Pool securities lending	124,483	417,561
Disposals		
Total	**6,261,121**	**5,814,357**

C.2.2 Financial liabilities with respect to sold and not derecognised financial assets: book value

Financial liabilities with respect to sold and not derecognised financial assets per C.2.1 above, recorded in the liability item 40 "Financial liabilities held for trading", are broken down as follows:

Portfolio assets / Liability	*Financial assets held for trading*	*Financial assets at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Due from banks*	*Loans to customers*	*Total*
1. Due to customers	**1,438,817**						**1,438,817**
a) against assets recorded in full	1,438,817						**1,438,817**
b) against assets recorded partially							
2. Payables to banks	**4,636,188**						**4,636,188**
a) against assets recorded in full	4,636,188						**4,636,188**
b) against assets recorded partially							
Total 31/12/2012	**6,075,005**						**6,075,005**
Total 31/12/2011	**5,396,796**						**5,396,796**

C.2.3 Sale transactions with liabilities with recourse only on assets sold: fair value
There is nothing to report.

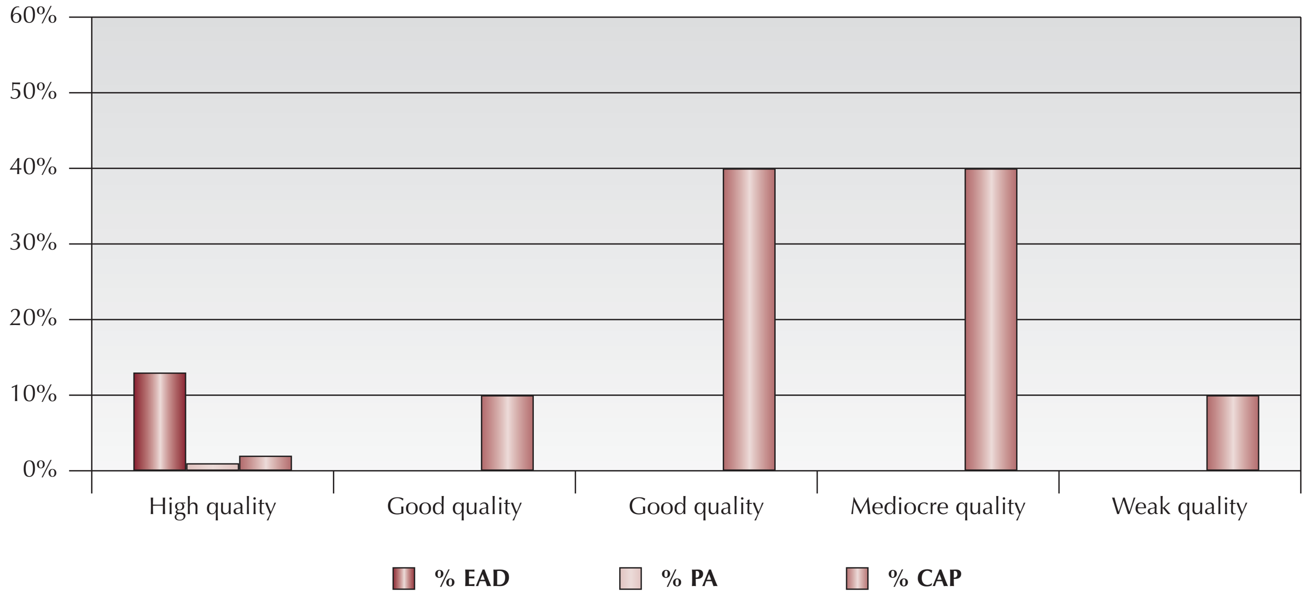
A. Financial assets sold and cancelled entirely with registration of continuing involvement
There is nothing to report.

C.3 COVERED BOND TRANSACTIONS
The Bank issued no covered bank bonds.

D. CREDITWORTHINESS ASSESSMENT MODELS

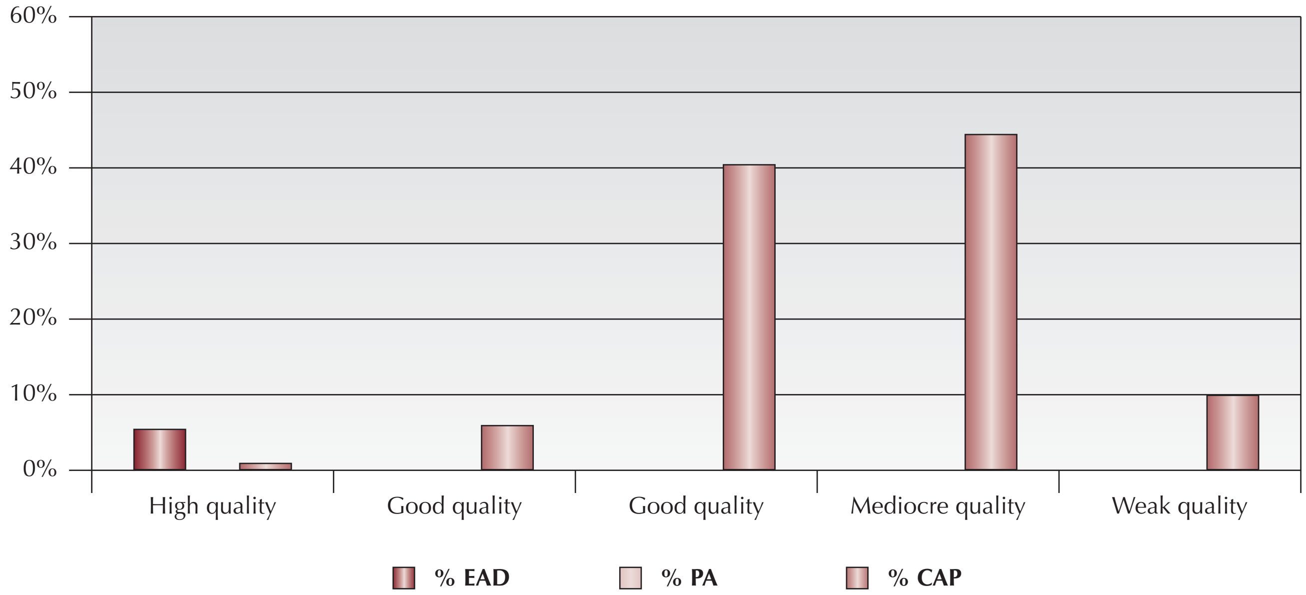
Analysis of the credit risk is carried out by means of the use of the Loan Portfolio Model developed internally within the Parent Company BMPS; as analytical output it produces the classic risk measurements of the Estimated Loss, Unestimated Loss and Economic Capital (CAP) diversified inter-risk, with a time frame of one year and a confidence interval gauged to the target rating assigned to the Group. There are many inputs: probability of default (PD), LGD rates, number and types of guarantees which assist the loan transaction, internal operating EAD ratios.
The Loan Portfolio Model developed within the MPS Group uses a "Merton" approach to describe the insolvency of each counterparty present in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable that expresses its credit worthiness falls below a pre-set threshold value, along a reference time frame (usually, one year). The synthetic variable expressing the counterparty's credit worthiness is defined "Credit Worthiness Index" (CWI) and it incorporates both the specific risk component and the systemic component. The sensitivity of the credit worthiness of each counterparty to changes in macroeconomic factors is estimated with a multi-varied regression econometric model between the variable expressing the solvency of a counterparty (PD) and the selected credit driver. Loss distribution is estimated with appropriate statistical functions that approximate loss distribution for each counterparty through the use of conditioned default probabilities.
The output of the portfolio model provides detailed measurements for individual positions as well as the component of absorbed management capital with the indication of the impact of the diversification present within the portfolio. The model enables to highlight the time dynamics of credit risk according to various possibilities of aggregation of the analysed variables, by legal entity, by type of customer, by geographical area, by industry, by rating class, by continental areas. Further indications deriving from the Loan Portfolio Model refer to the "what-if" analysis produced on certain discriminating variables such as the probabilities of default, the LGD rates, the performance of the value of the guarantees and the available margins on credit facilities, so as to quantify levels of Estimated Loss and Economic Capital should the underlying hypothesis (both discretional and historic) occur.
The MPS Group, also in relation to the provisions of the Second Pillar of Basel 2, is also engaged in the continuous evolution of the methods and models in order to assess the impacts on the credit portfolio of stress conditions, obtained both through sensitivity analysis to individual risk factors and through scenario analysis.
The chart below indicates the distribution of the loan quality of the Bank's loan portfolio (excluding positions in financial assets). The graphic representation shows that 32% of the exposures at risk are granted to high and good quality customers. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking institutions, not included in AIRB model. For such counterparties, a managerial credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

QUALITY DISTRIBUTION OF THE PERFORMING PORTFOLIO
MPS CAPITAL SERVICES - 31 December 2012

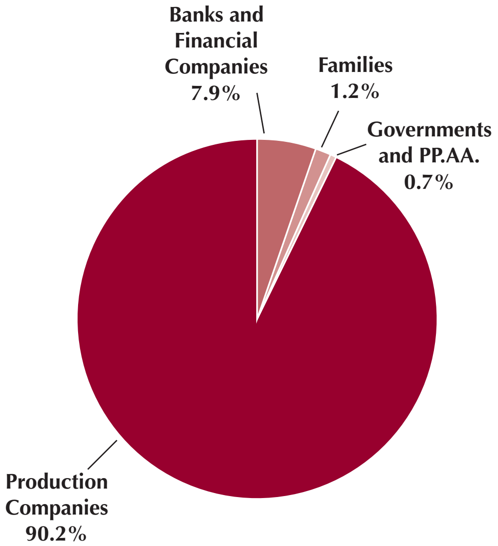


The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate and Retail portfolios (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). Note that the incidence of exposures with high and good quality as of 31 December 2012 is about 20% of total exposures.

QUALITY DISTRIBUTION OF THE PERFORMING PORTFOLIO
CORPORATE AND RETAIL SEGMENTS - MPS CAPITAL SERVICES - 31 December 2012



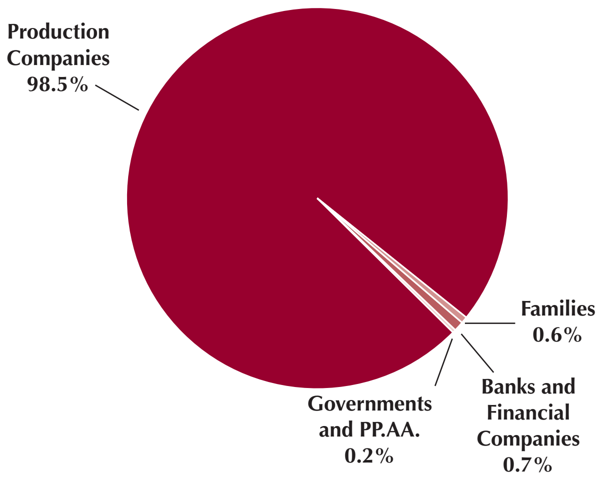
EXPOSURES AT RISK
(excluding intra-group transactions)
MPS CAPITAL SERVICES - 31 December 2012



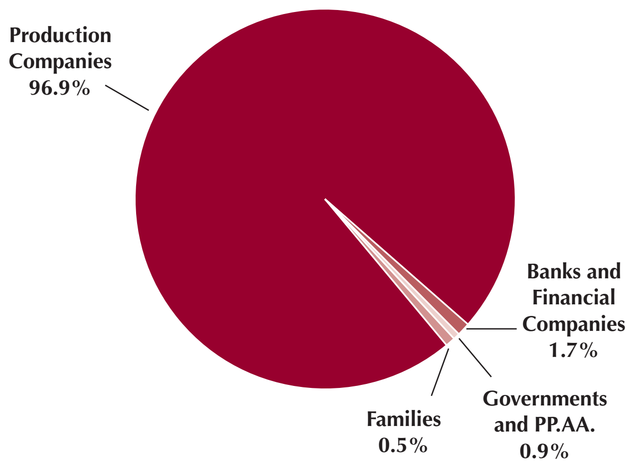
"From the analysis by macro segment of loan customers, on the data obtained at the end of 2011, it emerges that the exposures at risk of the Bank are mainly directed at ""Production Companies"" customers (90.2% on total disbursements) and ""Banks and Financial Firms"" (7.9%). " The remaining portion is subdivided among "Households", accounting for 1.2%, and "Governments and Public Administration", amounting to 0.7%.

In terms of risk measurements, it is apparent that the "Production Companies" customer segment absorbs 98.5% of Estimated Loss and 96.9% of Economic Capital. The "Banks and Financial Companies" segment amount to respectively 0.7% for Estimated Loss and 1.7% for Economic Capital.

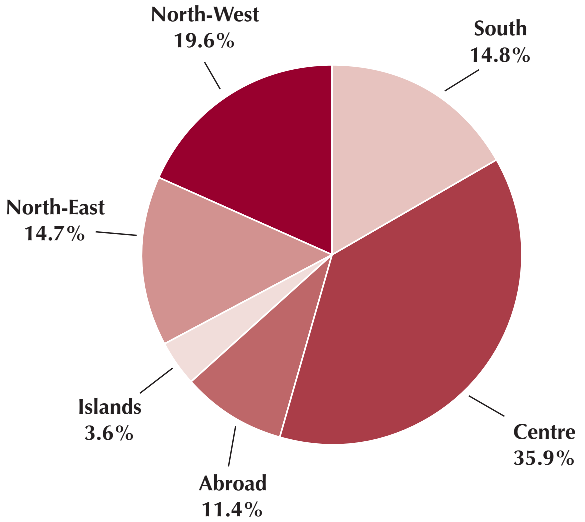
ESTIMATED LOSSES
(excluding intra-group transactions)
MPS CAPITAL SERVICES - 31 December 2012



ECONOMIC CAPITAL
(excluding intra-group transactions)
MPS CAPITAL SERVICES - 31 December 2012



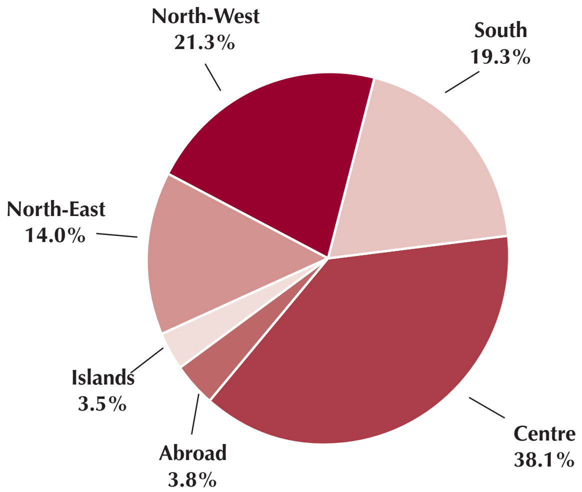
EXPOSURES AT RISK
(excluding intra-group transactions)
MPS CAPITAL SERVICES - 31 December 2012



The analysis of the geographic distribution of the Bank's customers shows that risk exposures are mainly concentrated in regions of the Centre (35.9%), followed by the Northwest (19.6%), the South (14.8%), the North-east (14.7%), Abroad (11.4%) and the Islands (3.6%).

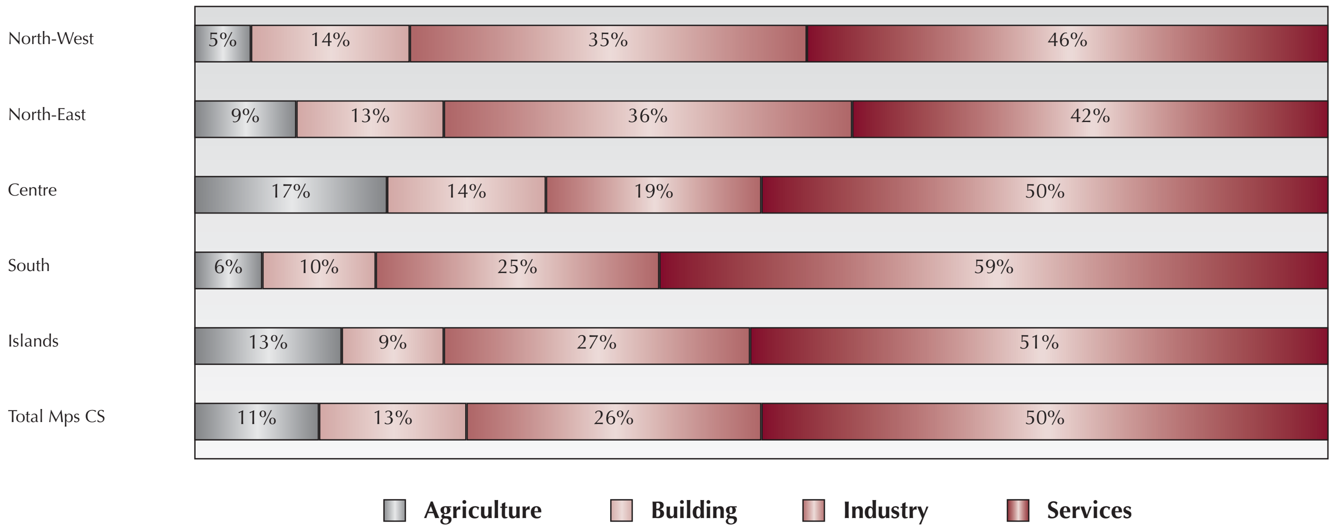
Total risk measurements (Estimated Loss + Economic Capital) are best explained in the composition of the loans more heavily present in the Centre (38.1%), followed by the Northwest (21.3%), the South (19.3%), the North-east (14%), Abroad (3.8%) and the Islands (3.5%).

RISK MEASUREMENTS %
(Estimated Losses + Economic Capital)
MPS CAPITAL SERVICES - 31 December 2012



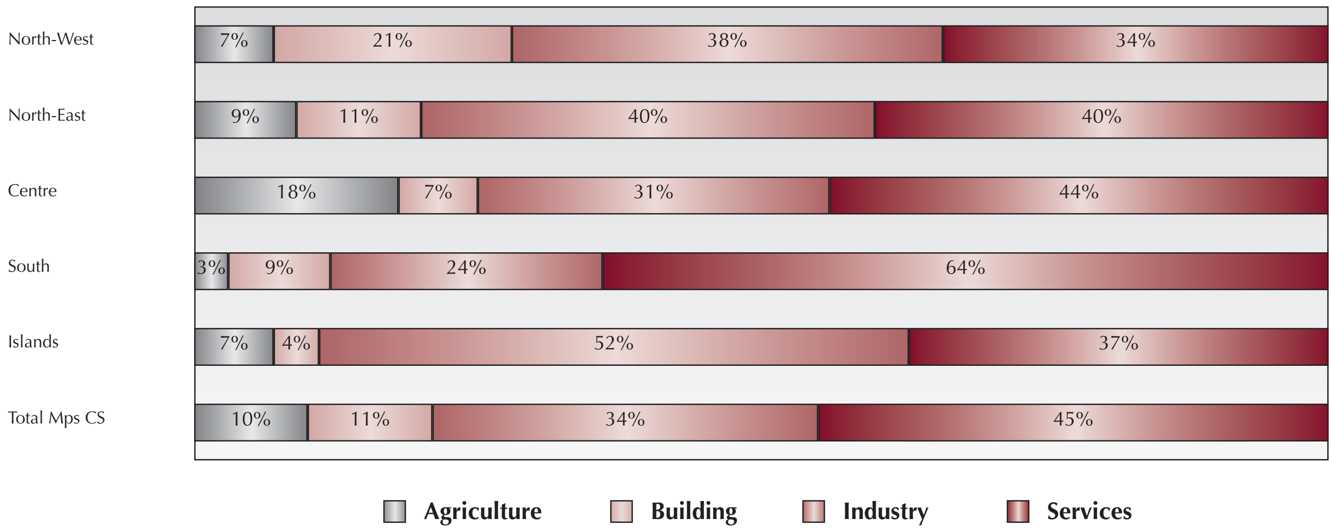
Finally, the figures below show the percentage distribution by individual geographic area of the exposure to default and the overall risk measurements (Estimated Loss + Economic Capital) only for corporate customers in Italy by sector of economic activity. The highest portion of company default exposure is in the services sector in all geographic areas. Out of the Bank's total, that concentration is 50% and is followed by industry (26%), building (13%) and finally by agriculture with 11%.

**PERFORMING ITALIAN CORPORATE CUSTOMERS AS AT 31 DECEMBER 2012
EAD BREAKDOWN BY GEOGRAPHIC AREA AND BRANCHES**



Also as regards overall risk measurements, defined as the sum of Estimated Loss (PA) and Economic Capital (CAP), the highest concentration is in the services sector in all geographical areas except the Islands and the Northwest, where the highest concentrations are in the industrial sector with respectively 52% and 38%.

**PERFORMING ITALIAN CORPORATE CUSTOMERS AS AT 31 DECEMBER 2012
PA+CAP BREAKDOWN BY GEOGRAPHIC AREA AND BRANCHES**



SECTION 2 - MARKET RISK

MARKET RISKS RELATING TO THE SUPERVISORY TRADING PORTFOLIO

2.1 INTEREST RATE RISK AND PRICE - SUPERVISORY TRADING PORTFOLIO

The Supervisory trading portfolio (Portafoglio di Negoziazione di Vigilanza, PNV) of the MPS Group - trading book - comprises the set of Supervisory trading portfolios managed by the Parent Company (BMPS), by MPS Capital Services (MPSCS) and for the remaining portion by BiverBanca and by the Irish subsidiary Monte Paschi Ireland. The portfolios of the other subsidiaries of the MPS Group are not subject to market risks, containing only treasury bonds, held to service the retail clientèle. Transactions in derivatives, also carried out on behalf the retail customers, are centralised and the risk is hedged by MPSCS.
The market risks of the Bank's trading book (like those of the Parent Company and of the subsidiaries that are relevant as autonomous market risk taking centres) are monitored for management purposes in terms of Value-at-Risk (VaR). The Group Finance Committee is tasked with directing and coordinating the overall process for the management of the proprietary finance of the entire Group, ensuring consistency between the management actions of the different business units.
The Trading Portfolio of the MPS Group is subject to daily monitoring and reporting by the Parent Company's Risk Management Department, on the basis of proprietary systems. The operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Department itself, in line with the leading international best practices. Solely for signalling purposes, on the subject of market risks the Bank, as well as its entire respective Group, employs the standardised methodology.

The operating limits on trading activities, resolved by the Board of Directors of the Bank according to the indications of the Parent Company's Board of Directors, are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios and monthly and annual Stop Loss. In particular, the trading book's credit risk, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings by type of guarantor and rating classes.

The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors. Periodically, the daily management reporting flow on market risks is forwarded to the Risk Committee, to the Managing Director, to the Chairman and to the Board of Directors of the Parent Company within the Risk Management Report, the instrument through which the Top Management and the governing bodies are informed about the MPS Group's overall risk profile. This information procedure is also replicated in MPSCS.

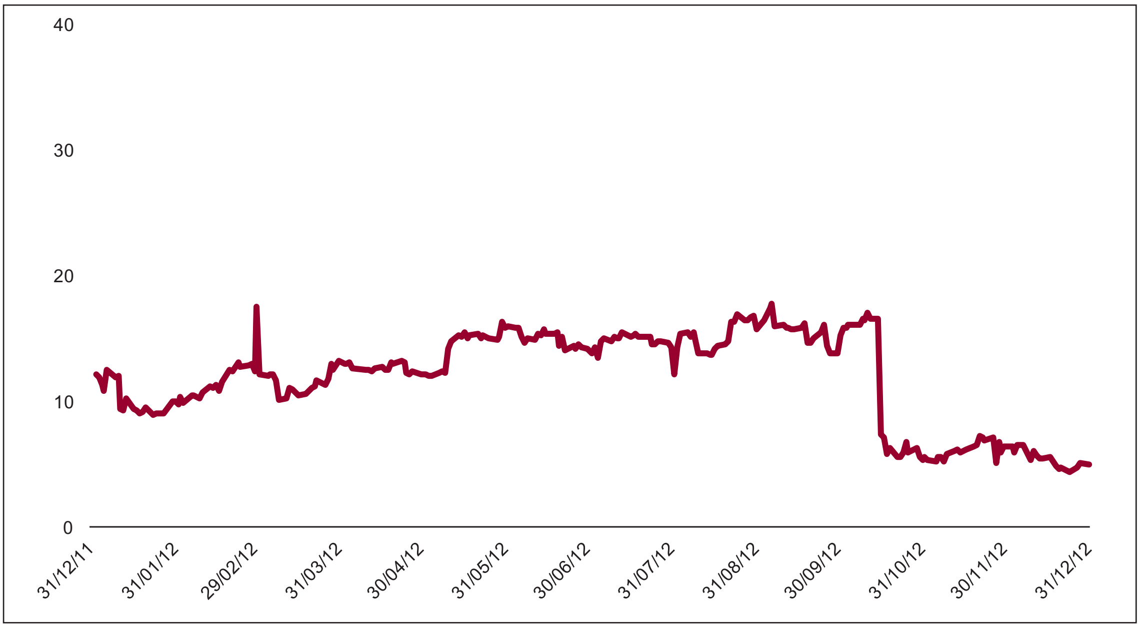
From the viewpoint of method adaptation, in the second half of 2012 the inflation risk factor was introduced into the internal management model, leading to an improvement in the estimate of the effective risk level of the portfolio compared to the volatility of the market. The inflation risk component completes the description of the generic rate risk on the Group's financial portfolios. EONIA discounting for securitised derivatives has also been introduced into the model, determining the modification of the base curve of the rate risk assessment.

The macro-types of risk factors considered within the Internal Markets Risks Model are IR, EQ, FX, CS, as illustrated below:
• IR: interest rates on all the relevant curves, inflation curves and related volatility
• EQ: equity prices, indexes and baskets and related volatility
• FX: exchange rates and related volatility
• CS: credit spread levels
The VaR (or diversified VaR, or Net VaR), is calculated and separated daily for internal management purposes, also with respect to other analysis dimensions:
• organisation/operations of the Portfolios
• by Financial Instruments
• by Risk Family
It is also possible to assess the VaR in relation to each combination of these dimensions so as to be able to facilitate very detailed analyses of the phenomena which affect the portfolios.
With reference in particular to the risk factors, the following are identified: the Interest Rate VaR (IR VaR), the Equity VaR (EQ VaR), the Forex VaR (FX VaR) and the Credit Spread VaR (CS VaR). The algebraic sum of these components gives the Gross VaR (or non-diversified VaR) which compared with the diversified VaR makes it possible to quantify the benefit of diversification between risk factors deriving from holding portfolios allocated on asset classes and risk factors that are not perfectly correlated. This information too can be analysed along all the aforesaid dimensions.
The model enables to produce diversified VaR metrics for the entire MPS Group, in order to be able to appreciate in an integrated manner all the diversification effects that can be generated among the various banks, by virtue of the joint specific positioning implemented by the different business units.
Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments. Stress tests enable to assess the ability of MPSCS to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital. Stress tests are computed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what historically was realised in the identified stress period. Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

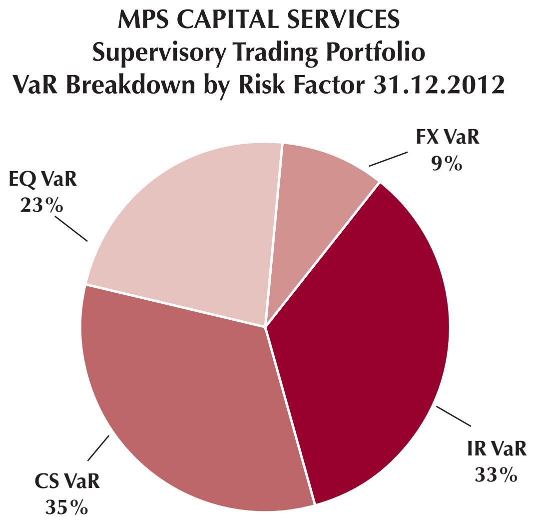
In the first quarter of 2012 the market risks of the Bank's Supervisory Trading Portfolio, in terms of VaR, showed an overall decreasing trend, in fact continuing the trend which had begun at the end of 2011 and featuring a contraction of returns on Italian government securities. From the second half of March, the trend inverted, because of a market scenario featuring high volatility generated by new tensions on the credit spread in the Euro Area, especially on the Italian sovereign debt. During the year, the risk concentrated on trading activities, specifically in the EQ and IR compartments (securities and derivatives), and on activities linked to policy structuring and coverage. The VaR level tended to be stable until the third quarter (average VaR until 30/09/2012 equal to € 15.9 million).
The reduction in the VaR in the last quarter (around -40%) is lined to a change in the methodology introduced in

October. The change regarded the treatment of policy structuring and coverage activities carried out by the Bank and guaranteed by securities. Previously the a prudential buffer was loaded on the credit component of the policies which involved and overestimation of the effective credit risk of such positions. With the new method, a prudential buffer is calculated on the effective volatility of the market parameters, which more precisely represents the effect of the coverage on the main risk component (the credit spread risk). In the last quarter of 2012, the VaR level remained general stable, with a value of € 6.48 million at 31/12/2012.

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



In terms of VaR composition by risk factors, as of 31 December 2012 the MPSCS portfolio is mainly absorbed by the Credit Spread risk factor (CS VaR, 35%). This is followed by the interest rate risk factor (IR VaR, 33%), the equity risk factor (EQ VaR, 23%) and the exchange rate risk factor (FX VaR, 9%).



During 2012, the Bank's VaR fluctuated in a range from the minimum value of €6.01 million, recorded on 21 December, to the maximum of €21.62 million of 17 May. On average, the VaR during the year stood at €14.08 million. The absolute figure for the end of 2012 was €6.48 million.

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

	VaR	Date
End of period	6.48	31/12/2012
Minimum	6.01	21/12//2012
Maximum	21.62	17/05/2012
Average	14.08	

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

The Bank manages a portfolio of its own which contains trading positions on rates and on credit. The trading is carried out by the Global Markets Direction.

The risk exposure in the Interest Rate segment mainly derives from the activities and from the role performed by the Bank in structuring activities, hedging of the issuers and trading of structured products, both as market maker of the structured securities issued (including covered warrants) and other bond-related securities, listed on different organised markets or trading systems. Furthermore, the Bank operates via the Government Bond Desk, in the primary Government securities market, as specialist, as well as on the secondary European Government securities markets as Superprimary.

In general, interest rate positions are assumed both by the acquisition or sale of bonds, and by the construction of medium-long term structural portfolios comprising linear instruments such as interest swap, basis swap, futures and the management of volatility products (plain and exotic), such as cap & floor, swap options, options on interest rate futures. The activity aims to obtain long or short positions on single issuers, or a long or short exposure on particular types of securities.

The rate risk management follows a risk minimisation logic, for the risk to which the trading portfolio is generally exposed: in this sense the risks deriving from the above-listed activities are covered by a managerial macro-hedge, or by using instruments highly linked to the underlying specifics. These hedging instruments can be traded on regulated or non-regulated markets and are chosen on the basis of the opportunities offered by the market.

No qualitative changes occurred in terms of operations with respect to the previous year. The Bank's role can be considered a combination between that of market maker supporting the MPS Group and, residually, that of operator on its own behalf.

The activity is carried out exclusively on its own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.

A.2 Price Risk

The price risk exposure relates to the activities of the Equity, Foreign Exchange & Commodity Derivatives desk which focuses its operations on both plain vanilla products such as futures, options on indexes and single stock, listed and over the counter products, and operations on exotic products linked, in particular, to structured finance issues intended for the customers of the MPS Group and third party networks. The trading activity is carried out by the Global Markets Division, solely on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and yearly Stop Loss.

B. INTEREST RATE RISK AND PRICE RISK MANAGEMENT PROCESSES AND GAUGING METHODS

"With regard to the market risk management process pertaining to management and the methods for gauging the interest rate risk and the price risk, reference should be made to the matters already described in section 2 "Market risks", sub-section 2.1, "Interest rate risk and price risk - supervisory trading portfolio".

QUANTITATIVE INFORMATION

Supervisory trading portfolio - internal models and other methods for sensitivity analysis
The rate and price risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis.

Interest Rate Risk
The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
"The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "Financial assets held for trading" and "Financial liabilities held for trading"; market value changes are recorded directly in the income statement."
The simulated interest rate scenarios are:
• parallel shift of +100bp on all the interest rate curves
• parallel shift of -100bp on all the interest rate curves
• parallel shift of +1% of all the volatility surfaces of all the interest rate curves
The overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Interest Rate	+ 100bp on all curves	21.57
Interest Rate	- 100bp on all curves	-34.15
Interest Rate	+1% Interest Rate Volatility	0.07

The lack of symmetry between the +100bp and -100bp scenarios mainly depends on the activation of the floor in the stress scenario of -100bp consequent to the low level reached by interests rates at the end of the year (bonds and interest rate swaps) and partly to non-linear positions on the rate (swap option e cap & floor).
To complete the interest rate risk analysis, the sensitivity analysis of the Bank's Trading Portfolio credit spread risk linked to the volatility of issuers' credit spreads is reported below. The simulated scenario for the sensitivity analysis is:
• parallel shift of +1bp on all credit spreads.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Credit Spread	+ 1bp on all curves	0.080

Price Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "Financial assets held for trading" and "Financial liabilities held for trading"; market value changes are recorded directly in the income statement.

The simulated price scenarios are:

- +1% of each equity, commodity, index, basket price;
- -1% of each equity, commodity, index, basket price;
- +1% of all the volatility surfaces of all the equity and commodity risk factors.

The overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indices, baskets)	0.49
Equity	- 1% Equity Prices (prices, indices, baskets)	-0.48
Equity	+ 1% Equity Volatility	0.06

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

Interest Rate Risk
In accordance with the best international practices, the banking book identifies all the commercial operations of the bank associated with the transformation of the financial statement asset and liability maturities. The definition of the perimeter of the banking book (aligned with that of the Supervisory banking book) and the process for centralising the ALM operations are contained in the resolution of the Parent Company's Board of Directors, approved in September 2007 and updated in October 2009, to upgrade the overall framework according to the changed structure of the company, and to change the approach consistently with the set-up outlined by the supervisory regulations (Circular n° 263 issued by the Bank of Italy). The resolution pertains to the centralisation of the Asset & Liability Management in the Parent Company's Finance, Cash and Capital Management Department and the definition and monitoring of the operating limits in view of the interest rate risk of the MPS Group's banking book.
The operating and strategic choices of the banking book, adopted by the Finance and Liquidity Committee and monitored by the Parent Company's Risks Committee, are based first of all on exposure to the interest rate risk for a change in the economic value of the assets and liabilities of the banking book, applying a parallel shift of 25bp, 100bp and 200bp, the latter in accordance with the provisions of the "second pillar" of Basel 2.
The ALM model of the MPS Group, incorporates in the measurements of the exchange rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk).
The MPS Group has adopted a system for governing and managing the rate risk which, in accordance with the provisions of the Supervisory Authority, employs:
- a quantitative model, on the basis of which the exposure of the MPS Group and of its individual companies (MPSCS among them) to the interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at continuously verifying compliance with the operating limits assigned to the Group as a whole and to individual business units;
- risk control and management processes, aimed at carrying out adequate initiatives to optimise the risk profile and to activate any necessary corrective actions.

Within the aforesaid system, the Parent Company BMPS centralises the following responsibilities:
- definition of the policies for managing the Group's banking book and controlling the related interest rate risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter;
- governing the Group's short, medium and long term interest rate risk, both overall and in terms of each individual company, through the centralised operating management.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the interest rate risk.
The Companies of the MPS Group included in the application perimeter, and MPSCS among them, are responsible for complying with the policies and the interest rate risk limits defined by the Parent Company and with the capital requirements set by the cognisant Supervisory Authorities.
Within the defined model, the Parent Company's Finance, Cash and Capital Management Department is responsible for the operating management of the exchange and liquidity risk of the Group as a whole. Specifically, within the Finance, Cash and Capital Management Department, the Treasury Management Service handles the short-term rate

risk and liquidity risk of the MPS Group. In particular, the ALM & Capital Management Service handles the structural rate risk and maturity transformation (structural liquidity) for the Group. The Department also monitors and manages hedges in accordance with accounting policies, joint protection for the formation of the internal rates of the "network" (BMPS and other Group companies) for the Euro and the currency for all the concerned transactions with due dates beyond the short-term.

Price Risk

The gauging of the price risk on the MPSCS Banking Book is carried out on equity positions held for mainly strategic or institutional/instrumental purposes. The relevant portfolio for these purposes is mainly constituted by equity investments, alternative funds (hedge funds), by shares classified as "Financial assets available for sale" and, to a residual extent, by derivatives.

The equity investment portfolio of the Bank comprises about twenty equity investments in companies outside the Group, or rather in companies not consolidated by the Parent Company either line-by-line or proportionally, and about 80% of its value is concentrated on five investments.

Activity on the Units in collective investment undertakings is carried out exclusively by direct purchase of the funds/sicav and without using derivative contracts.

QUANTITATIVE INFORMATION

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

Interest Rate Risk

The sensitivity of MPSCS at the end of 2012 presents a risk exposure profile due to a fall in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to about €8.84 million (-€11.08 million for a shift of -100bp).

Price Risk

The instrument used for gauging the price risk for the equity investment portfolio is the Value-at-Risk (VaR), which represents the loss which the portfolio in question, valued at fair value, could undergo over the duration of a quarter of a year (holding period), considering a confidence interval of 99%. "The VaR model used (unlike that used for the Trading Portfolio) employs simulations and uses a ""Monte Carlo"" approach based on the time series of market returns for listed companies and the time series of sector indexes for unlisted companies. " The portfolio taken into consideration by the analysis comprises all the equity investments held by the Bank in companies outside the MPS Group, or rather in companies not consolidated either line-by-line or proportionally. The VaR of the equity investment portfolio (99%, holding period of 1 quarter) amounts at year end to around 20% of the portfolio's fair value, with a concentration of the risk on the five most significant equity investments.

The Parent Company's Risk Management Department - which develops and maintains the internal gauging system - periodically reports on the size of the risks on the equity investment portfolio and their evolution over time. It also 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.

A scenario analysis is provided below; it contemplates all equity investments and hedge funds.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indices, baskets)	0.99
Equity	- 1% Equity Prices (prices, indices, baskets)	-0.99
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 Bank portfolio

With regard to this type of portfolio, the exchange risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be perfectly balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any exchange rate risk. In fact, at the date of the closure of this financial statement the Bank had an essentially balanced foreign exchange position for the banking book.

QUANTITATIVE INFORMATION

1. Distribution according to currency of assets, liabilities and derivatives

Item / Currency	*Dollar USA*	*Australian Dollar*	*English Pound*	*Yen*	*Swiss Franc*	*Other currencies*
A. Financial assets	**773,105**	**1,697**	**36,761**	**6,445**	**28,272**	**33,301**
A.1 Debt securities	43,776		31,755		469	2,181
A.2 Equity securities	19,551		1	6,410	13,890	
A.3 Loans to banks	244,820		411	35	76	27,983
A.4 Loans to customers	461,765	1,697	4,594		13,837	3,137
A.5 Other financial assets	3,193					
B. Other assets		**38**		**36**		**327**
C. Financial liabilities	**(494,152)**	**(1,175)**	**(76,199)**	**(8,552)**	**(24,619)**	**(12,079)**
C.1 Due to banks	(433,609)	(1,175)	(75,790)	(7,108)	(24,426)	(12,079)
C.2 Due to customers	(60,543)		(409)	(1,444)	(193)	
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities					**(473)**	**(492)**
E. Financial derivatives						
- Options						
+ long positions	269,534	8,980	18,872	11,588	12,915	8,519
+ short positions	(346,939)	(32,587)		(16,356)	(5,478)	(99,382)
- Other derivatives						
+ long positions	1,034,778	3	51,742	1,503	21,425	223,328
+ short positions	(1,371,293)	(17,937)	(55,154)	(14,239)	(13,145)	(146,520)
Total assets	**2,077,417**	**10,718**	**107,375**	**19,572**	**62,612**	**265,475**
Total liabilities	**(2,212,384)**	**(51,699)**	**(131,353)**	**(39,147)**	**(43,715)**	**(258,473)**
Differences (+/-)	**(134,967)**	**(40,981)**	**(23,978)**	**(19,575)**	**18,897**	**7,002**

After the closure of the period, no significant economic effects were registered subsequent to the variations in the currency exchange rates. The following table sums up the exchange rates into Euro from the main currencies of the assets and liabilities, at the end of the period and at 28 February 2013 (final date for the drafting of the explanatory notes).

Currency	*Code*	*31/12/2012*	*28/02/2013*	*Change*
UNITED STATES Dollar	USD	1.3194	1.3129	(0.493%)
AUSTRALIAN Dollar	AUD	1.2712	1.2809	0.763
UNITED KINGDOM Pound	GBP	0.8161	0.8630	5.747
JAPANESE Yen	JPY	113.61	121.07	6.566
SWISS Franc	CHF	1.2072	1.2209	1.135

2. Internal models and other sensitivity analysis methods

The exchange risk is monitored in VaR terms and analysis scenario (for the methodology, see the paragraph in section 2 “Market risk”, subsection 2.1 “Interest rate risk and price risk - trading portfolio”).
The effect on the operating income and on the income for the year was estimated considering only the positions classified as “Financial assets held for trading” and “Financial liabilities held for trading”, for which market value changes are recorded directly in the income statement. The effect on shareholders’ equity instead is estimated with reference to all the other positions. The total effect is reflected by the algebraic sum of the two components.
The simulated scenarios on exchange rates are:
• +1% of all the exchange rates against EUR
• -1% of all the exchange rates against EUR
• +1% of all the volatility surface areas of all the exchange rates
A summary of the scenario analysis follows.

MPS CAPITAL SERVICES
in €/mln

Risk Family	Scenario	Effect on Broking Margin and Economic Result	Effect on Shareholders’ Equity	Total Effect
Forex	+1% Exchange rates against EUR	0.18	0.00	**0.18**
Forex	- 1% Exchange rates against EUR	-0.10	0.00	**-0.10**
Forex	+1 Forex Volatility	0.12	0.00	**0.12**

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Supervisory trading portfolio: notional values at the end of the period and average values

Underlying assets / Type of derivatives	*31/12/2012*		*31/12/2011*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**207,647,394**	**95,639,704**	**257,374,636**	**202,204,961**
a) options	74,644,990	19,003,752	82,042,408	28,657,087
b) swap	131,836,389	75,781,477	174,354,811	159,072,743
c) forward	1,166,015		977,417	
d) futures		854,475		14,475,131
e) other				
2. Equity securities and stock market indices	**14,954,445**	**8,896,813**	**17,943,573**	**6,535,295**
a) options	14,074,413	6,399,267	17,810,032	6,053,025
b) swap	880,032		133,541	
c) forward				
d) futures		2,497,546		482,270
e) other				
3. Currencies and gold	**4,544,776**		**4,497,363**	
a) options	2,309,225		1,860,331	
b) swap	1,222,680		1,228,314	
c) forward	1,012,871		1,408,718	
d) futures				
e) other				
4. Goods	**354,873**	**547,770**	**318,083**	**402,200**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**227,501,488**	**105,084,287**	**280,133,655**	**209,142,456**
Average values	**241,912,652**	**188,778,612**	**278,443,469**	**196,487,826**

Note:
for the sake of complete disclosure, we inform that:
- *transactions to be received and delivered (regular way) are excluded;*
- *complex contracts such as collar, strangle, straddle, etc. are represented breaking the instruments down into the elementary options.*

A.2 Bank portfolio: period-end and average notional values

A.2.1 For hedging

Underlying assets / Type of derivatives	*31/12/2012*		*31/12/2011*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**37,500**		**37,500**	
a) options				
b) swap	37,500		37,500	
c) forward				
d) futures				
e) other				
2. Equity securities and stock market indices				
a) options				
b) swap				
c) forward				
d) futures				
e) other				
3. Currencies and gold				
a) options				
b) swap				
c) forward				
d) futures				
e) other				
4. Goods				
5. Other underlying assets				
Total	**37,500**		**37,500**	
Average values	**37,500**		**37,500**	

A.2.2 Other derivatives

No agreements were extant on 31 December 2012 and 31 December 2011.

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

Underlying assets / Type of derivatives	*31/12/2012*		*31/12/2011*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**9,430,055**	**1,527,691**	**8,779,844**	**4,833,961**
a) options	1,189,409	184,195	1,122,362	138,440
b) *interest rate swaps*	8,136,965	1,343,328	7,516,444	4,694,940
c) *cross currency swaps*	31,956		60,454	
d) *equity swaps*	35,776		30,935	
e) *forward*	6,598		19,945	
f) *futures*		168		581
g) other	29,351		29,703	
2. Banking book - hedging				
a) options				
b) *interest rate swaps*				
c) *cross currency swaps*				
d) *equity swaps*				
e) *forward*				
f) *futures*				
g) other				
3. Banking book - other derivatives				
a) options				
b) swap				
c) forward				
d) futures				
e) other				
Total	**9,430,055**	**1,527,691**	**8,779,843**	**4,833,961**

Note:
for the sake of complete disclosure, we inform that:
- *transactions to be received and delivered (regular way) are excluded;*
- *complex contracts such as collar, strangle, straddle, etc. are represented breaking the instruments down into the elementary options.*

A.4 Financial derivatives: negative gross fair value - breakdown by product

Underlying assets / Type of derivatives	*31/12/2012*		*31/12/2011*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**8,279,442**	**1,504,784**	**7,984,554**	**5,068,043**
a) options	1,504,953	126,855	1,357,474	153,447
b) *interest rate swaps*	6,635,348	1,377,329	6,495,817	4,914,456
c) *cross currency swaps*	58,600		55,578	
d) *equity swaps*	14,765		18,358	
e) *forward*	40,358		19,399	
f) *futures*		600		140
g) other	25,418		37,928	
2. Banking book - hedging	**2,071**		**1,111**	
a) options				
b) *interest rate swaps*	2,071		1,111	
c) *cross currency swaps*				
d) *equity swaps*				
e) *forward*				
f) *futures*				
g) other				
3. Banking book - other derivatives				
a) options				
b) swap				
c) forward				
d) futures				
e) other				
Total	**8,281,513**	**1,504,784**	**7,985,665**	**5,068,043**

Note:
for the sake of complete disclosure, we inform that:
- *transactions to be received and delivered (regular way) are excluded;*
- *complex contracts such as collar, strangle, straddle, etc. are represented breaking the instruments down into the elementary options.*

A.5 OTC financial derivatives - supervisory trading portfolio: notional value and positive and negative gross fair value by counterparty - contracts not falling within compensation agreements

Agreements not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other*
1. Debt securities and interest rates							
- notional value			4,130,253	514,586	1,104,378	2,521,269	1,538,385
- positive fair value			35,291	11,084	2,870	203,730	167
- negative fair value			2,341	1,997	31,552	1,605	23,820
- future exposure			25,509	2,484	-	21,037	7
2. Debt securities and share indices							
- notional value	5		2,650				
- positive fair value	4		5,238				
- negative fair value			3,570				
- future exposure							
3. Currencies and gold							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
4. Other values							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - supervisory trading portfolio: notional value and positive and negative gross fair value by counterparty - contracts falling within compensation agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other*
1. Debt securities and interest rates							
- notional value				178,411,359	15,949,673	3,477,492	
- positive fair value				6,901,462	1,002,374	616,223	
- negative fair value				6,738,531	634,926	3,774	
2. Debt securities and share indices							
- notional value				8,883,966	2,587,414	3,480,409	
- positive fair value				418,920	116,149	16,379	
- negative fair value				264,472	148,796	296,360	
3. Currencies and gold							
- notional value				4,083,826	460,950		
- positive fair value				65,335	4,512		
- negative fair value				85,436	4,774		
4. Other values							
- notional value				327,431	27,442		
- positive fair value				29,929	390		
- negative fair value				36,642	847		

A.7 OTC financial derivatives - bank portfolio: notional value and positive and negative gross fair value by counterparty - contracts not falling within compensation agreements

There are no contracts at 31 December 2012 which do not fall within compensation agreements.

A.8 OTC financial derivatives - bank portfolio: notional value and positive and negative gross fair value by counterparty - contracts not falling within compensation agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other*
1. Debt securities and interest rates							
- notional value			37,500				
- positive fair value							
- negative fair value			2,071				
2. Debt securities and share indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currencies 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	*Within 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A. Regulatory trading book	**53,437,976**	**115,680,772**	**58,382,741**	**227,501,489**
A1 Financial derivatives on debt securities and interest rates	46,022,917	106,762,116	54,862,362	**207,647,395**
A2 Financial derivatives on equity securities and stock indexes	4,732,029	6,904,888	3,317,528	**14,954,445**
A3 Financial derivatives on exchange rates and gold	2,508,233	1,879,699	156,844	**4,544,776**
A4 Financial derivatives on other values	174,797	134,069	46,007	**354,873**
B. Banking book		**37,500**		**37,500**
B1 Financial derivatives on debt securities and interest rates		37,500		**37,500**
B2 Financial derivatives on capital securities and share indices				
B3 Financial derivatives on exchange rates and gold				
B4 Financial derivatives on other values				
Total 31/12/2012	**53,437,976**	**115,718,272**	**58,382,741**	**227,538,989**
Total 31 December 2011	**69,026,894**	**136,082,060**	**75,062,202**	**280,171,156**

In this table the remaining life is determined with reference to the contractual maturity of the derivatives in question, except for the interest rate swaps (irs) with variable notional capital, for which the remaining life have been calculated with reference to the single irs into which they can be broken down.

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

The Bank, like the MPS Group, is not currently provided with EPE models, either for internal management purposes or for signalling purposes.

B. CREDIT DERIVATIVES

B.1 Derivatives on credit: period-end and average notional values

Transaction categories	Trading portfolio supervisory		Banking book	
	on one item	on several item (basket)	on one item	on several item (basket)
1. Protection purchases				
a) credit default products	*12,906,421*	*13,829,302*		
b) credit spread products				
c) total rate of return swap				
d) others				
Total 31/12/2012	**12,906,421**	**13,829,302**		
Average values 31/12/2012	**12,395,468**	**23,990,172**		
Total 31 December 2011	**11,829,900**	**26,467,828**		
2. Protection sale				
a) credit default products	*13,387,657*	*13,791,091*		
b) credit spread products				
c) total rate of return swap	*253,417*			
d) others				
Total 31/12/2012	**13,641,074**	**13,791,091**		
Average values 31/12/2012	**12,251,856**	**23,840,427**		
Total 31 December 2011	**11,755,723**	**26,327,044**		

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

Portfolio / Type of derivative	*31/12/2012*	*31/12/2011*
A. Supervisory trading portfolio	1,572,493	2,815,025
a) credit default products	*1,305,711*	*2,661,407*
b) credit spread products		
c) total rate of return swap	*266,782*	*153,618*
d) others		
B Bank portfolio		
a) credit default products		
b) credit spread products		
c) total rate of return swap		
d) others		
Total	**1,572,493**	**2,815,025**

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

Portfolio / Type of derivative	*31/12/2012*	*31/12/2011*
A. Supervisory trading portfolio	1,596,872	2,747,477
a) credit default products	*1,596,872*	*2,747,477*
b) credit spread products		
c) total rate of return swap		
d) others		
B Bank portfolio		
a) credit default products		
b) credit spread products		
c) total rate of return swap		
d) others		
Total	**1,596,872**	**2,747,477**

B.4 OTC credit derivatives: fair values (positive and negative) by counterparty - agreements not included in offset agreements

All OTC derivative contracts are included in offset agreements.

B.5 OTC credit derivatives: fair values (positive and negative) by counterparty - agreements included in offset agreements

Agreements included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other*
Supervisory trading							
1. Protection purchase							
- notional value			19,008,508	6,115,050	1,612,164		
- positive fair value			197,262	601,746	324,017		
- negative fair value			150,284	34,549			
- future exposure							
2. Protection sale							
- notional value			17,839,881	7,217,199	2,375,085		
- positive fair value			143,158	306,309	-		
- negative fair value			210,530	760,786	440,723		
- future exposure							
Banking book							
1. Protection purchase							
- notional value							
- positive fair value							
- negative fair value							
2. Protection sale							
- notional value							
- positive fair value							
- negative fair value							

B.6 Residual life of credit derivatives: notional values

Underlying elements / Residual life	*Within 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A. Supervisory trading portfolio	**11,144,291**	**34,028,660**	**8,994,936**	**54,167,887**
A.1 Credit derivatives with "qualified" "reference obligation"	8,714,226	25,502,354	8,621,560	42,838,140
A.2 Credit derivatives with "unqualified" "reference obligation"	2,430,065	8,526,306	373,376	11,329,747
B. Bank portfolio				
B.1 Credit derivatives with "qualified" "reference obligation"				
B.2 Credit derivatives with "unqualified" "reference obligation"				
Total 31/12/2012	**11,144,291**	**34,028,660**	**8,994,936**	**54,167,887**
Total 31 December 2011	**2,263,318**	**65,971,505**	**8,145,672**	**76,380,495**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

B.7 Credit derivatives: counterparty/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 value and future exposure by counterparty

	Governments and Central Banks	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Other operators*
1. Bilateral agreements financial derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
2. Bilateral agreements credit derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3. “Cross product” agreements							
- positive fair value			1,062,016	538,412	215,761		
- negative fair value			793,892	91,633			
- future exposure			1,941,945	527,759	276,076		
- net counterparty risk			2,469,520	549,955	244,179		

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. General aspects, management procedures and gauging methods for liquidity risk
Within the sphere of the periodic review of the models and processes, the MPS Group revised the approach for identifying, measuring and managing the liquidity risk (Group Liquidity Risk Framework).

Group Liquidity Risk Framework
The Group's Liquidity Risk Framework is the series of tools, methods, organisational and governance systems which ensures both compliance with national and international regulations and adequate management of the liquidity risk in the short and medium/long term, under normal business conditions and in the case of turbulence.
The management of the operating liquidity pursues the purpose of ensuring the Group's capacity to satisfy the short term cash payment commitments. The essential condition for normal operational continuity of the banking activity is to maintain a sustainable difference between the incoming and outgoing cash flows in the short term. The measure of reference in this sphere is the difference between the accumulated net cash flow and the counter balancing capacity, i8.e. the reserve of liquidity which allows for dealing with stress conditions in the short term.
Structural liquidity management aims to ensure the financial balance of the structure according to due dates over a period of time of more than one year, at both Group level and at that of the single companies (including MPSCS). Maintaining an adequate dynamic ratio between medium/long term liabilities and assets is aimed ad avoiding pressure in respect of both present and future short term collections. The measure of reference, to which the mitigation system is applied by means of specific internal operating limits established by the Board of Directors, are gap ratios which measure both the ratio between total commitments and collections falling due between 1 and 5 years, and the ratio between commitments and collections regardless of due dates.
The liquidity position is monitored both under normal conditions in the course of business and in conditions of stress. The financial years must both bring to light immediately the Bank's main vulnerability to the liquidity risk and allow for prudential determination of the supervisory limits in terms of counter balancing capacity (liquidity buffer).
The Contingency Funding Plan, which is drawn u p by the Finance, Treasury and Capital Management department, is the document which described all the tools, policies and processes to be implemented in the case of stress or liquidity crisis.

System of limits
Within the budget process, especially as regards Risk Appetite, the Liquidity Risk Framework contemplated the identity of the liquidity risk tolerance thresholds, understood as maximum exposure to risk deemed sustainable under normal business conditions and in situations of stress. The short term and medium/long term limits for the liquidity risk are based on the definition of these Risk Appetite thresholds.
The system of limits for the short term is defined at three different levels, which allow for immediately noticing the approach of the operating limit, i.e. the maximum inclination for the liquidity risk defined in the annual risk tolerance process.
For immediate warning of the possible vulnerability of the Bank's position, the Group has set up Early Warnings, distinguishing them as generic or specific according to whether the purpose of the single indicator is to warn of possible critical aspects regarding the entire economic contest of reference, or specifically to the Group. If one or more early warning signals are triggered off, this represents a first alert level and contributes to the overall assessment of the Group's short term liquidity position.

QUANTITATIVE INFORMATION

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

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

Items / Maturities	*On demand*	*From more than 1 days to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 month to 6 months*	*From more than 6 month to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspeci-fied duration*
Cash assets	**7,440,697**	**1,113,197**	**2,234,532**	**376,738**	**782,976**	**1,482,590**	**2,587,913**	**6,560,052**	**11,160,137**	**14,660**
A.1 Sovereign securities	259	332	146,338	75,977	118,949	418,939	533,883	424,717	3,752,791	
A.3 Other debt securities	4,509	14,677	12,098	12,413	274,842	184,920	481,519	1,419,455	696,649	10,802
A.4 UCITS units38,024										
A.5 Loans	7,397,905	1,098,188	2,076,096	288,348	389,185	878,731	1,572,511	4,715,880	6,710,697	3,858
- banks	*6,406,456*	*16,314*	*1,652,303*	*151,539*	*25,731*	*225,353*	*305,503*	*549,807*	*2,013*	*3,858*
- customers	*991,449*	*1,081,874*	*423,793*	*136,809*	*363,454*	*653,378*	*1,267,008*	*4,166,073*	*6,708,684*	
Cash liabilities	**2,327,480**	**9,411,584**	**4,229,081**	**2,161,039**	**153,345**	**613,500**	**1,783,219**	**6,083,734**	**7,169,555**	**4,970**
B.1 Current accounts and deposits	278,934	2,200,000	400,000	1,200,000	10,000	119,000	20,000	911,818	1,027,184	-
- banks	*275,782*	*2,200,000*	*400,000*	*1,200,000*	*10,000*	*119,000*	*20,000*	*911,818*	*1,027,184*	
- customers	*3,152*									
B.2 Debt securities					1,217	10,168	27,338	20,001	50,566	
B.3 Other liabilities	2,048,546	7,211,584	3,829,081	961,039	142,128	484,332	1,735,881	5,151,915	6,091,805	4,970
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		951,949	1,346,877	264,550	1,117,378	1,176,967	446,825	1,466,750	844,710	817,700
- short positions		2,010,632	231,675	281,699	2,422,565	428,678	406,869	1,353,923	2,354,019	817,405
C.2 Credit derivatives with exchange of capital										
- long positions					295,000	1,048,750	668,320	1,736,925	781,619	
- short positions					15,075	1,244,000	669,600	1,850,000	989,433	
C.3 Financial derivatives without exchange of capital										
- long positions	9,634,897					854				
- short positions	8,331,949						1,596			
C.4 Credit derivatives without exchange of capital										
- long positions	1,147,231									
- short positions	1,148,860									
C.5 Deposits and loans to be received										
- long positions				100,000						
- short positions				100,000						
C.6 Irrevocable commitments to grant finance										
- long positions	51,180				5,566	31,576	51,425	387,186	406,167	39,055
- short positions	933,100									39,055
C.7 Financial guarantees given					10,877	2,568	186	83	104	
C.8 Financial guarantees received										

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

Items / Maturities	*On demand*	*From more than 1 days to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 month to 6 months*	*From more than 6 month to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspeci-fied duration*
Cash assets	**217,735**	**2,151**	**1,535**	**54,024**	**34,163**	**19,355**	**37,605**	**300,964**	**97,276**	**1,516**
A.1 Sovereign securities	27		154		128	175	395	721	11,678	
A.3 Other debt securities	4	61		12	1,265	1,521	3,142	11,739	21,395	1,516
A.4 UCITS units3,193										
A.5 Loans	214,511	2,090	1,381	54,012	32,770	17,659	34,068	288,504	64,203	
- banks	*165,309*			*45,917*	*18,597*			*14,997*		
- customers	*49,202*	*2,090*	*1,381*	*8,095*	*14,173*	*17,659*	*34,068*	*273,507*	*64,203*	
Cash liabilities	**64,020**	**24,325**	**28,350**	**25,423**	**154,510**	**183,059**	**2,177**	**11,729**	**302**	
B.1 Current accounts and deposits	4,127	24,325	27,669	25,423	135,460	179,789	2,156			
- banks	*4,127*	*24,325*	*27,669*	*25,423*	*135,460*	*179,789*	*2,156*			
- customers										
B.2 Debt securities										
B.3 Other liabilities	59,893		681		19,050	3,270	21	11,729	302	
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		88,411	182,582	237,039	523,825	112,487	176,447	240,748	8,399	48,984
- short positions		419,616	207,281	210,230	489,853	165,436	155,473	163,523	7,770	48,984
C.2 Credit derivatives with exchange of capital										
- long positions						7,579	31,833	483,781	26,451	
- short positions						45,475	12,885	593,804	33,273	
C.3 Financial derivatives without exchange of capital										
- long positions	501,721									
- short positions	438,299									
C.4 Credit derivatives without exchange of capital										
- long positions	151,842									
- short positions	146,515									
C.5 Deposits and loans to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments to grant finance										
- long positions								1,831	11,959	
- short positions	13,790									
C.7 Financial guarantees given										
C.8 Financial guarantees received										

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

Items / Maturities	*On demand*	*From more than 1 days to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 month to 6 months*	*From more than 6 month to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspecified duration*
Cash assets	**5,005**				**1**	**2**	**656**	**10,116**	**21,525**	**245**
A.1 Sovereign securities					1	2	3	55	82	
A.3 Other debt securities							653	10,061	21,443	245
A.4 UCITS units										
A.5 Loans	5,005									
- banks	*411*									
- customers	*4,594*									
Cash liabilities	**75,691**							**123**		**490**
B.1 Current accounts and deposits	75,691									
- banks	*75,691*									
- customers										
B.2 Debt securities										
B.3 Other liabilities								123		490
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		3,096		8,197	66,690	1,182	128,863	35,201		
- short positions		14	55,140		20,795		4,821	19,371		
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	24									
- short positions	418									
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.D Breakdown by contractual residual maturity of financial assets and liabilities - YEN

Items / Maturities	*On demand*	*From more than 1 days to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 month to 6 months*	*From more than 6 month to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspecified duration*
Cash assets	**35**									
A.1 Sovereign securities										
A.3 Other debt securities										
A.4 UCITS units										
A.5 Loans	35									
- banks	*35*									
- customers										
Cash liabilities	**8,550**							**2**		
B.1 Current accounts and deposits	7,106									
- banks	*7,106*									
- customers										
B.2 Debt securities										
B.3 Other liabilities	1,444							2		
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		1,503	22	121,628	3,531	217	186,016	130,409		
- short positions		5,235	22	228,778	5,330		174,224	133,503		
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	7,387									
- short positions	5,446									
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.E Breakdown by contractual residual maturity of financial assets and liabilities - OTHER CURRENCIES

Items / Maturities	*On demand*	*From more than 1 days to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 month to 6 months*	*From more than 6 month to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspeci-fied duration*
Cash assets	**34,477**	**15**		**344**		**71**	**645**	**9,098**	**4,964**	
A.1 Sovereign securities									1	
A.3 Other debt securities				344		71	513	1,553		
A.4 UCITS units										
A.5 Loans	34,477	15					132	7,545	4,963	
- banks	*28,059*									
- customers	*6,418*	*15*					*132*	*7,545*	*4,963*	
Cash liabilities	**24,507**	**40**		**11,157**		**2,169**				
B.1 Current accounts and deposits	24,314	40		11,157		2,169				
- banks	*24,314*	*40*		*11,157*		*2,169*				
- customers										
B.2 Debt securities										
B.3 Other liabilities	193									
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		13,701	2,518	78,733	74,969	36,455	22,690	282,445	2,688	
- short positions		18,333	2,518	87,148	239,213	13,035	18,052	98,632	2,688	
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	37,384									
- short positions	45,828									
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										

2. Self-securitisation transactions

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

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

In 2011, within the scope of these projects, the viability of a self-securitisation transaction was identified (as per Law 130/99) for part of the portfolio of performing mortgage loans issued to companies by MPSCS Bank. This transaction, resolved on in September 2011, was completed the following November. Although the Bank's direct and full subscription of the notes issued by the vehicle did not enable it to obtain direct liquidity from the market, the transaction in any case provided it with securities that can be used by the Parent Company for refinancing transactions with the ECB, improving the safety margin and the entire Group's liquidity risk position. The initially allocable AAA rated securities and at present with A2 rating, in fact represent the main core of the capacity to face short-term commitments through instruments that can be readily liquidated .

The operation is not defined pursuant to IAS 39 §15-23 and AG 34-52 as a “without recourse” sale for accounting purposes (so-called “*no derecognition*”), since the Bank substantially maintains all the risks and benefits of the securitised portfolio. As a result, the securitised loans remain in the Bank's financial statements.

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

- Non recognition of the receivables in the accounts has been extended to those of the entire securitisation operation, which has been the entered in a “summarised” form: the receivables continue to be posted under item 70 of the assets “Receivables from customers”, while the notes underwritten are not entered except for the surplus junior part (mainly represented by the cash reserves);
- the “summary” representation entailed netting all balance sheet and income statement relationships between MPSCS and SPV in MPSCS's separate financial statements.

Siena SME 11-1

On 30 November 2011, the Bank purchased the securities issued by the vehicle and thereby formalised a securitisation transaction of performing loans included within a portfolio of 3,494 loans backed by mortgages on land and/or non-residential real estate for a total amount of €3,059.1 million (net of pre-existing value adjustments), of which €2,752 million remains as at 31 December 2012. Those loans were all granted to companies with Italian residency.

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

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

- class A securities (A2 rated) for an overall equivalent value of €1,244.2 million (the first repayment was made in February 2012);
- class B securities (A3 rated) for a total equivalent value of €394.5 million;”
- class C securities (Caa1 rated) for a total equivalent value of €1,395.9 million;
- class D securities (NR rated) for a total equivalent value of €95.7 million (represented by both the cash reserve of €70.1 million constituted originally and €24.5 million as the coupon part of the portfolio sold to the vehicle company).

At 31 December 2012 the notes issued net of the amounts reimbursed amount to €2,813.7 million.

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

The cash reserve, entered under item 70 “Receivables from customers”, amounts to €63.8 million.
With regard to the dynamics of the securitised credit, pleas see the illustrated in table C.1.7 “Servicer activities” in Part E of the explanatory notes.

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

SECTION 4 - OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, management procedures and gauging methods for operational risks

By means of administrative measures dated 12 June 2008, the MPS Group was authorized by the Bank of Italy to use internal models for determining the capital requirements to cover credit and operational risks.

The adoption of the advanced model (AMA) establishes an organisational and cultural revolution within banks, which by way of necessity must:

- endow themselves with an internal organisation which defines the roles of the bodies and the corporate departments involved in the operating risks management process;
- endow themselves with a control department for the gathering and storage of data, the calculation of the requirement, the assessment of the risk profile and the reporting;
- check on the quality of the management system and the adequacy of the legislative prescriptions an on-going basis;
- delegate the internal auditing body to make periodic checks on the Operating Risks management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For such purposes, the MPS Group has endowed itself with an integrated system for the management of the operating risk, an internal framework built on a governance model which sees all the companies belonging to the scope of application of the AMA model involved, also MPSCS. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business unit.

The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardised manner (information or data), both qualitative and quantitative (mixed LDA -Scenario Model).

The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historic figures on internal and external loss (provided by the DIPO Consortium - Italian Database of Operating Losses).

The qualitative component instead is focused on the valuation of the risk profile of each unit and is based on the identification of relevant scenarios. In this context, the involvement of the companies in the AMA scope, including MPSCS, takes place through the identification of the processes and risks to be assessed, the assessment of the risks by the individuals responsible for the process, the identification of possible mitigation plans, the sharing during scenario round tables with the central divisions of the priority and technical-economic feasibility of the mitigation measures. This is followed by the monitoring of the implementation of the planned measures and compliance with targets and deadlines.

The Framework identifies the operating risk control function in the Operational Risk Management (ORM) Division (within the Parent Company's Risk Management office). This department, besides calculating the capital requirement for covering the operating risks by means of the use of various components of the model (internal data, external data, context and control factors, qualitative analysis) supports the Top Management's decision making process with a view to creating value by retaining, mitigating and transferring the detected risks and it also collects the internal loss data and it identifies the risks to be assessed in qualitative analyses.

The ORM has also set up a reporting system that provides timely information about operational risks to the Top Management, which translates the strategic principles of the management system into specific management policies. Reports are regularly submitted to the Risks Committee.

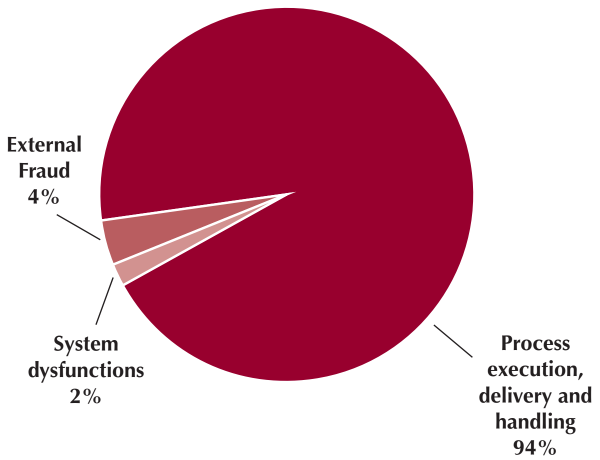
With regard to MPSCS, adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in fact a progressive reduction in the Bank's operational risk.

QUANTITATIVE INFORMATION

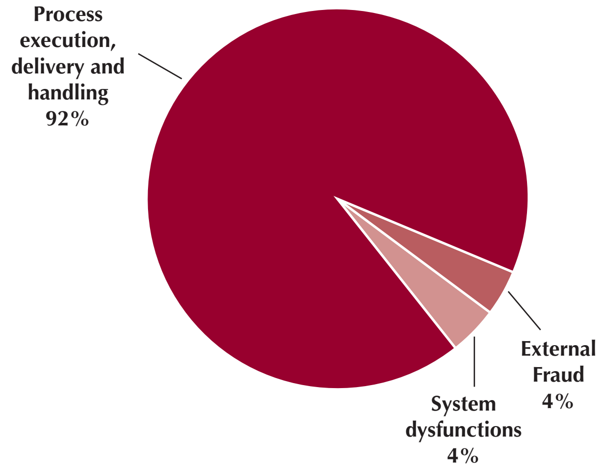
The percentage distribution of the number of events and of the operating losses recorded in 2012 is given below (55 events for €8.9/mln), divided into risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium-long term credit products and those of a specialist type, corporate finance assets, capital market products and structured loans):

- losses due to fraud, misappropriation or violation of laws by parties outside the bank;
- operating interruptions and system dysfunctions: losses due to operating interruptions or system dysfunctions or non-availability;
- Process execution, delivery and handling: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

% DISTRIBUTION OVER NUMBER OF EVENTS
MPS CAPITAL SERVICES - 31 December 2012



% DISTRIBUTION OF LOSSES
MPS CAPITAL SERVICES - 31 December 2012



With regard to the number of the events registered, almost all (94%) fall in the “Process execution, delivery and handling” class, which include mostly legal cases relative to the management of credit positions and crimes/penalties of small amounts.
However, the class with major impact in terms of loss (92% of the total) is represented by cases of external fraud, of which there is only one important event relative to a fraud committed in the issue of a loan.

Part F
Information on Equity

SECTION 1 - THE BANK'S CAPITAL

A. QUALITATIVE INFORMATION

The Bank's capital is made up of all those elements which do not fall under the definition of assets or liabilities according to the gauging and quantification methods established by the IAS.
Its management concerns all the policies and decisions necessary for defining the extent of the capital, so as to ensure that the capital and ratios of MPSCS consistent with the risk profile adopted and fulfil the supervisory requirements.
The Bank is subject to the capital adequacy requirements established by the Basel Committee according to the rules defined by the Bank of Italy (see Circular no. 155, XII update; Circular no. 263 of 27 December 2006 and subsequent updates). Based on these rules, at individual level the ratio between the capital and the risk weighted assets must be at least 8% (including the 25% reduction[5]): compliance with this requirement is checked each quarter by the Bank of Italy.
Among the various objectives defined in the management of the Bank's capital, oriented by prudential supervision provisions, there is the maintenance of adequate capitalisation levels for the assumption of typical investment banking risks, which may - inter alia - entail temporary absorptions of regulatory capital as a result of placement operations carried out on primary markets or for the concentration requirement on certain issuers or groups of companies.
Checking of the observance of the capital ratios and the consequent adequacy of the capital is dynamic over time and in relation to the objectives fixed in the business plan, revised annually according to economic-financial scenarios. The first check takes place in the process for assigning the budget targets and related risks (credit, market, operating), assigning the individual risk centres the average absorbed capital on the basis of the outstanding risks, gauged according to the VaR approach; these risks are met with the period end book balance of the capital (excluding profit).
Capital adequacy compliance is obtained by several means, such as the pay-out policy, the definition of strategic financial transactions (share capital increases, subordinated bonds, etc.) and the handling of the loan policy in relation to the risky nature of the counterparty, including the introduction of techniques for the mitigation of the credit risk (netting and gradual centralisation of operations in OTC derivatives towards central counterparties).
During the year, activities are systematically performed to monitor the observance of the supervisory ratios intervening where necessary, with appropriate policy and control action on the capital aggregates. A last control phase is launched when steps are taken to carry out extraordinary transactions (acquisitions and subscription for placements with guarantees), where the impact on the ratios is estimated and any necessary action is planned to comply with the regulatory restrictions of the Supervisory Authorities.

[5] *The Bank applies a 25% reduction to the overall capital requirement, in line with the provisions set forth by the aforementioned Bank of Italy circulars and with the directions of the Parent Company BMPS, thus meeting the expected overall consolidated requirement.*

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2012*	*31/12/2011*
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	638,479	620,285
of profit	393,200	373,955
a) legal	*38,522*	*36,252*
b) statutory	*31,842*	*29,572*
c) treasury shares (of the Parent Company)		
d) other	*322,836*	*308,131*
- others	245,279	246,330
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	(16,931)	(3,176)
- financial assets available for sale	*(16,931)*	*(3,176)*
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- non-current assets held for sale		
- actuarial income (losses) on definite benefit plans		
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (loss) for the year	1,276	45,407
Total	**1,127,348**	**1,167,040**

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

Assets / Balances	*31/12/2012*		*31/12/2011*	
	Reserve positive	*Negative reserve*	*Reserve positive*	*Negative reserve*
1. Debt securities		26,832	3	4,832
2. Equity securities	1,020		558	600
3. Units in collective investment undertakings	118		204	
4. Loans				
Total	**1,138**	**26,832**	**765**	**5,432**

B.3 Reserves from valuation of financial assets available for sale: annual changes (gross of the tax effect)

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(4,829)**	**(42)**	**204**	
2. **Positive changes**	**2,162**	**7,464**	**0**	
2.1 Increases in fair value	630	462		
2.2 Transfer to income statement of negative reserves	1,532	7,002		
- for impairment		*6,994*		
- for disposal	*1,532*	*8*		
2.3 Other changes				
3. **Negative changes**	**24,165**	**6,402**	**86**	
3.1 Decreases in fair value	24,165	6,402	86	
3.2 Transfer to income statement of positive reserves				
- for disposal				
3.3 Other changes				
4. Closing balances	**(26,832)**	**1,020**	**118**	

SECTION 2 - SUPERVISORY CAPITAL AND RATIOS

2.1 SUPERVISORY CAPITAL

A. QUALITATIVE INFORMATION

1. Tier I capital

The paid-in capital, reserves and profit for the period allocated to reserves, represent the primary quality capital elements. The total of these elements net of intangible fixed assets, the negative reserve on securities available for sale and the other elements to be deducted represents the Tier I capital. No hybrid capitalisation instrument was issued.

The BMPS Group opted to apply the prudential filter that neutralises the effects of assessments on the supervisory capital, for the securities issued by the central Administrations of European Union Countries included in the portfolio of "Financial assets available for sale - AFS". This approach, defined a "symmetrical" approach, is applicable to the calculation of the supervisory capital from 30 June 2010 onwards. The Bank did not benefit from this neutralisation, because the AFS portfolio contains only corporate securities.

Items / Balances	*31/12/2012*	*31/12/2011*
Positive elements		
Share capital	276,435	276,435
Share premium reserve	228,089	228,089
Reserves	638,479	620,285
Profit for the period	1,276	18,165
Tier I capital prudential filters		
Total positive elements of Tier I capital	**1,144,279**	**1,142,974**
Negative elements		
Other intangible fixed assets		
Prudential filters: deductions from Tier I capital		
Negative reserves on securities available for sale		
equity securities and units in collective investment undertakings		(81)
- other debt securities	(17,959)	(3,232)
Total negative elements of Tier I capital	**(17,959)**	**(3,313)**
Positive value gross of elements to be deducted	**1,126,320**	**1,139,661**
Total elements to be deducted from Tier I capital	**(33,016)**	**(24,496)**
Net positive value	**1,093,304**	**1,115,165**

2. Tier II capital

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

Items / Balances	*31/12/2012*	*31/12/2011*
Positive elements		
Valuation reserves	0	0
- property, plant and equipment		
- special revaluation laws		
- Property, plant and equipment used in the business		
Positive reserves on securities available for sale	1,028	136
- equity securities and units in collective investment undertakings	*1,028*	*136*
- other debt securities		
Subordinated liabilities	106,000	92,000
Excess of total write-downs with respect to estimated losses (*)	19,542	14,050
Prudential filters: increases in Tier II		
Total positive elements of Tier II capital	**126,570**	**106,186**
Negative elements		
Prudential filters: deductions from Tier II capital	**(514)**	**(68)**
Non-calculable portion of the asset valuation reserve of		
property, plant and equipment used in the business		
Non-calculable portion of the reserve from valuation of securities available for sale	(514)	(68)
- equity securities and units in collective investment undertakings	*(514)*	*(68)*
- other debt securities		
Total negative elements of Tier II capital	**(514)**	**(68)**
Total		
Positive value	**126,056**	**106,118**
Excess with respect to Tier I capital		
Positive value permitted gross of elements to be deducted	**126,056**	**106,118**
Total elements to be deducted from Tier II capital	**(33,016)**	**(24,496)**
Net positive value	**93,040**	**81,622**

Note:

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

For the main characteristics of the subordinated liabilities, please see the explanatory notes - part B - Liabilities, section 3 “Outstanding securities”.

3. Tier III capital

Items / Balances	*31/12/2012*	*31/12/2011*
Positive elements		
Subordinated loans issued	106,000	150,000
positive elements	**106,000**	**150,000**

For the main characteristics of the subordinated liabilities, please see the explanatory notes - part B - Liabilities, section 3 “Outstanding securities”.

B. QUANTITATIVE INFORMATION

		31/12/2012	31/12/2011
A.	**Tier 1 capital before application of prudential filters**	**1,144,279**	**1,142,974**
B.	Tier I capital prudential filters:	(17,959)	(3,313)
B.1	positive IAS/IFRS prudential filters (+)		-
B.2	negative IAS/IFRS prudential filters (-)	(17,959)	(3,313)
C.	**Tier 1 capital inclusive of elements to be deducted (A+B)**	**1,126,320**	**1,139,661**
D.	Elements to be deducted from tier 1 capital	(33,016)	(24,496)
E.	**Total Tier I capital (C-D)**	**1,093,304**	**1,115,165**
F.	**Tier 2 capital before application of prudential filters**	**126,570**	**106,186**
G.	Tier II capital prudential filters:	(514)	(68)
G.1	positive IAS/IFRS prudential filters		
G.2	negative IAS/IFRS prudential filters	*(514)*	*(68)*
H.	**Tier 2 capital inclusive of elements to be deducted (F+G)**	**126,056**	**106,118**
I.	Elements to be deducted from Tier II capital	(33,016)	(24,496)
L.	**Total Tier 2 capital (H-I)**	**93,040**	**81,622**
M.	Elements to be deducted from Tier I and Tier II capital	-	-
N.	**Supervisory capital (E+L-M)**	**1,186,344**	**1,196,787**
O.	Tier III capital	-	150,000
P.	**Regulatory capital including Tier 3 (N+O)**	**1,186,344**	**1,346,787**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The Bank determines its Supervisory Capital on the basis of the effects of the application of the IAS/IFRS international accounting standards and of the supervisory rules issued by the Bank of Italy.
As shown in the table on the composition of the Supervisory Capital (see previous point 2.1 of section 2 part F of the explanatory notes) and on its coefficients (see following paragraph "B. Quantitative information"), as of 31 December 2012 the Bank had:

- a ratio between Tier I capital and risk weighted assets of 8.82%, 6.61% before the 25% prescribed reduction (as of 31 December 2011, they were respectively 8.25% and 6.19%);
- a ratio between Supervisory Capital and risk weighted assets of 9.57%, 7.17% before the 25% prescribed reduction (as of 31 December 2011, they were respectively 9.96% and 7.47%).

In particular, the Tier 1 capital amounts to €1,093 million, compared to €1,115 million at 31 December 2011 (substantially unvaried). The dynamics of the main positive and negative components are shown below:

- total capitalisation of the profit for 2012 (equal to €1,3 million);
- increase in the negative evaluation reserve by about €14 million (linked to the debt securities held in the AFS portfolio);
- increase in the elements to be deducted by about €9 million (from €24 million at 31 December 2011 to €33 million at 31 December 2012), mainly due to the increase of the "delta" of the expected losses compared to the value adjustments on credits posted on the financial statement (of which 50% is deducted from the Tier 1 capital, and the remaining 50% from the Tier 2 capital).

At the end of 2012, Tier II capital totalled €93 million compared to €82 million recorded as of 31 December 2011. The €11 million increase is due to the following:

- the issue of a Lower Tier II junior bond in the first quarter of 2012 for €50 million nominal, and, in parallel during the year, the repayment of nominal €36 million relative to the junior bonds issued in previous years (according to the due dates indicated in the respective regulations);
- increase in the elements to be deducted by about €9 million (from €24 million at 31 December 2011 to €33 million at 31 December 2012), mainly due to the increase of the "delta" of the expected losses compared to the value adjustments on credits posted on the financial statement (see not on the Tier 1 capital) compensated by the increase of €6 million of the portion relative to the exposures for which the value adjustments were higher than expected)[6].

At 31 December 2012 there were no items ascribable to the Tier III, other than those already registered in the financial year 2011, on which a Tier III0 junior loan of €150 million was posted (issued in the last month of 2009 and entirely repaid in January 2012), entirely registered for the purpose of market risk hedging.
The risk weighted assets (RWA) amount to €12,402 million at 31 December 2012, against €13,517 million posted at 31 December 2011, by effect of the decrease in the integration of the requisites for the floor[7], reduced by €223 million registered in the previous year to the present €74 million of 2012.
The Bank monitors its capital adequacy within an extensive operational and strategic management process defined by the Parent Company BMPS. This process, extended throughout the MPS Group (to which MPSCS belongs), tends to pursue two different goals: the first, implementing a punctual or current monitoring of the evolution of capital; the second, programming the capital position in a prospective view, consistently with the bank's processes and activities characterised by forward looking elements.

The Bank, in line with the indications issued by the Parent Company for the whole Group, adopts different and, in some cases, parallel methods of processing and analysing capital adequacy. For this purpose, it uses prudential reporting rules for the use of the same analysis for management purposes with regard to the various processes for calculating and forecasting the supervisory capital and the capital absorptions, duly taking into account, for all operational and strategic decisions, the current and prospective capital ratio targets the Parent Company intends to reach (also consistently with the authorisation received from the Supervisory Body Bank of Italy to use advanced internal models both on the Credit risk - AIRB and on the operational risk - AMA).
Capital management activities regard the set of policies and choices necessary to define the capital dimensions and the optimal combination of the various alternative capitalisation instruments, in order to ensure that the capital endowment and the related ratios are consistent with the risk profile assumed and respect supervisory requirements. In this context, capital management at the Group level has become increasingly fundamental and strategic, keeping in mind that the quality and size of capital resources of the individual companies (including MPSCS) of which the Group is comprised are defined as part of the more general Group targets. The Bank monitors the adequacy of its capital within the sphere of such objectives defined by the Parent Company.

The Group is subject to the capital adequacy requisites established by the Basel Committee according to the rules defined by the Bank of Italy ("New prudential supervisory provisions for banks" 13th revision of Circular n° 263 of 27 December 2006 and "Instructions for filling in the reports on the supervisory capital and on the prudential coefficients" 11th revision of Circular n° 155/91). In the aforesaid circular 263, the Bank of Italy emphasises the fact that the prudential regulation is mainly of the consolidated type; on the basis of this regulation, the ratio between the supervisory capital and the weighted risk assets must be, at the consolidated level, equal to at least 8%; respect of the requisite on a consolidated basis is checked every six months by the Bank of Italy. As well as compliance with the obligatory minimum capital coefficients ("first pillar"), the regulation requires the use of internal methods aimed at determining the present and future adequacy of the capital ("second pillar"). The existence, together with the obligatory minimum coefficients, of the "second pillar" in fact widen the concept of capital adequacy, which takes on a more global nature and pursues the overall verification of the capital need and of the sources effectively available, in accordance with the Group's own strategic and development objectives.
In order to ensure continuous and effective supervision of capital adequacy elements, the BMPS Group has a Capital Adequacy department, which operates within the Parent Company's Operational Planning Area. In the course of 2012, amongst the numerous activities carried out, the aforementioned department specifically handled:
- drawing up - with the support of the applicable departments - the ICAAP Report relative to the financial year 2012, aimed at assessing the Group's capital adequacy on the basis of the rules set forth by Circular 263 mentioned previously. Since ICAAP also requires a forecast capital adequacy assessment, the Group has adopted a structured capital simulation process, through which the outlook capital requirements and the relative regulatory capital ratios, the total internal capital and the expected future Available Financial Resources (AFR) are estimated. The outputs produced are also re-calculated by subjecting the input variables to stress conditions, on the basis of a hypothetical recession scenario, prepared by the applicable departments, in order to determine the overall impact on capital ratios and assess the sustainability of the related contingency plans;
- interpreting, analysing and estimating the impacts of Basel III, developing long-term forecast models which aim to highlight the contributions of the individual items subject to the reform and participating in various System initiatives on this topic.

[6] *of this last, only 0.6% of the total RWA AIRB can be included, as a positive element, in the Tier II capital.*
[7] *as set forth in the regulatory provisions for banks which use the AIRB system or AMA methods, represents the limit below which risk weighted assets cannot decrease, at the moment, calibrated at 85% of the risk weighted assets calculated on the basis of the previous Basel 1 regulations.*

B. QUANTITATIVE INFORMATION

Categories/Balances	*Unweighted amounts*		*Weighted amounts/ requirements*	
	31/12/2012	*31/12/2011*	*31/12/2012*	*31/12/2011*
A. RISK ASSETS				
A.1 Credit and counterparty risk	**42,660,901**	**40,321,450**	**9,415,293**	**8,896,190**
1. Standardised method	31,267,619	29,197,071	6,147,301	5,847,940
2. Methods based on internal ratings	11,391,362	11,115,443	3,257,045	2,971,857
2.1 Basic				
2.2 Advanced	11,391,362	11,115,443	3,257,045	2,971,857
3. Securitisations	1,920	8,936	10,947	76,393
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**753,223**	**711,695**
B.2 Market risks			**446,493**	**468,353**
1. Standard method			446,493	468,353
2. Internal models				
3. Concentration risk				
B.3 Operating risk			**48,676**	**39,188**
1. Basic method				
2. Standardised method				
3. Advanced method			48,676	39,188
B.4 Other prudent requirements				
B.5 Other calculation elements			**(256,250)**	**(137,870)**
B.6 Total prudential requirements			**992,142**	**1,081,366**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			**12,401,775**	**13,517,075**
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			**8.82**	**8.25**
C.3 Supervisory capital including TIER3/Risk-weighted assets (Total capital ratio)			**9.57**	**9.96**

Item B.5 “Other calculation elements” includes the 25% reduction in the requirements because MPSCS belongs to the BMPS Banking Group, i.e. €330,714 thousand (€360,455 thousand for 2011) as well as the amount of €74,464 thousand as an addition to the floor (against €222,585 thousand determined in the previous year).
The amount of the risk weighted assets per item C.1 is determined as the product of the total prudential requirements (item B.6) and 12.5 (inverse of the minimum mandatory coefficient of 8%).
Not considering the 25% reduction of the requirements, the total capital ratio at 31 December 2012 is 7.17% (at 31 December 2011, it was 7.47%).

Part G
Business Combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2012, no business combination transactions were carried out regarding companies or business segments.

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

Nothing to report.

SECTION 3 - RETROSPECTIVE CORRECTIONS

No correction to report.

Part H
Transactions with related parties

In accordance with IAS 24 the "key management personnel" include the following: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the compensation of executives with strategic responsibilities

	31/12/2012	*31/12/2011*
Short-term benefits	2,035	2,865
Benefits after the termination of the employment relationship		
Other long-term benefits		
Indemnity for the termination of the employment relationship		
Share-based payments		
Other remuneration		
Total	**2,035**	**2,865**

2. Information on transactions with related parties

The Consob Regulation, adopted by resolution n° 17221 of 12 March 2010 and successive amendments in implementation of art. 2391 bis of the Italian civil code, lays down the framework regulation for the management of transactions with related parties in listed or traded share issuing companies, in order to ensure the transparency and correctness of the aforesaid operations and the relative governing procedures. In implementation of the aforesaid Consob Regulation, the Boards of the MPS Bank have approved the Group Directive with the procedures contemplated by the "Regulation of provisions on transactions with Related Parties" carried out directly by the Parent Company or its subsidiaries.
The said Directive, successively implemented by MPSCS with the provisions of resolutions of 11 January 2011 and 19 July 2011, defines:
- the management model for transactions with related parties, in order to identify the roles and duties of the company boards and departments, as well as assigning the relative responsibilities;
- the processes to be carried out to comply with the Regulation;
- the criteria for identifying related parties;
- the rules for identifying transactions with related parties;
- cases of exemption from the application of the discipline;
- the inquiry procedures, proposed and approved, for the transactions in question and for the successive reporting to the Parent Company's boards;
- the protective measures necessary to ensure that transactions with related parties are reported to the market, also consistently with the periodic financial reporting.

To complete the Directive, the Parent Company BMPS has given operating details on the approach to be chosen for ensuring the substantial and procedural transparency and correctness of transactions with related parties. Similarly, MPSCS has formalised the said operating process in a specific internal regulation (Code of Conduct for Transactions with Related Parties).

With regard to the information given below, companies belonging to the credit group as defined by Italian legislative decree n° 385 of 1 September 1993 are considered as belonging to the MBP Banking Group.
Intra-group transactions must generally comply with the criteria of normality and are consistent with the opportunities and means offered by the Group to which MPSCS belongs. Transactions with the Parent Company are included in the

normal activity of the Group, divided according to the poly-functional model. The economic effects linked to the said transactions are normally settled on the basis of market conditions and disciplined by a special agreement between the parties entitled Service Level Agreement.
No unusual or atypical transactions were carried out in the period, nor are any pending at the end of December 2012 (as also at the end of December 2011).

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

	Parent Company	*Companies of the MPS Group*	*Incidence % of the aggregate*
Total financial assets	**11,074,950**	**813,217**	**25.2%**
- Receivables due from banks/customers	5,938,941	332,520	29.7%
- HFT and AFS assets	5,133,290	479,215	21.9%
- Other assets	2,719	1,482	1.5%
Total financial liabilities	**13,924,074**	**10,554,058**	**53.2%**
- Receivables due from banks/customers	6,785,697	10,436,007	93.5%
- HFT liabilities	7,081,495	72,006	26.1%
- Outstanding securities	50,566	45,647	90.2%
- Other liabilities	6,316	398	5.6%
Income statement			
Interest income	132,406	11,566	20.5%
Interest expense	(138,972)	(214,254)	88.1%
Fee income	4,660	-	4.2%
Fee expense	(25,565)	(10,601)	46.9%
Administrative expenses and recoveries	3,824	(11,967)	10.7%
Other income	259	5	5.7%
Guarantees given	**883,635**	**-**	**2.8%**
Guarantees received	**-**	**24,907**	**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	**377**	**208,211**	**0.4%**
- Receivables due from banks/customers	377	164,640	0.9%
- HFT and AFS assets		43,502	0.2%
- Other assets		69	0.0%
Total financial liabilities		**9**	**0.0%**
- Other liabilities		9	0.0%
Guarantees given		**5,000**	**0.0%**
Guarantees received	**600**	**503,946**	**1.4%**

2.d Fees paid to the independent auditing firm and the bodies belonging to its network
(pursuant to art. 149 duodecies of CONSOB Resolution no.15915 of 3 May 2012)

Type of services	*Party providing service*	*Subsidiary company*	*Fees*
Accounts auditing	KPMG S.p.A.		265
Certification services	KPMG S.p.A.		3
Periodic assessments	KPMG S.p.A.		26
Total			

Note:
the afore-mentioned amounts are net of VAT and expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which exercises management and coordination activities.
The basic data of the most recent financial statements (2011) approved by the parent company are provided below.

2.1 Corporate Name:	**BANCA MONTE DEI PASCHI DI SIENA S.p.A.**
2.2 Headquarters:	Piazza Salimbeni, 3 - Siena, Italy
Other details:	Share capital €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 2011

Balance sheet

Assets	214,576,017	Liabilities	205,169,088
		Shareholders' equity	9,406,929
Total Assets	**214,576,017**	**Total liabilities**	**214,576,017**

Income Statement

Profit /loss on current operations	(4,796,258)
Income taxes for the period	151,880
Profit (Loss) on discontinued operations	-
Profit for the period	**(4,644,378)**

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) issued in previous years. For the current year, since the parameters of reference contained in the Complementary Company Contract, the Bank has not made any assignments.

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 2012.

ATTACHMENTS TO THE EXPLANATORY NOTES

Reclassifications made for better comparability to the Statements as of 31/12/2012

Attachment n. 1

Items	*Amounts in thousands of Euro*	*Notes*
BALANCE SHEET - ASSETS		
130. Tax assets b) prepaid taxes	(3,629,044)	*(a)*
BALANCE SHEET - LIABILITIES		
80. Tax liabilities b) deferred taxes	3,629,044	*(a)*

Note:
(a) as from the financial statement 2012, the Bank has offset the prepaid and deferred taxes, entering on its balance sheet, at the level of the tax itself and for each financial year, taking into account the repayment plan.

Attachment No. 2

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

STATEMENT OF ACCOUNT as of 31 December 2012

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

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2012
(amounts in Euro)

The "MPS Capital Services Banca per le Imprese S.p.A. Pension Fund", enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.
The "Fund" is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

- the "defined benefit" segment of the "Fund" contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
- the section of the "defined contribution" Fund has its own separate and autonomous capital. The following are paid into the said section, which does not have a separate legal identity:
  - contributions payable by the Bank and the fund Members;
  - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment. The 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 2012 was €5,531,851.32 and it is recorded under liability item 120a in the Bank's balance sheet.
It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 43 members, all retired, of which 18 men and 14 women receiving a direct pension, along with 11 women receiving an indirect and survivor's pension.
The periodic benefits disbursed in 2012 amounted to €574,930.89.
During the year, it was necessary to make provisions for €272,428.11 so as to adjust the actuarial reserve to the estimate produced by the actuary.
No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) "DEFINED CONTRIBUTION" SEGMENT
The total of the net assets as of 31 December 2012 amounted to €35,770,841.85.
During 2012, the Bank paid over the contributions payable by the Company to the "Fund", along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by said employees in accordance with the Regulations and in compliance with the law.
The segment disbursed capital to retired employees who made requests, as per Articles 12, 16, 17 of the Fund Regulations, for a total amount of €377,171. The disbursements by way of advances on the total position accrued, concerned 20 requests for a total of €558,032 in 2012.

Furthermore during 2012, 1 position was transferred from other pension funds for a total amount of €23,003.
A total of 567 persons are enrolled in the segment of the "Fund" as of 31 December 2012, of which 555 are active and 12 are no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with Article 8, section 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.
The features of the investment lines are as follows:

Description	*Line C001* GPM 386133	*Line C002* GPM 386134	*Line C003* GPM 386135	*Line C004* GPM 386164	*Line C005* GPM 386072	*Line C006* GPM 386163	*Guaranteed line*
Time Horizon (years)	7-10	10-20	20-30	5	5		Collective policy
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Stock component	27%	48%	65%	7%	14%		

With regard to the management policies of the GPM of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for financial year 2012 are as follows.
The monetary component of the portfolio was characterised by an overweight positioning in terms of financial duration relative to the reference index and by the absence of spread products. Further, it was decided to concentrate the investment in securities issued by the Republic of Italy at a fixed and floating rate with average maturities of about six months, especially in the second part of the year. Despite the high volatility of the short-term bond markets of Peripheral Countries due to the concerns of insolvency linked to the sovereign debt crisis, the issues chosen helped to achieve a positive performance.
The bond component of the portfolios was characterised by an essentially neutral positioning in terms of financial duration relative to the reference index. The portfolio remained constantly diversified in terms of exposure to Core and Peripheral Countries, and the selection was limited to only German and Italian government bonds. Greek, Irish and Portuguese government bonds were never purchased. Active choices were implemented in the context of choosing curve segments. The 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 (Exchange Traded Funds) and funds with low tracking errors for the passive component, aimed at replicating the reference index, while for the active component, actively managed funds were chosen. A cautious neutral position was maintained for all the first half of the year, privileging American stock rather than European stock. In view of the action on the market of the central banks, especially the ECB, it was decided to increase the exposure to the European market in the second half of the year; this manoeuvre allowed for achieving an excellent performance also compared to the benchmark of reference.
Analysing the medium term (five years) shows that the compartments have an even yield in spite of the different weight of the stock component, due to market stress from in the years 2008 and 2011, while yields were consistent with the weight of the stock component in the short term analysis (three years).

Average composite annual return for 2008/2012:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
3.821%	**2.679%**	**2.004%**	**2.807%**	**3.095%**	**2.475%**	**3.316%**

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

Average composite annual return for 2010/2012:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
5.552%	**6.120%**	**6.818%**	**2.913%**	**3.717%**	**1.051%**	**2.539%**

The values of the individual portions of the different lines during the year are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31/12/2011	**1.156**	**1.225**	**1.290**	**1.067**	**1.100**	**1.029**	*(1)*
31/03/2012	**1.231**	**1.314**	**1.392**	**1.098**	**1.143**	**1.038**	*(1)*
30/06/2012	**1.217**	**1.297**	**1.372**	**1.094**	**1.136**	**1.038**	*(1)*
30/09/2012	**1.271**	**1.361**	**1.445**	**1.117**	**1.169**	**1.049**	*(1)*
31/12/2012	**1.306**	**1.398**	**1.482**	**1.132**	**1.189**	**1.051**	*(1)*

(1) the insurance policy provides for the management of individual positions

The percent return calculated on the average amount of each individual Line was as follows:

Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
12.920%	**13.984%**	**14.750%**	**6.180%**	**8.267%**	**2.137%**	**2.681%**

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in Euro.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2012, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the charges and income

The charges and income have been recorded on an accruals basis, irrespective of the date of collection or payment.
Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.
The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

BENEFITS OF THE "DEFINED CONTRIBUTION" SEGMENT
STATEMENT OF ACCOUNT AS OF 31 December 2012

BALANCE SHEET

(amounts in Euro)

Assets	*31/12/2012*	*31/12/2011*
Deposits	505,745	19,440
Assets entrusted under management	35,590,314	29,911,629
Collective policy (guaranteed line)	143,881	122,439
Sundry receivables		452,696
Tax credits	62,791	
Total assets	**36,302,731**	**30,506,204**

Liabilities	*31/12/2012*	*31/12/2011*
Tax liabilities	479,368	5,152
Sundry payables	52,522	6,255
Total liabilities	**531,890**	**11,407**

Assets destined for benefits	*31/12/2012*	*31/12/2011*
Fund endowment	31,824,378	31,070,771
Result of financial operations	3,946,463	-575,974
Total assets destined for benefits	**35,770,841**	**30,494,797**

The item "Deposits" is important, since at 31 December 2012 the contributions of the period had not yet been assigned for management.
The item "Sundry receivables" for the year 2011 refers to deposits of monthly contributions relative to the salaries for the month of December for which, at 31.12.2011, the transfer to the current account had not yet been completed).
The item "Tax payables" represents the substitute tax applied to the results of the financial management (significantly higher in 2012 than in the previous year).
The item "Sundry payables" refers to the sums withheld for IRPEF to be transferred within 16.01 of the following year, applied on advances paid in December of the year of reference.

INCOME STATEMENT

Welfare operations	*31/12/2012*	*31/12/2011*
Endowments at start of year	30,494,797	27,337,118
Contributions paid by employees	350,273	564,795
Contributions paid by the company	541,176	914,498
Portions of employee severance indemnity conferred	1,394,091	2,365,355
Transfer from other pension funds	46,506	466,992
Transfer to other pension funds and redemptions	(444,433)	(267,978)
Disbursement of advances	(558,032)	(310,009)
Result of welfare operations	**31,824,378**	**31,070,771**

Financial operations	*31/12/2012*	*31/12/2011*
Income/ losses on assets entrusted under asset management	3,736,386	(524,745)
Interest income	636,293	2,628
Other income	43,445	415
Interest expense		-
Fee expense for asset management	(29,565)	(19,873)
Substitute tax	(411,425)	(5,152)
Other expenses	(28,671)	(29,247)
Result of financial operations	**3,946,463**	**(575,974)**

STATEMENT OF ACCOUNT AS OF 31 December 2012
BREAKDOWN BY INVESTMENT LINE
(amounts in Euro)

BALANCE SHEET

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Assets							
Deposits	100,370	179,882	146,174	30,481	25,671	23,167	
Assets entrusted under management	7,136,854	11,640,363	11,970,565	1,523,378	1,588,820	1,730,334	
Collective policy							143,881
Tax credits	2,602	21,480	38,709				
Total assets	**7,239,826**	**11,841,725**	**12,155,448**	**1,553,859**	**1,614,491**	**1,753,501**	**143,881**
Liabilities							
Tax liabilities	99,869	169,556	180,198	10,281	14,775	4,280	409
Sundry payables	12,278		33,714			6,530	
Total liabilities	**112,147**	**169,556**	**213,912**	**10,281**	**14,775**	**10,810**	**409**
Assets destined for benefits							
Fund endowment	6,316,842	10,277,073	10,441,693	1,460,396	1,480,161	1,708,054	140,159
Result of financial operations	810,837	1,395,096	1,499,843	83,182	119,555	34,637	3,313
Total assets destined for benefits	**7,127,679**	**11,672,169**	**11,941,536**	**1,543,578**	**1,599,716**	**1,742,691**	**143,472**

INCOME STATEMENT

Welfare operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Endowments at start of year	6,434,614	9,846,969	10,152,668	1,407,244	1,475,801	1,055,368	122,133
Contributions paid by employee	69,080	102,439	101,114	28,775	19,196	29,669	
Contributions paid by the company	104,341	161,310	166,477	38,037	28,527	42,484	
Portions of employee severance indemnity conferred	243,246	415,983	435,550	92,372	74,982	96,031	35,927
Transfer from other pension funds	23,003		23,503				
Transfers and redemptions	(249,372)		(45,313)		(131,847)		(17,901)
Disbursement of advances	(169,919)	(101,366)	(195,537)	(42,490)	(32,296)	(16,424)	
Switches between lines	(138,151)	(148,262)	(196,769)	(63,542)	45,798	500,926	
Result of the management of welfare contributions	6,316,842	10,277,073	10,441,693	1,460,396	1,480,161	1,708,054	140,159

Financial operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C010*	*Line C015*
Income/ losses on assets entrusted under asset management	721,518	1,323,692	1,480,938	70,525	105,550	34,163	
Interest income	191,141	219,135	153,961	24,710	30,370	13,155	3,821
Other income	5,441	15,540	21,531	316	617		
Interest expense							
Fee expense for asset management	(4,153)	(7,687)	(8,775)	(738)	(820)	(7,392)	
Substitute tax	(97,053)	(146,313)	(138,312)	(10,281)	(14,776)	(4,281)	(409)
Other expenses	(6,057)	(9,271)	(9,500)	(1,350)	(1,386)	(1,008)	(99)
Result of financial operations	**810,837**	**1,395,096**	**1,499,843**	**83,182**	**119,555**	**34,637**	**3,313**

CERTIFICATION REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
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Relazione della società di revisione ai sensi dell'art. 14 del D.Lgs. 27 gennaio 2010, n. 39 e dell'art. 165 del D.Lgs. 24 febbraio 1998, n. 58

Agli Azionisti della
MPS Capital Services Banca per le Imprese 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 relativa nota integrativa, della MPS Capital Services Banca per le Imprese S.p.A. chiuso al 31 dicembre 2012. 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. 38/05,.compete agli amministratori della MPS Capital Services Banca per le Imprese S.p.A.. E' 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.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 2 aprile 2012.

3 A nostro giudizio, il bilancio d'esercizio della MPS Capital Services Banca per le Imprese S.p.A. al 31 dicembre 2012 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05; 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 Banca per le Imprese S.p.A. per l'esercizio chiuso a tale data.

4 Gli amministratori della Società, come richiesto dalla legge, hanno inserito nella nota integrativa i dati essenziali dell'ultimo bilancio della società che esercita su di essa l'attività di direzione e coordinamento. Il giudizio sul bilancio della MPS Capital Services Banca per le Imprese S.p.A. non si estende a tali dati.

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 Banca per le Imprese 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 n. 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 Banca per le Imprese S.p.A. al 31 dicembre 2012.

Firenze, 4 aprile 2013

KPMG S.p.A.

Andrea Rossi
Socio

REPORT OF THE BOARD OF AUDITORS

Board of Auditors Report to the Shareholders' meeting called to approve the annual Financial Statements closed as at 31 december 2012

(pursuant to art. 153 Italian Legislative Decree 58/98 and art. 2429 Italian Civil Code)

To the Shareholders' Meeting of MPS Capital Services Banca per le Imprese S.p.A.

During the year closed as at 31 December 2012, we carried out the supervisory activity in compliance with the provisions of the Italian Civil Code, of the protective Legislative Decrees 385/1993 (Consolidated Banking Law), 58/1998 (Consolidated Finance Law), 39/2010 (Consolidated Audit Law), the regulations of the articles of association, the provisions issued by the independent Administrative Authorities which exercise supervisory and control activities, as well as the principles of conduct of the Board of Statutory Auditors recommended by the Italian accounting profession.

We have received the draft financial statements approved by the Board of Directors within the legal terms. On the basis of the instructions provided by Consob in notice no. DEM/1025564 of 6 April 2001, we report the following:

1. We supervised compliance with law and with the Articles of Association.

2. The Board of Statutory Auditors met 43 times in 2012, it participated in 2 Shareholders' Meetings and in 16 meetings of the Board of Directors. The frequency of the board meetings made it unnecessary to receive written quarterly information from the Administrative bodies. In fact, during those meetings, exhaustive information was presented, also verbally, on the activities carried out and on the most significant transactions implemented by the Bank impacting the income, cash flow and balance sheet. We can reasonably affirm that the actions resolved on and implemented are compliant with the law and with the articles of association and are not clearly imprudent, risky, potentially involving conflicts of interest or contrary to the resolutions passed by the Shareholders' Meeting or such so as the compromise the integrity of the Company's assets.

3. We ensure that the transactions with related parties were always specifically analysed by the Board of Directors and, insofar as we are responsible, by this Board of Statutory Auditors. In that respect, the Company adopted the Regulation governing transactions implemented by Listed Companies, also through Subsidiaries, following the incorporation of the relative Parent Company Directive; this was done in implementation of Consob resolution 17221 of 12 March 2010, as amended with resolution 17389 of 23 May 2010, effective as of 1 January 2011. Having acknowledged that during the year, the Bank carried out intra-group transactions and/or with related parties, we controlled that they were not classified as atypical and/or unusual and that the relative contracts were drawn up in compliance with market conditions. The Explanatory Notes contain a summary description of those transactions. However, this Board did not detect atypical and/or unusual transactions or receive reports in this respect from the Auditing Company or from the Internal Controls Manager.

4. The Board of Statutory Auditors guarantees that it supervised to ensure that the transactions implemented with parties that carry out administrative, management and control functions for the Bank or Group companies were always implemented in compliance with art. 136 of the

Consolidated Banking Law and with the Supervisory Instructions and that, in any case, they were subject to a resolution passed by a unanimous vote of the Administrative bodies and of the Statutory auditors, without prejudice to the obligations set forth by art. 2391 of the Italian Civil Code regarding the interests of the directors, which were also found to be duly applied and respected. The same procedure was also used by those who carry out administrative, management and control functions at Group companies, for the deeds implemented with the Bank itself or with other Group companies.

5. We obtained information on and supervised, insofar as we are responsible, the adequacy of the Bank's organisational structure, compliance with principles of correct administration by collecting information, also obtained directly from the managers of the various operating departments, of Audit and of Compliance, as well as through meetings with the Auditing Company, for the purpose of reciprocally exchanging data and relevant information. This activity also involved meetings at various operating offices of your Bank. In that respect, the Board reports that it promptly informed the General Management for assessment of the appropriate measures to be taken, when it found this to be necessary, and that it implemented the proper control actions.

6. We supervised the functioning of the entire internal control system, ascertaining that all structures and departments involved were effective, and that the risk management and control system was suitable. Also in this case, all actions were undertaken through audit activities implemented jointly by the Statutory auditors, by obtaining information from the managers of the respective departments, analysing the corporate records, analysing the results of the work conducted by the Auditing Company and supervising the activities of the heads of internal control. The audits transversally regarded the entire company organisation, including controls on the systems and procedures, the different business areas and corporate operations. We constantly interacted with the Internal Audit function, a department which is autonomous and independent with respect to the managers of all other operating areas, both to receive the support necessary to execute the aforementioned audits, and to receive all inspection reports containing the outcomes of the controls which that Department conducted during the year. As regards the Compliance Department, that structure completed and governed the changes to its organisational structure, and also carried out the functions of the new Anti-money laundering service. We received the proper support from that Service on topics for which it is specifically responsible. Finally, we viewed the quarterly reports produced by the Group's Risk Management Department, and checked that the level of analysis and details was appropriate which, therefore, enables this Body to obtain suitable information regarding the effectiveness of the departments responsible for risk control and the corresponding coordination thereof.

7. As regards supervision of the Company's administrative and accounting system, we checked its suitability both on the basis of the controls directly performed by this Board and by periodically exchanging information with the Auditing Company MPMG. We did not receive reports from this latter concerning events deemed reprehensible found while conducting their auditing activities. We were able to share the procedures adopted to prepare the 2012 financial statements with the auditing company KPMG and, therefore, we can acknowledge its general compliance, as regards the presentation and layout, both with the law and with supervisory regulations. Insofar as we are

responsible, we therefore acknowledge the presence of a level of efficiency suitable for ensuring the correct presentation of the Bank's economic, equity and financial position as results from the financial statements for the year closed as at 31 December 2012.

8. We also held meetings with the Manager responsible for drawing up the company's accounting documents. At that time, that Manager did not report specific gaps in operating and control processes which due to their significance could invalidate the opinion on the suitability and effective application of administrative and accounting procedures, the correct representation of economic, equity and financial information and compliance with the IAS/IFRS international accounting standards and the reliability of the content of the Report on operations.

9. In drawing up the financial statements as at 31 December 2012, the Company applied the IAS/IFRS international accounting standards issued by the IASB (International Accounting Standards Board) and the relative interpretations provided by the IFRIC (International Financial Reporting Interpretations Committee). The financial statements as at 31 December 2012, and the relative attachments, were drawn up on the basis of Bank of Italy Circular no. 262 of 22 December 2005, amended by the first update of 18 November 2009. As regards joint document no. 2 of 6 February 2009 as amended, issued by the Bank of Italy, Consob and ISVAP concerning the application of IAS/IFRS, this Board acknowledges that the Report on Operations and the Explanatory Notes were prepared under the assumption of the company as a going concern, on the basis of the assessment made on the capacity to continue operating as a going concern.

10. The Tier 2 capital, equal to Euro 93 million at the end of 2012, increased during the period by Euro 11 million, subsequent to the issue of a junior Lower Tier 2 loan in the first half of 2012 for a nominal value of Euro 50 million, against the redemption of Junior Bonds for a nominal value of Euro 36 million issued in previous periods. There was also in increase in the elements to be deducted amounting to approximately Euro 9 million, most of which ensued from the increase in the difference between the forecast losses due to impairment of the receivables posted on the financial statements, compensated by an increase of Euro 6 million in the “ Excess of total write-downs with respect to estimated losses”.

11. In 2012, the director Turiddo Campami resigned for personal reasons; he has not been replaced at present.

12. The report on operations fully and clearly illustrates the main events which characterised the 2012 financial year, the significant facts which occurred after the year-end close, as well as the foreseeable business outlook. The report on operations corresponds to the provisions of art. 2428 of the Italian Civil Code, as reformulated by the introduction to Italian Legislative Decree no. 32 of 2 February 2007. With regard to said legislative decree, the Board acknowledges that the Auditing Company hired included in its certification its opinion on the consistency of the report on operations with the financial statements and carried out the procedures as set forth in auditing principle no. 001 issued by the Italian accounting profession, recommended by Consob.

13. To this regard, we inform you that in the last part of the period the MPS Group was subjected to an inspection on the part of the Bank of Italy, regarding the prudential allocations to protect against potential losses on non-performing credit. Positions in common with the Parent Company were the object of specific examination. We report that, subsequent to the continuance of the serious economic crisis, for purposes of prudence, the "Adjustments in net value for impairment" have been increased, including credit protected by secure guarantees. The said adjustments have moved from € 126.8 million in 2011 to € 365.0 million in 2010, with an increase of € 241.7 million. To this regard, we invite you to consult the full illustration of this aspect in the Report on Operations. We also wish to point out the increase in the item "Other provisions for risks and charges" which includes estimates of probable costs bearing on the bank connected with subsidised operations, as well as the appearance of liabilities for events of an external nature: this also includes the effect of the revaluation process of the assets used as guarantee for the overall exposure towards the "La Fenice Holding Spa" Group, for which it was deemed opportune to proceed with a conservative estimate as regards their recovery.

14. The Auditing Company, KPMG, hired to certify and audit the accounts, sent us its report on the financial statements in which it did not make remarks and deemed that the statements were drawn up clearly, in a manner which truthfully and fairly represents the equity, financial and economic situation. The Board of Statutory Auditors notes that it did not detect critical aspects with respect to the independence of that Auditing Company, and that it received a confirmation in that sense from those auditors pursuant to art. 17, paragraph 9, letter a) of Italian Legislative Decree 39/10.

15. In the course of the 2012 financial year, situations which required the Auditing Company to issue obligatory opinions pursuant to law did not occur. This Board issued an opinion concerning the Assessment on the correct application of the control criteria and procedures adopted by the Board of Directors to evaluate the independence of its members.

The Statement of account as at 31 December 2012 regarding the following pension fund is attached to the Explanatory Notes:
• Pension Fund of MPS Capital Services Banca per le Imprese SPA

This Board did not receive complaints pursuant to 2408 of the Italian Civil Code.

While supervisory activities were being carried out, and on the basis of the information obtained from the Auditing Company, omissions and/or irregularities or in any case significant facts were not found which would require reporting to the Control Bodies or mentioning in this report.

In conclusion, on the basis of the above, the Board of Auditors expresses a favourable opinion regarding:
• the approval of the financial statements as at 31 December 2012, including the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the relative changes in the reserves, the cash flow statement and the

Explanatory Notes, as well as the relative attachments and the Report on Operations;
• the proposal for allocation of the net profit for the year, as set forth by the Directors.

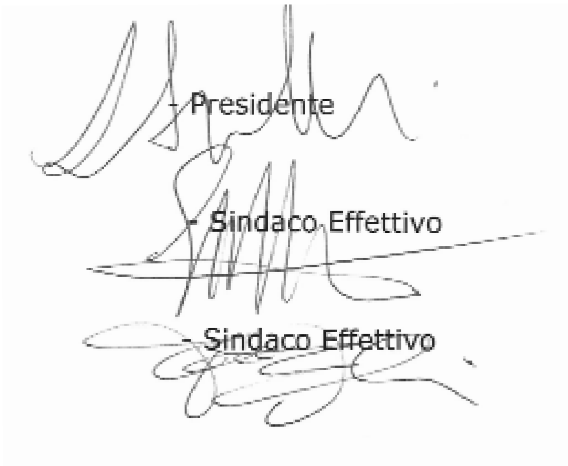
Lastly, in consideration of the expiry of the term of office of this corporate body, we invite you to appoint a new Board of Auditors. We take the opportunity to thank the Chairman of the Board of Directors, the Managing Director, the members of the Board of Directors, the Director General and the managers of the Internal Audit and Compliance departments for their valuable collaboration, who have always been more than ready to help us in our work, as well as the entire management and structure of the Bank.

Florence, 4 April 2013 THE BOARD OF AUDITORS

Mr. Francesco Bonelli

Mr. Stefano Bartalini

Mr. Paolo Bigliazzi



SHAREHOLDERS' MEETING RESOLUTIONS

The ordinary shareholders' meeting, summoned and held on first convocation on 19 April 2013, has passed the following resolutions:

POINT 1 OF THE AGENDA
To approve the 2012 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 2 OF THE AGENDA
To allocate the profit of 2012 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2012		
- to the legal reserve (5% of the total)	**Euro**	**63,820.21**
- to the reserve required by art. 26 of the Articles of Association (5% of the total)	**Euro**	**63,820.21**
- to the extraordinary reserve	**Euro**	**1,148,763.86**
PROFIT FOR 2012	**Euro**	**1,276,404.28**

POINT 3 OF THE AGENDA
Provisions pursuant to articles 2359 bis and 2357 of the Italian civil code and article 132 of Italian Legislative Decree n° 58/98; the acquisition of shares of the Parent Company Banca Monte Dei Paschi di Siena S.p.A.

- to confer on the Board of Directors, for a maximum term of 18 months from the day following the Assembly, mandate to purchase, exclusively on the market managed by Borsa Italiana S.p.A., up to a maximum number of 30,000,000 (thirty million) ordinary shares of Banca Monte dei Paschi di Siena S.p.A., in respect of the current brokerage procedures of the stock market.

POINT 4 OF THE AGENDA
The appointment of the Board of Auditors, due to termination of the mandate of the former members, composed of:

- FRANCESCO BONELLI, Chairman
- DANIELA MORONI, Standing Auditor
- FEDERICO CAPUTI, Standing Auditor
- PAOLO BOCCI, Alternative Auditor
- VITTORIO MARRONI, Alternative Auditor

POINT 5 OF THE AGENDA
Not to proceed with a new appointment to replace a resigning Director, since the Articles of Association in force contemplate a number between nine and fifteen members.