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

MPS
CAPITAL SERVICES

FINANCIAL STATEMENTS 2013

FINANCIAL STATEMENTS AT 31 DECEMBER 2013

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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 Rosellini, 16 Telephone +39 02-88891922/30 (Electronic Channels) Telephone +39 02-88891924/40/21 (Financial Institutions Italy and Abroad)
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 02/88233220 - 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
	Rome - Via Marco Minghetti, 30 Telephone +39 06/42006611 - Fax +39 06/42006680
	Naples - c/o Banca Monte dei Paschi di Siena Via Cervantes de Savaedra, 55 Telephone +39 081/6057393 - Fax +39 081/7341067
	Bari - c/o Banca Monte dei Paschi di Siena - Piazza Aldo Moro, 21 Telephone +39 080/5226244 - Fax +39 055/240826
	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
Director	Graziano BATTISTI
Director	Gabriele BENI
Director	Federico FEDERICI
Director	Angelo MARTINELLI
Director	Pierandrea SEMERARO
Director	Cataldo STAFFIERI
Director	Claudio VIGNI

BOARD OF AUDITORS

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

MANAGEMENT

General Manager	Giorgio PERNICI
Assistant General Manager	Carmine MANCINI
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 Service Ltd*:

LONG-TERM DEBT RATING:	**B2**
SHORT-TERM DEBT RATING:	**Not Prime**
FINANCIAL STRENGTH RATING:	**E**

In the first half of 2013, the long-term debt rating was downgraded by three notches, from Baa2 to the current B2. 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 2013, 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	891,017,041	276,215,282	99.92%
I.N.A.I.L.	239,634	74,287	0.03%
Other shareholders	468,313	145,177	0.05%
Total	**891,724,988**	**276,434,746**	**100.00%**

REPORT ON OPERATIONS

Reference Context

2013 was a year that continued to feature central banks as protagonists, with overall positive performance of the main financial assets. Among the main exceptions are the core bond markets (the US and Germany at the top) and the emerging equity and bond segment.

Fig.1 - 10 YEAR SPREAD ITALY AND SPAIN

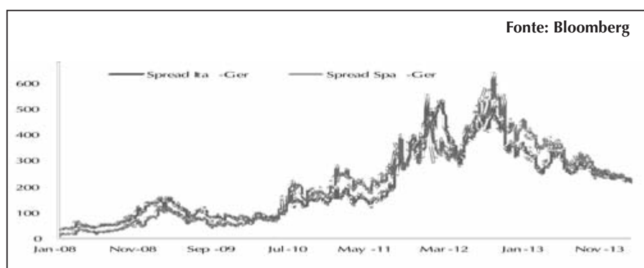
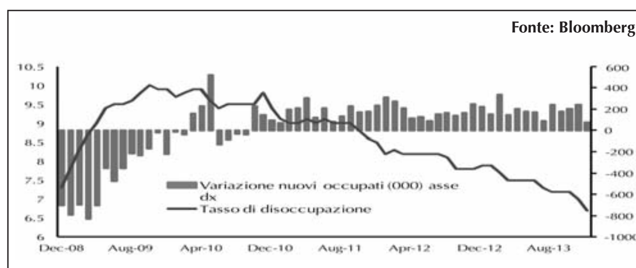


Fig. 2 - US UNEMPLOYMENT RATE



Fonte: Bloomberg
Variazione nuovi occupati (000) asse dx
Tasso di disoccupazione

Source: Bloomberg
Change in newly employed (000) right axis
Unemployment rate

In the US, the focus was on the pre-announced start of tapering (reduction of the asset acquisition plan), announced regarding its guidelines in May by the Chairman, Bernanke, in accordance with the following term: start by the end of 2013 with completion around the middle of 2014. The official announcement was them made in December 2013, with the start in January 2014. In the Eurozone, the ECB, in addition to further reducing the reference rate, also introduced explicit future directives in July: the reference rates will be kept at contained levels or even lower-than-current levels for an extended period of time. This forecast was then confirmed at the end of 2013, when the ECB pre-announced that full allocation of requests for major 7 day and 3 month operations will be guaranteed through to the middle of 2015. In April 2013 in Japan, the Bank of Japan (BoJ) pre-announced a colossal new asset acquisition plan, after the restructuring of the institution's top management, which is now much more pro-government than previously.
Regarding the **macroeconomic situation**, 2013 ended with the continuation of the recession in the Eurozone and fairly weak trends (below potential) for the US economy. IMF estimates indicate that the changes in GDP in the Eurozone and the US in 2013 should be expected to be around -0.4% and +1.9%, respectively. Nonetheless, the second half of the year saw improvements in both the Eurozone and in the United States, in contrast to fairly weak performance for the emerging economies.
Regarding **Euro government rates**, the first part of the year involved an extension of the spreads in the peripheral countries in a context of rising rates. This trend was then inverted after the ECB's decision to cut rates in May. In May 2013, the ten year BTP rate registered its lowest level of the year at around 3.76%, with a spread of around 260 bp. During the second part of the year, the decrease in the spreads was more notable, mainly thanks to the increase in German rates. It was not by coincidence that the lowest level of the spreads seen to that point in 2013, at around 220 bp, was not accompanied by a new low in the ten-year BTP rate, which in that case was a little above 4%. The potential causes for serious issues demonstrated a lesser impact than in the recent past, in particular the negotiations around the middle of the year regarding the granting of an additional tranche of aid to Greece as well as regarding the fear of a political crisis in Portugal in July. In fact, it was in this latter month that the ECB's commitment to maintaining the rates low or at even lower levels for an extended period was made clear, which in part has already been made concrete through the 25 bp cut in the reference rate in November.
In the **United States**, 2013 once again saw the Fed as the centre of attention. The intention indicated by the Institute in May to begin a quantitative easing (tapering) plan by the end of the year took the markets by surprise, leading to a marked

increase in medium/long-term government rates. In fact, the ten-year rate rose to over the 3% threshold, and remained at fairly high levels for the entire second half of the year. The actual decision regarding reduction of quantitative easing took place at the last meeting of the year. The total amount of purchases was reduced by 10 billion US dollars, settling at a monthly amount of 75 billion US dollars.
Regarding **currencies**, 2013 featured contrasting performance in the first and second half of the year. In fact, during the first six months the Euro was relatively weak against the US dollar which, after having reached its highest exchange rate since November 2011 at around 1.36/1.37,
underwent a substantial change after the Fed announced its hypothesis of a gradual quantitative easing plan (tapering), in any case remaining strong at around 1.28/1.30. The Fed's indication that it was open to the possibility of slowing its acquisitions plan led to an abrupt rise in volatility and a violent outflow of capital concentrated in emerging areas. On the other hand, the second half of the year was characterised by a generalised and constant appreciation of the Euro, leading it to be one of the strongest among the main currencies, above all thanks to some positive signs regarding economic growth in the Eurozone. The positive macrodata regarding Europe, which arrived in the summer, gave rise to the return of foreign investors to both the bond and stock markets, who benefited from the sizeable amounts of liquidity made available by the Fed and the Bank of Japan. The return of faith for investors was also reflected in a notable depreciation of those currencies, such as the Norwegian krone, Swedish krona and Australian dollar, which had previously benefited from the Eurozone crisis. As a consequence, the exchange rate for these currencies returned to the lowest levels of the pre-crisis period (2010/2011). In this context, the trend of a weak yen continued, connected to the new expansionist manoeuvre of the Bank of Japan, with the goal of breaking out of the deflationary phase, as well as the performance of the British pound which benefited on one hand from the increase in expected growth, and on the other from the less accommodating stance expected from the Bank of England with the arrival of the new Govenor, Carney. At the same time, the depreciation trend for the emerging currencies continued, even if the Central Banks of certain countries, such as Turkey and Brazil, had implemented market intervention measures in order to slow excessive depreciation of their relative currencies.

Fig. 3 - ECB REFERENCE RATES

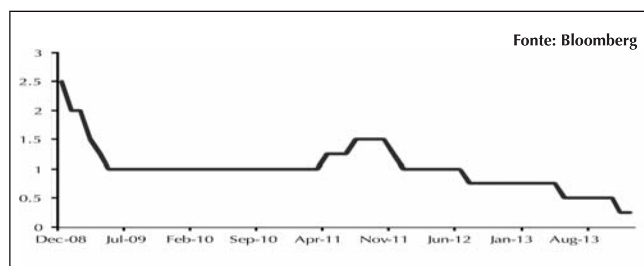
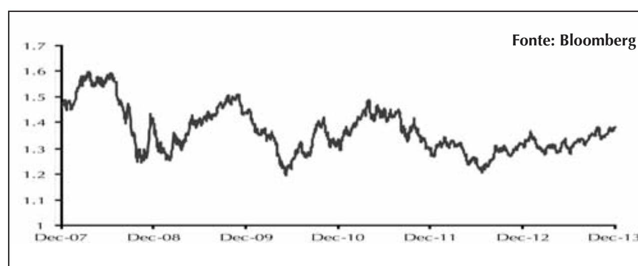


Fig. 4 - EURO/US DOLLAR EXCHANGE RATE



Fonte: Bloomberg *Source: Bloomberg*

For the **emerging areas**, 2013 featured a phase of slowing growth which mainly affected the most important countries, such as Russia and Mexico. The depreciation of currencies also brought with it inflationary tendencies, forcing some central banks, especially Brazil's, to adopt restrictive monetary policies.

During 2013, the slowing of the economy continued in **China**, especially during the first half of the year, while the second half showed a slight recovery. Growth was around 7.7%, in line with that of 2012. In November 2013, the long-term guidelines regarding economic policy were settled. Among the most important changes, are those relative to the demographic reform of the country (abandonment of the one-child policy), as well as the decision to give the market a greater role, incentivising the international use of the yuan. In addition, it was decided to strengthen welfare in the

country, increase protection of farmers regarding land rights and employment within the country, opening the banking system to private individuals. In the meantime, during the course of 2013 the authorities attempted to carry out “surgical” manoeuvres in support of the economy, attempting to avoid excessive increases in real estate values, which had once again begun to rise despite certain restrictive measures imposed by the authorities.
Regarding **raw materials,** the S&P GSCI Excess Return index ended 2013 slightly down (-1.3%) with varied trends within the sector indexes (Fig.5). The energy sector ended the year up by around 5%, above all thanks to the positive trend of the WTI, while the Brent ended almost par. Notable profit-taking affected precious metals (-30%), with gold down greatly due to the good performance of risky assets, very low inflation, and the expectations of tapering by the Fed. Non-ferrous metals also displayed a negative trend (-13%), affected by the economic slowing in China, the world’s largest consumer of the same. Finally, the agricultural sector also ended the year with a negative figure (-18%), above all due to cereals and arabica coffee with record harvests at the global level and weather conditions ideal for production.
In reference to the **stock markets**, 2013 was a particularly positive year, guided by the rise in the Japanese index (Nikkei +57%) thanks to the expansionist move announced by the Bank of Japan. The US markets were also notable, with the S&P500 gaining around 30%, thanks to the signs of improvement from the economy and the abundant liquidity of companies which flowed to the markets, through the implementation of buyback plans and increased dividends. It was also a positive year for Europe, in a context which featured the first signals of recovery from the area and reduced tensions regarding government bonds. The Stoxx 600 index rose by 17%, led by the automotive, financial, media and telecommunications sectors. On the other hand, 2013 saw the emerging stock markets moving the other way (MSCI EM -5%), penalised especially by the impact of the Fed’s tapering, which led to sizeable outflows of capital with consequent serious tensions for the currencies and bonds of the countries in this area.
Regarding **stock market index volatility**, on average 2013 saw lower values than those seen in 2012, both in Europe and in the US. The German volatility index VDAX saw an average value of 15.3% in 2013, in comparison to the average value of 20.7% in 2012. The US index Vix saw an average value of 14.2%, against 17.8% in 2012. During the course of 2013, the Vix index reached minimum levels for 2007 in March at 11.30%, with the maximum value seen in June at 20.50%. The VDAX index fell to the minimum levels for 2005 in November at 11.47%, reaching a maximum of 22.1% in June (Fig. 6).

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

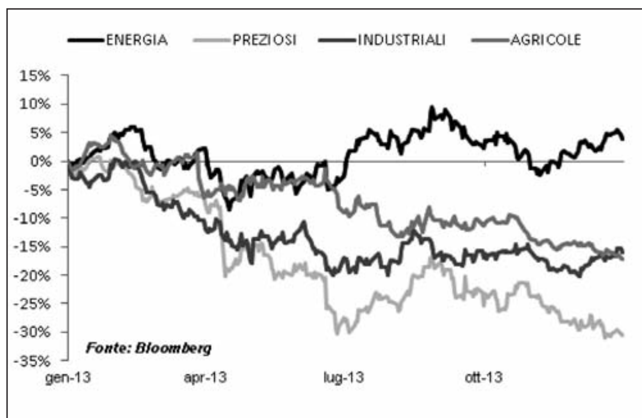
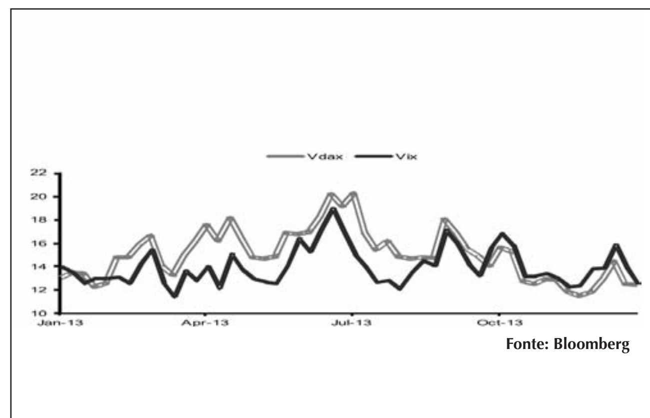


Fig. 6 - VIX VS. VDAX



Energia	*Energy*
Preziosi	*Precious Metals*
Industriali	*Industrial*
Agricoli	*Agriculture*
Fonte: Bloomberg	*Source: Bloomberg*

Significant Aspects of Operations

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

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

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 -58.8% and -34.5%). This contraction was partly due greater selectivity of clientèle and associated initiatives.

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2013*	*Budget as at 31/12/2013*	*Percent deviation*
Stipulated transactions	155.4	377.5	(58.8%)
Issued loans	327.3	500.0	(34.5%)

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 that end, we note during the year:

- the provision of assessment activities on the Miur tenders:
    - Smart Cities reserved for the central/North (8 projects which involve a total of 112 public and private actuators, and initiatives for a value of around 145 million Euro);
    - Start up (14 projects for around 11.5 million Euro, implemented by 47 actuators);
    - PON new Districts (19 projects for initiatives of a total value of 154 million Euro).
- the completion of the assessment activities regarding three MIUR projects promoted by Spin-offs from the same number of universities;
- the beginning of the assessment activities regarding European tenders (5 projects for a total of 1.6 million Euro).

In addition, in 2013 activities to manage projects investigated in previous years continued, in particular activities to evaluate ongoing PON projects investigated the previous year, which involved 42 projects, in turn involving a total of 325 actuators.
Finally, we note the continuation of operations related to new research and development projects related to the so-called "FIT negotiation proceedings," destined for initiatives of significant dimensions (totalling 240 million Euro). The activity became concrete in 2013, with the completion, acting also as the agent on the account of Cassa Depositi e Prestiti S.p.A. (hereafter CDP), of 5 financing contracts for a total amount of over 110 million Euro (which can be subdivided into around 99 million Euro as the portion for Cassa Depositi e Prestiti and the remaining 11 million the portion granted by the Bank), of which 58 million already has already been disbursed.
Finally, we note the continuation of activity begun at the end of 2012 within the scope of the TGC which was formed, led by MCC-Banca del Mezzogiorno, for the management of the Guarantee Fund for the SMEs, in which MPSCS is mainly involved in the promotion and development of the low interest instrument in question.
As already seen 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 size.
Given the types of products in question for the BU (Project Financing, Acquisition, Object Finance), the clearest impact of the decrease was seen essentially equally in both stipulations (-27.2% out of the budget) and in disbursements (-30.1% with respect to the budget).

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2013*	*Budget as at 31/12/2013*	*Percent deviation*
Stipulated transactions	327.4	450.0	(27.2%)
Issued loans	363.2	519.6	(30.1%)

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

1 - Equity investments and operations

Regarding the investments portfolio, in 2013 the Bank was assigned 0.27 million Euro in Mednav S.p.a. shares, in execution of the restructuring of the Augusta Due S.r.l. pool financing.

During the year, the equity held in RE.GE.IM was sold in its entirety, (a real estate development company in partnership with the Mezzaroma Group), as was the equity held in DBI Services S.r.l. and, partially, the equity held in Moncada Solar Equiment Sr.l..

Finally, an agreement for the full sale of the equity held in MPSVenture SGR S.p.A. is currently being defined.

2 - Corporate Finance loans

Project financing activities continued in the context of the infrastructure, utilities and renewable energy sectors, which account for most of the operations. Despite the fact that the financial-economic context leads to a generalised slowing of projects, the infrastructure sector continues to show a certain dynamism, even if they involve projects which, by their nature, have extended periods of finalisation before the contract is defined.

Specifically, the structured senior operation with five major national banks and institutions such as BEI, CDP and SACE was completed, relative to the new 62 km Brescia-Milan motorway (known as "Brebemi"). The financial element of the project, currently in progress, is subdivided into various tranches/lines, with specific types of funding and amounts to a total of 1,818.5 million Euro. The portion supported by the Bank is around 199.0 million Euro, of which 13.7 million Euro is backed by the Sace guarantee regarding the project risk. The operation is of particular importance at both the national and European level and, in the prestigious context of major projects in the Europe, Middle East and Africa (EMEA) region, was deemed the "European Infrastructure Deal of the Year".

In addition, the pool project supporting the renovation of the hospital structure in Garbagnate Milanese was completed, intended to renovate and transform an existing healthcare structure into a different healthcare structure. The project agreed upon amounts to 13.1 million Euro out of a total of 39.5 million Euro in the pool.

During the year, together with Banca IMI and CDP, a commitment letter was signed relative to the operation to extend the tram network in Florence, serving as the basis for the upcoming completion of the financial project.

In addition, among the structured finance operations, we note the stipulation of the deed to amend and extend the existing loan with the company Multiservizi S.p.A. , which holds the multi-utility concession for ATO Marche Centro Ancona, and the medium-long term refinancing of the CGE Palea Arsea S.r.l. operation (a company belonging to the Tozzi Group.

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

- healthcare, relative to the project to enlarge and remodel two hospital structures in Verona;
- prison construction, relative to the project to build and manage the new district prison in Bolzano;
- gas, relative to two projects to build and manage the gas distribution network for certain basins in Sardinia. In particular, for one project the structuring of the medium-long term loan on a structured finance basis is currently at an advanced stage;

and advisory activities carried out relative to the mandates signed in previous years. To that end, we note that the existing mandate with the company Acquedotto del Fiora S.p.A. was renewed. Among consulting activities, particularly notable was the certification of two projects relative to the concession granted for a state-owned area in Rome to be used for a car park and for the remodelling of a swimming pool in the province of Venice.

With regard to syndicate activities, during financial year 2013, 4 loan operations for a total amount of € 219 million were placed on the market (the MPSCS share is € 31 million).
Relative to arranging activities carried out on the account of the parent company BMPS, we note an operation, currently being organised on the basis of the mandate signed by the customer, for a total amount of € 12 thousand.
Also in 2013, MPSCS confirmed its competitive position regarding acquisition/leverage financing, in the mid-corporate segment. In fact, the Bank continued origination and structuring activities for acquisition operations to support counterparties with excellent standing, focusing on industrial mergers carried out by corporate players and also maintaining a strong position in the leverage market.
Among the most important operations organised during the year as the mandated lead arranger (MLA), we note:

- acquisition of the business unit Lombardini Discount by the Lillo Group (food distribution through hard discount under the MD label). The operation was subject to syndication, on a full-underwriting basis, following which the total exposure of the MPS Group fell from € 62 million to € 37 million and the MPSCS share went from € 29 million to € 15 million;
- acquisition of Unieuro by SGM Distribuzione (Marco Polo Expert brand, a distributor of consumer electronics);
- acquisition of Caffita System (production and commercialisation of coffee pods and machines) on the part of the Alpha private equity fund;
- acquisition of Codyeco (production and commercialisation of chemical components for the leather tanning industry) on the part of the Star Capital private equity fund;
- acquisition of CastFutura (production and commercialisation of components for boilers and kitchens) on the part of the Star Capital private equity fund;

3 - Portfolio Management Activities
In consideration of the market context, the Corporate Finance Division at MPSCS consolidated its portfolio management activities, strengthening the MPSCS Loan Agency Office, now the Portfolio Management & Agency Office, which was subdivided into two sectors, acquiring new agency mandates and new tools such as intranet portals for the management of pool operations. The Office manages a portfolio of over 180 positions totalling around € 3.5 billion in commitments, monitoring the financial covenants, examining requests for waivers (over 250 reviewed in 2013), following any contractual review process or - in concert with the Parent Company - financial restructuring. When requested, the Office updates the business plan models and manages relations with borrower companies, banks in pools, and any advisors (legal, industrial or financial). For over one hundred operations, the Bank fills the demanding role of agent bank or acts as the sole lender, strengthening its roles as Mandated Lead Arranger taken on by the same and the overall position of the MPS Group. Agency mandates ensure an important foundation of fixed commissions, to which are added further fees obtained through waivers processed.
Regarding the "**Global Markets"** BU, 2013 featured a progressive reduction in risk and an improvement in the liquidity conditions within the system. On one hand, the Bank notably decreased its use of risky delegations and that of unsecured liquidity, in accordance with the directives issued by the parent company and, on the other, had to face a marked decrease in activities with customers without doubt seen at the system level, but in particular at the level of the MPS Group. In the same way an overall satisfactory economic result was seen, but with a few well-identified strengths: bancassurance products,, government securities activities, secured financing activities and corporate hedging (with the exception of the rates segment which suffered from the decline in disbursements). In any case, the tactical positioning was able to take advantage of the market opportunities which arose during the year to locally increase risk levels (e.g. the possibility of a faster disengagement from expansionist policies by monetary policy authorities and the progressive weakening of the cycle in the emerging countries).

During the year, methodological consolidation for the valuation and management of the credit value adjustment (CVA) component for transactions in non-collateralised OTC derivatives was launched and partially 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.
In line with the objective of reducing the impact of operations on the liquidity position, the OTC exposures with BEI were closed. In particular, on 20 September 2013, unwinding was carried out for the portfolio of some zero coupon swap contracts and a notional € 300 million contract maturing in 2030. The total cost of the unwinding operation, negotiated with the counterparty before the closing, was € 9.3 million. In any case, this operation made it possible to:

- recover the lacking impairment of the "ptrade" for the CVA, quantifiable at € 27 million;
- save in terms of funding (i) for the mark-to-market of the contracts, positive for MPSCS at around € 180 million, and (ii) the relative independent amount paid to BEI, equal to € 14 million, quantifiable at € 146 million at maturity (2030).

At the end of 2013, agreements were signed with a new counterparty - MERRILL LYNCH INTERNATIONAL - for the provision of clearing services for Exchange Traded Derivatives, replacing the historic partner BARCLAYS. The agreements will become operational during the first quarter of 2014.

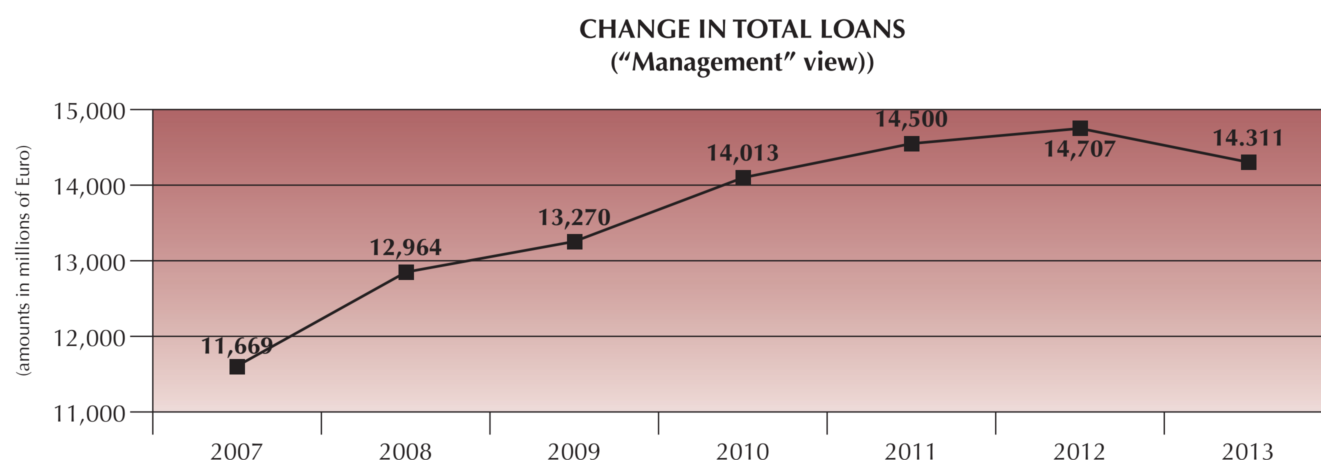
In 2013, the **"Investment Banking"** BU carried out its activities through its Syndication Desk, Capital Market, Corporate Advisory & Origination and FIG Origination & Structured Credit Offices.
During the fourth quarter of 2013, the Investment Banking BU obtained the mandate from the Ministry of Economy and Finance (MEF) to operate as dealer for the fifth issue of the BTP Italia (treasury bonds), which represented the largest operation in terms of size (more than € 22 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.
During the first half of the year, the structure acted as Co-Lead Manager for two syndicated issues by the Republic of Italy, for a total of € 12 billion, as well as participating, as the Co-Lead Manager, in the issuing of a senior secured high yield bond loan issued by IVS F. S.p.A. for € 200 million. In addition, during the year it was responsible for finalising the documentation for the reopening of the sixth and final window for subscription and redemption of the Socrate Real Estate Fund, for which it acts as Placement Director, which then occurred during the period from 1 October to 31 December.
In addition, the support that the Investment Banking BU offered to MPS Bank as both the Issuer and in structuring operations was of great importance. On one hand, MPSCS acted as the Dealer in 7 guaranteed bank bonds, for a total of € 3.6 billion, issued by the Parent Company with the objective of improving the Group's counterbalance capacity. On the other, it was responsible for the restructuring of the securitisation operations and the first Covered Bonds program of the Parent Company, which became necessary following the last downgrade of BMPS by Moody's, while also carrying out the necessary preparatory activities to obtain a rating for the second Covered Bonds program. In the context of the securitisations for the Parent Company, MPSCS acted as the Arranger in a securitisation operation with a portfolio of consumer loans issued by Consum.it SpA, for which the senior tranche was placed with an important institutional investor, through a private placement.
In reference to advisory activities, during the course of the second half of the year, the Bank, through the Investment Banking BU, acted as the sole financial advisor of the MPS Bank Parent Company in the operation to dispose of the portfolio of Private Equity funds. During the second and third quarter, it acted as the sole financial advisor for a leading Italian operator in the construction sector for the research and structuring of a capital operation for the business unit active in special construction business. In addition, in the last quarter, it signed an investment consulting contract with Finint Sgr Spa for the exclusive submission of minibond investment proposals destined for the Minibond PMI Italia Fund.
In 2013, the Bank continued its activities, through the Investment Banking BU, as Nominated Advisor on the AIM Italia - MAC of Borsa Italiana.

Credit aggregates

TOTAL LOANS

Loans to customers, calculated according to management logic, as at 31 December 2013 amounted to € 14,311 million, versus € 14,707 million of the previous year (-2.69% on an annual basis).

CHANGE IN TOTAL LOANS
("Management" view))



Below is the reconciliation of the management data as at 31 December 2013 with the balance of the asset entry 70 "Loans to customers". The reconciliation amounts, shown in millions of Euro, derive from a different classification of the financial statement data with respect to the management disclosure:

Management amount	**14,311**
Operating receivables (1)	118
Prepaid expenses and accrued income and IAS differentials (2)	25
Credit for collateral and deferred premiums (3)	476
Valuation reserve on receivables (4)	(1,860)
Financial statement amount	**13,070**

(1) various loans deriving from "subsidised" activities, which are managed separately from the "loans";
(2) amounts deriving from "non-interest bearing payables and receivables", as well as the additional component for the calculation of the amortised cost;
(3) amounts for collateral not connected to financing activities and premiums with deferred payment, both deriving from the activities of the Global Market BU;
(4) valuation reserves for receivables classified from the management perspective amongst "other liabilities".

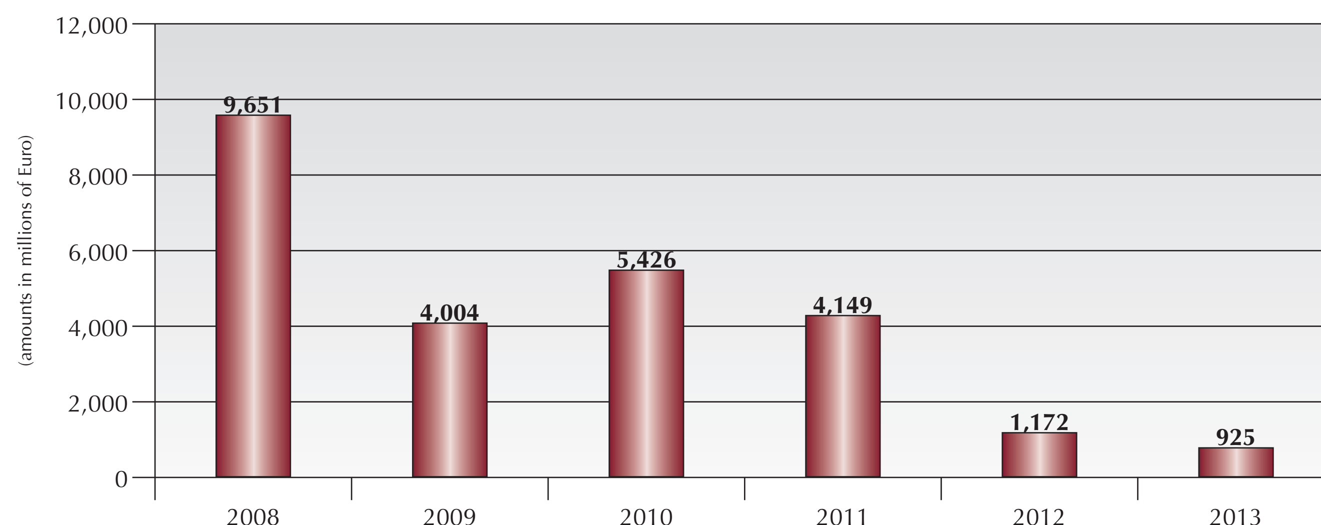
The table below analyses commercial flows for 2013.

APPLICATIONS FOR FINANCING SUBMITTED

(amounts in millions of Euro)

	2013	*2012*	*Changes*	
			Absolute	*%*
Number	234	298	-64	-21.5
Amount	925	1,172	-247	-21.1

VOLUMES OF REQUESTS PRESENTED



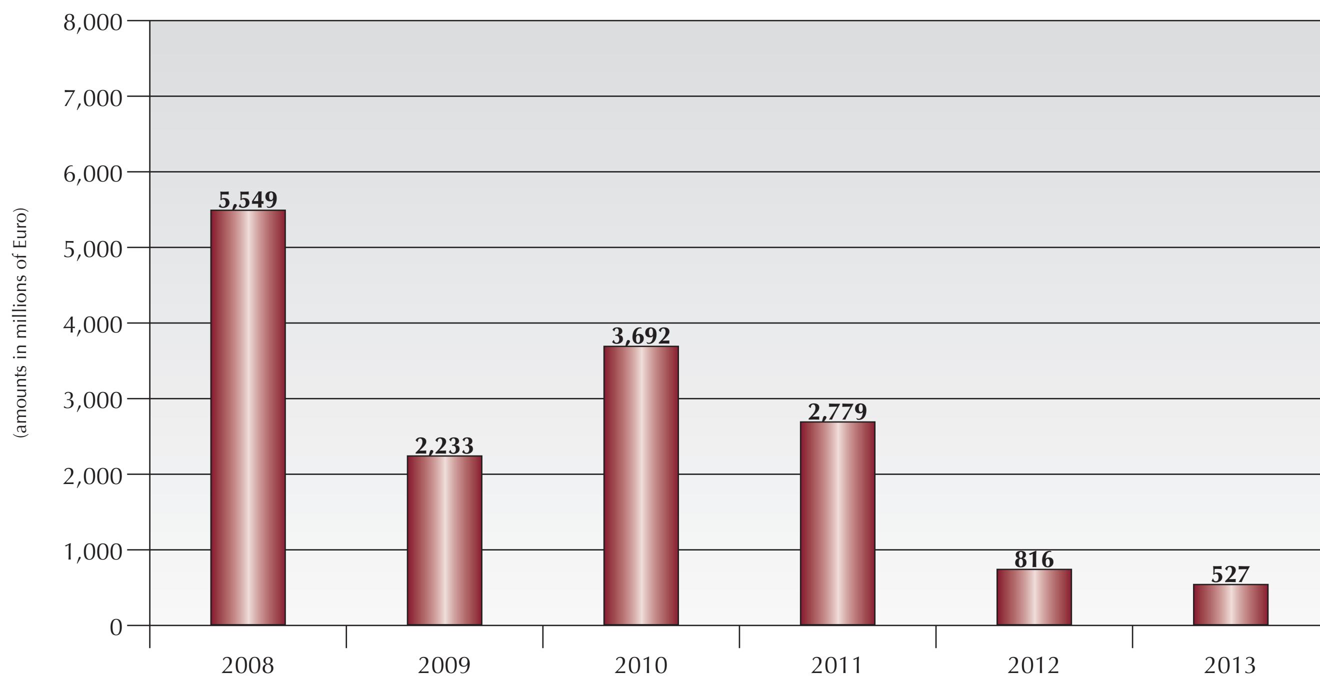
Also in 2013, we note the continuation of a macroeconomic scenario that was still not able to demonstrate a long-awaited reversal in trend. The Italian GDP, like that of the other countries in the Eurozone, continued to show indications of weakness, closing 2013 with a negative again. This led to substantial stagnation both in terms of the demand for capital and consumer goods, which also created an inflation trend at the lowest levels seen in recent years. Unfortunately, these trends can be noted in an additional decline in terms of “requested credit” (- € 247 million with respect to the financing applications of the previous year), and are equally evident in “substance” in all other credit processing “phases”. In fact, there were notable drops in the amount “authorised” (- € 289 million, down by more than 35% compared to 2012) and in the amount “stipulated” (- € 387 million, down by over 44% compared to the previous year’s result). Obviously the amount issued was also much less than in 2012 (-610 million, equal to a decrease of 46.9%).

LOANS GRANTED

(amounts in millions of Euro)

	2013	*2012*	*Changes*	
			Absolute	*%*
Number	187	245	-58	-23.7
Amount	527	816	-289	-35.4

OPERATIONS APPROVED



RATIO OF LOANS GRANTED TO APPLICATIONS FILED

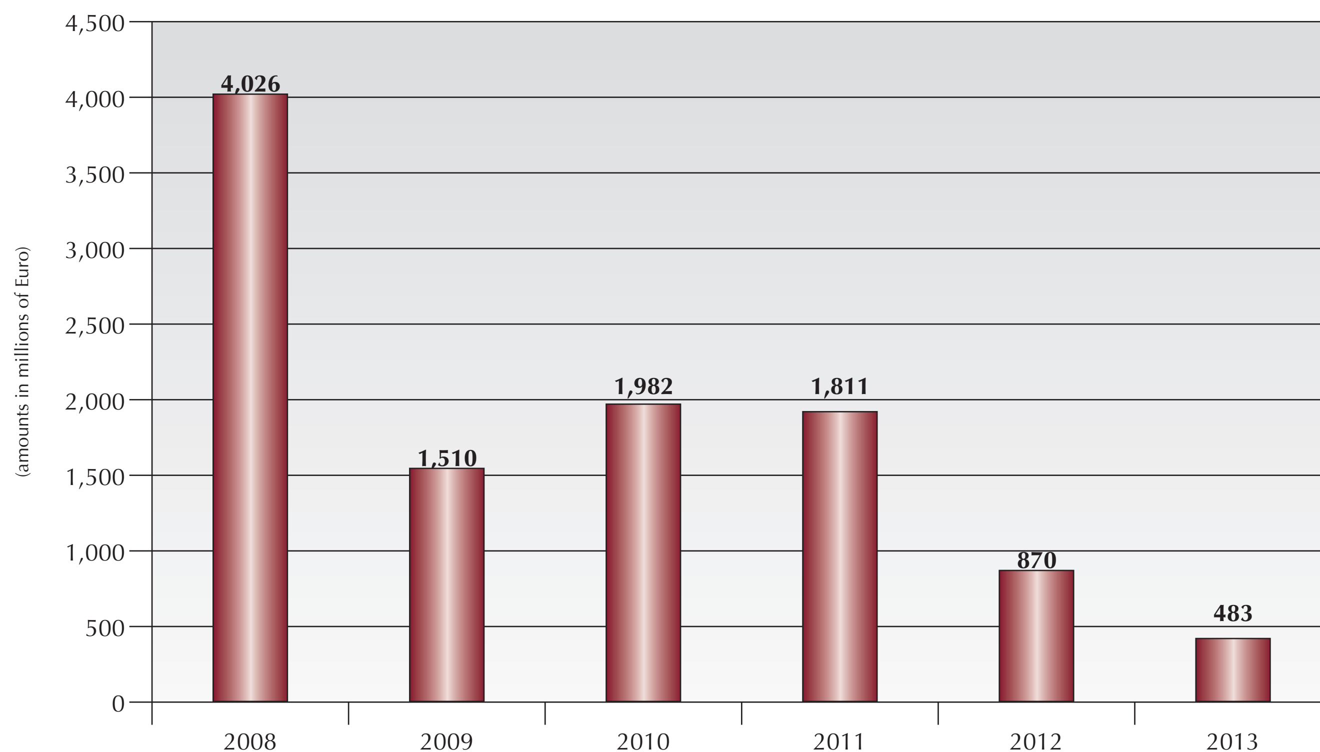
	2013	*2012*	*2011*	*2010*	*2009*
Number	79.9%	82.2%	73.8%	69.1%	63.7%
Amount	57.0%	69.6%	67.0%	68.0%	55.8%

AGREEMENTS ENTERED INTO

(amounts in millions of Euro)

	2013	*2012*	*Change*	
			Absolute	*%*
Number	202	255	-53	-20.8
Amount	483	870	-387	-44.5

OPERATION STIPULATED



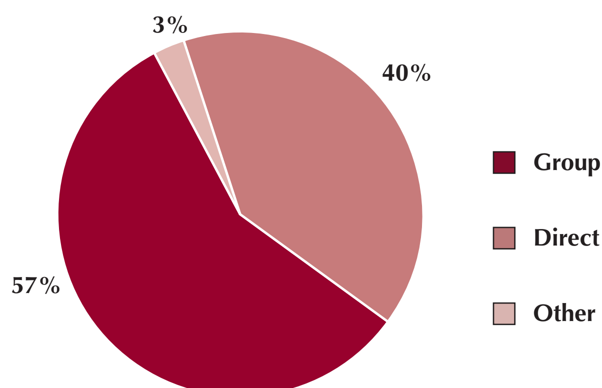
FINANCING DISBURSED

(amounts in millions of Euro)

	2013	*2012*	*Change*	
			Absolute	*%*
Number	602	899	-297	-33.0
Amount	691	1,301	-610	-46.9

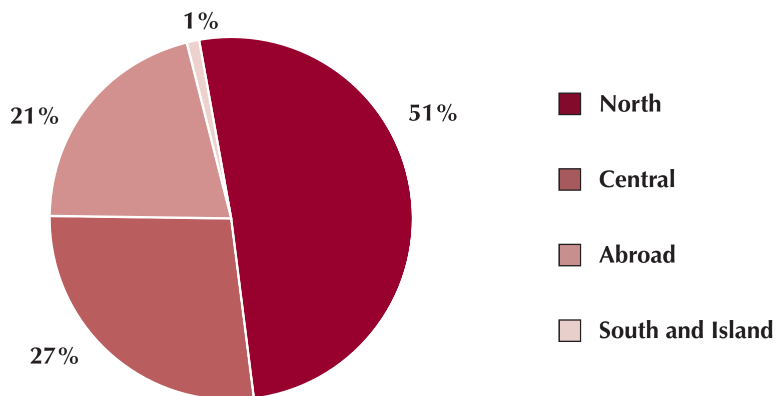
During the year, the Bank disbursed a total of just over € 691 million. In this respect, the number of "disbursements carried out" in any case remained high, as a result of the now traditional company policy that favours financing linked to future investments, to be made in compliance with precise implementation terms which are established in the production development plans. In fact, in these cases, financing is disbursed in several tranches, according to the "state of progress" of the works being financed.

APPLICATIONS SUBMITTED IN 2013
Breakdown by Channel



Regarding geographic distribution of commercial flows, note that the north is the destination for the largest part of the sums disbursed with over 50% of the total (against 44% the previous year) and that the percentage going to central Italy declined, settling at 27% against 31% in 2012.
The percentage relating to the South and the Islands remained essentially unchanged (21% against 23% in 2012), in any case in a situation of complete portfolio diversification, with an eye to maximum risk containment.

GEOGRAPHIC BREAKDOWN OF LOANS GRANTED IN 2013



IMPAIRED ASSETS

The tables below show the distribution of impaired assets as at 31 December 2013 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 (*)	514	-	514	
Loans to customers	6,117,697	(1,674,957)	(119,300)	4,323,440
Total	**6,118,211**	**(1,674,957)**	**(119,3)**	**4,323,954**

(*) Mainly regarding repurchases of bonds issued by the Lehman Group and securities issued by the Argentinian government.

(amounts in thousands of Euro)

Off-balance sheet exposure	*Gross exposure*	*Specific adjustments*	*Portfolio value adjustments*	*Net exposure*
Financial assets held for trading (*)	41,333	(41,333)	-	
Guarantees given (**)	7,257	(1,500)	(255)	5,502
Commitments to disburse funds and other commitments	75,664	-	-	75,664
Total	**124,254**	**(42,833)**	**(255)**	**81,166**

(*) Resulting from derivatives positions towards customers
(**) Performing exposures are subject to collective adjustments for a total of € 5,445 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	3,602,864	(1,315,883)	(195,102)	-	2,091,879
Watch-list	1,248,046	(134,240)	(19,696)	(42,000)	1,052,110
Restructured exposures	332,202	(3,300)	-	(16,500)	312,402
Exposures past due by over 90 days	935,100	(6,736)	-	(60,800)	867,564
Total (*)	**6,118,212**	**(1,460,159)**	**(214,798)**	**(119,300)**	**4,323,955**

(*) Performing loans are subject to analytical adjustments for default interest of € 471 thousand and flat-rate adjustments for € 65,413 thousand. Analytical write-downs therefore amounted to € 1,675,428 thousand, while collective write-downs totalled € 184,713 thousand.

The balance of impaired cash assets, net of value adjustments and discounting, stands at € 4,324 million; the change compared to the amount as of 31 December 2012 (€ 3,334 million) is € 990 million (+29.67%).
Non-performing exposures deriving from loans to customers and financial assets held for trading increased from € 1,749 million as of 31 December 2012 to € 2,092 million as of 31 December 2013, an increase of € 343 million (+19.61%). The average write-down of non-performing loans stands at 41.94% (40.81% as at 31 December 2012). Note that the Bank's portfolio consists mainly in mortgage exposures and the increase in value adjustments can be traced to the need to further reinforce risk supervision, given the current and prospective economic/financial situation and the consequent

decrease in the value of real estate guarantees. Gross and net non-performing loans account for 24.13% and 16.01%, respectively, of gross and net loans to customers (19.23% and 12.56% in 2012).

Watch-list loans increased from € 971 million as of 31 December 2012 to € 1,052 million as of 31 December 2013, an increase of € 81 million (+8.38%). The average write-down of watch-list loans stands at 15.70% (16.65% as at 31 December 2012). Gross and net watch-list loans account for 8.36% and 8.05%, respectively, of gross and net loans to customers (7.54% and 6.97% in 2012).

Past-due loans increased from € 451 million as of 31 December 2012 to € 868 million as of 31 December 2013, an increase of € 417 million (+92.46%). For purposes of completeness, we recall 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 past due reporting from 180 to 90 days. The average write-down of past due loans stands at 7.22% (5.35% as at 31 December 2012). Gross and net past due loans account for 6.26% and 6.64%, respectively, of gross and net loans to customers (3.09% and 3.24% in 2012).

Restructured loans increased from € 164 million as of 31 December 2012 to € 312 million as of 31 December 2013, an increase of € 148 million (+90.13%). The average write-down of restructured receivables stands at 5.96% (8.89% as at 31 December 2012). Gross and net restructured loans account for 2.23% and 2.39%, respectively, of gross and net loans to customers (1.17% and 1.18% in 2012).

In view of the continuing signals of deterioration of the economic situation in question and the increase, registered in 2013, of unpaid differentials, exposures which present critical elements regarding recovery, the Bank has proceeded to register analytic adjustments for a total amount of € 41.3 million against the € 30.4 million in 2012 (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, we note the ever greater use, by debtor companies and their consultants, of the instruments envisaged in the regulations in effect in regard to corporate and debt restructuring plans, especially when a variety of banking institutions are involved. In fact, roughly 40% of past-due loans, which from the € 451 million recorded at 31 December 2012 rose to 868 at the end of 2013, are composed of positions affected by the restructuring plans governed under the provisions of the Bankruptcy Law (article 67, article 182, agreed). While envisaging notable protections for the affected counterparties, these initiatives always feature a long bureaucratic process - in terms of the average length of preparation but above all for the finalisation of the plan and its subsequent activation - which therefore contributes, significantly, to extending the time within which the debtor positions might return to performing status.

Again in the context of past-due loans, we note the particularly significant presence of companies operating in the real estate/construction sector which, with over 40% of total positions, appear to be those most affected by the crisis other than sea transport which, despite having a marginal impact on the Bank's total loans, has a significant percentage for 'past due' (around 10%).

The appointed departments continue to pay 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. Lastly, all the other, by now well-consolidated, initiatives aimed at containing and limiting 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.

Following the issuing of Laws 134/2012 and 98/2013, important amendments to the Bankruptcy Law were made, in particular regarding the procedure for arrangements with creditors, introducing two new tools:

- "blank agreement" pursuant to article 161 of the Bankruptcy Law, i.e. the possibility that the debtor appeals the agreement, merely by presenting the financial statements for the last three years and the list of creditors, reserving

the right to present the proposal, plan and the additional documentation envisaged subsequently, within a period established by the Judge of between 60 and 120 days, with the possibility of extension. Within said term, the debtor also has the possibility of proposing the approval of an agreement to restructure the debt, pursuant to article 182-bis of the Bankruptcy Law.;

- "continuity agreement", pursuant to article 186-bis of the Bankruptcy Law, through which the debtor in crisis can present an agreement plan which envisages one of the following cases: a) continuing of the business activity by the debtor in question; b) sale of the company; c) sale of the company to one or more companies, including newly established ones.

At the end of 2013, the Bank had in existence:

- 30 blank agreements for a total exposure of € 84,450 thousand, all classified as watchlist (28 for € 82,325 thousand) or non-performing (2 for € 2,125 thousand)
- 2 continuity agreements for a total exposure of € 10,958 thousand, one classified as restructured (€ 9,257 thousand) and the other as watchlist (€ 1,701 thousand)

As noted, these are tools recently introduced to the legislation, and over time companies will increasingly make use of them. At present, it is not possible to provide a concrete indication of way out results from the use of said procedures.

Regarding the income statement, during the year, analytical value adjustments were recorded for € 213.2 million; write-backs due to valuation amounted to € 29.1 million, while those due to collection totalled € 6.9 million. Discounting resulted in adjustments of € 125.3 million, while the related write-backs and the interest totalled € 79.7 million. Collective write-downs decreased by € 35.4 million overall (net of € 8.7 million of utilisations) reaching € 185.5 million (including: € 42 million to cover watch-list loans without doubtful outcome, € 60.8 million for exposures past due by over 90 days, € 16.5 million for restructured loans; € 65.4 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 1.24% of loans to customers (0.97% as of 31 December 2012). Ascertained losses with impact on the income statement of the period amount to € 0.7 million; this sum does not include losses from credit sales for € 0.5 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 € 7.2 million (€ 1.5 million of analytical adjustments and € 5.7 million of portfolio adjustments) was recorded under "other liabilities". During the current year, net writebacks were recorded of € 0.7 million.

Deposits

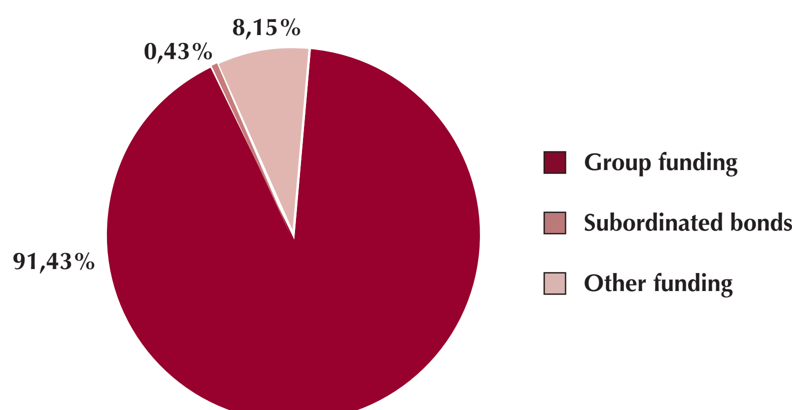
In 2013, the decrease in lending activities had the effect of containing financial requirements, which were covered making use of the medium/long-term funding granted by the Parent Company of € 450 million and, residually, direct funding with BEI (€ 118.7 million) and Cassa Depositi e Prestiti (€ 41 million received indirectly through the Parent Company). At the same time, during the year medium/long-term funding of € 2,025 million expired due to normal amortisation. Part of the repayments were also financed by making use of short-term funding of around € 1 billion. In fact, even if total short-term funding from the Parent Company fell, going from € 4,946 million at 31 December 2012 to € 4,694 million at the end of 2013, the percentage destined to cover lending increased, rising from € 1,562 million to € 2,523 million.
Total exposure with the Parent Company and its non-banking foreign subsidiary, MPS Ireland[1], totalled € 15,261 million (€ 17,212 million at 31 December 2012), broken down as follows: 410 on demand (379 at 31 December 2012), 4,284 short (4,567 at 31 December 2012) and 10,567 medium - long term (12,266 at 31 December 2012).
The table below shows the breakdown of deposits by type as of 31 December 2013, compared with the situation at the end of the previous year:

(amounts in millions of Euro)

	31/12/2013	*31/12/2012*
Loans of the Parent Company and its subsidiaries:		
- on demand and short term	4,694	4,946
- medium and long term	10,567	12,266
Bonds:		
- non-subordinate	-	-
- subordinate	71	107
Other payables to Banks and Customers	1,360	1,207
TOTAL	**16,692**	**18,526**

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 € 1,750 million (€ 3,000 million as at 31 December 2012), as supplementary deposits in addition to the typical assets of the Global Markets (see following paragraph "Main financial aggregates").

BREAKDOWN OF DEPOSITS AT 31/12/2013



[1] *We note that MPS Ireland has been merged into Banca Monte dei Paschi di Siena effective as of 11 February 2014 and legally effective as of 1 January 2014.*

Main Financial Aggregates

With regard to the activity of the Global Markets Division, the main dynamics that characterised the commercial volumes of 2013 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 € 871 million versus € 1,272 million in 2012, down 32%. 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 volumes of the institutional derivatives rate, -85% with respect to the previous year, is mainly connected to the review of the credit lines granted to the Bank;
- volumes coming from exchange rate hedging with corporate customers totalled € 1,881 million, growing slightly by 2% with respect to 2012, hence essentially stable with respect to the previous year;
- volumes of commodity hedges with corporate customers came out at around € 683 million, down by 28% compared to 2012. The decrease was concentrated in the energy sector (gas and electricity), due to different regulations for supply contracts;
- volumes traded on the secondary market of bank, corporate, emerging, supranational and ABS (secondary credit) securities increased by 24% with respect to 2012, above all due to the intense sales activities to place certain Group issues with corporate and private customers;
- volumes coming from brokerage activities on the secondary market of government securities increased notably with respect to the previous year, around 202%, thanks to the increase in the turnover of customer portfolios mainly due to the decrease in the market spread;
- volumes from placement with institutional investors and corporate customers of primary market securities totalled € 508 million, with a decrease of 82% compared to 2012, to be attributed to the difficulty in obtaining mandates for issues from institutional customers, mainly caused by the downgrading of the Group's rating.

(amounts in millions of Euro)

Product	2013 Volumes	2012 Volumes	Percent. change
Customer desk rate hedging	871	1,272	-32%
Institutional rate hedging	417	2,874	-85%
Exchange rate hedging	1,881	1,842	2%
Commodity hedging	683	952	-28%
Equity hedging	10	110	-91%
Secondary credit	5,686	4,583	24%
Secondary government	23,423	7,761	202%
Primary	508	2,856	-82%
TOTAL	**33,480**	**22,250**	**+50%**

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

Regarding balance-sheet items, we note that, with respect to 2012, the assets represented by securities held for trading remained essentially stable at the levels of the previous year, with the exception of the bonds segment, which declined by 28.80%, justified by the amount of redemptions of debt securities issued by the BMPS Group, maturing in 2013 (€ 783,080 thousand), which were not reinvested in the same amount. We also note the persistence of carry trade operations, despite the tightening of spreads for government issues (see information indicated in the subitem - short position securities - government and public agency securities).

Trading portfolio	*31/12/2013*	*30/12/2012*	*Changes from 12/2012*	
Sub-items - long position securities			*Absolute*	*%*
Government and public agency securities	5,930,577	5,633,537	297,040	5.27
Bonds and other debt securities	2,045,967	2,873,403	(827,436)	(28.80)
Equity securities - shares	96,427	104,224	(7,797)	(7.48)
Equity securities - UCITS/funds	19,263	39,600	(20,337)	(51.63)
Total securities	**8,092,234**	**8,650,764**	**(558,530)**	**(6.46)**

Trading portfolio	*31/12/2013*	*30/12/2012*	*Changes from 12/2012*	
Sub-items - short position securities			*Absolute*	*%*
Government and public agency securities	2,847,016	2,886,029	(39,013)	(1.35)
Bonds and other debt securities	79,151	299,769	(220,618)	(73.60)
Equity securities - shares	655	8,700	(8,045)	(92.47)
Equity securities - UCITS/funds	248,471	316,091	(67,620)	(21.39)
Total securities	**3,175,293**	**3,510,589**	**(335,296)**	**(9.55)**
Net total of portfolio of securities held for trading (long-short)	**4,916,941**	**5,140,175**	**(223,234)**	**(32.66)**

Relative to repurchase agreements (including "triparty repo"), we note an increase in terms of absolute changes both for the assets and liabilities portions of transactions in existence at 31 December 2013, with respect to 2012:

Trading portfolio	*31/12/2013*	*30/12/2012*	*Changes from 12/2012*	
Sub-items - loans			*Absolute*	*%*
Repurchase agreements	5,960,141	4,494,313	1,465,828	32.62
Total loans	**5,960,141**	**4,494,313**	**1,465,828**	**32.62**

Trading portfolio	*31/12/2013*	*30/12/2012*	*Changes from 12/2012*	
Sub-items - borrowings			*Absolute*	*%*
Repurchase agreements	14,368,338	12,495,986	1,872,352	14.98
Total borrowings	**14,368,338**	**12,495,986**	**1,872,352**	**14.98**
Net loans (borrowings) (assets-liabilities)	**(8,408,197)**	**(8,001,673)**	**(406,524)**	**5.08**

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 value of € 1.6 million, against € 2.6 million the previous year;
- financial assets available for sale such as: i) unlisted debt securities for a value of about € 175 million and ii) stocks and UCITS units for a total amount of € 29 million. Investments which remained substantially unchanged in terms of their composition.

In order to hedge a part of the portfolio from the fluctuations in interest rates, the Bank drew up an interest rates swap contract to cover a nominal € 37.5 million, according to the rules issued by IAS 39 on hedge accounting.

Moving on to examine operations in derivatives, specifically for the derivative credits, from comparison with the normal values at 31 December 2013 and those of the previous year, a relevant decrease can be seen, in both purchases and sales, especially for instruments based on ratios. This decrease can mainly be attributed:

- to a resizing of the positions due to the forecast of a decrease in the equity markets;
- to the bilateral consensual resolution of contracts in the context of the Trioptima circuit (to which the Bank adheres). We recall that this latter is the reference for adherents and, upon examination of the size of the contracts in the own portfolio for the same, proposes the derecognition of these derivatives, in the absence of which the risk profiles are not changed. Given that the subsequent discharge occurs at fair value, the Bank is not subjected to any impact in economic terms, in that all of the derivatives are valued daily by the market. This "service" makes it possible not only to reduce operating risk, but also to render administrative management more efficient.

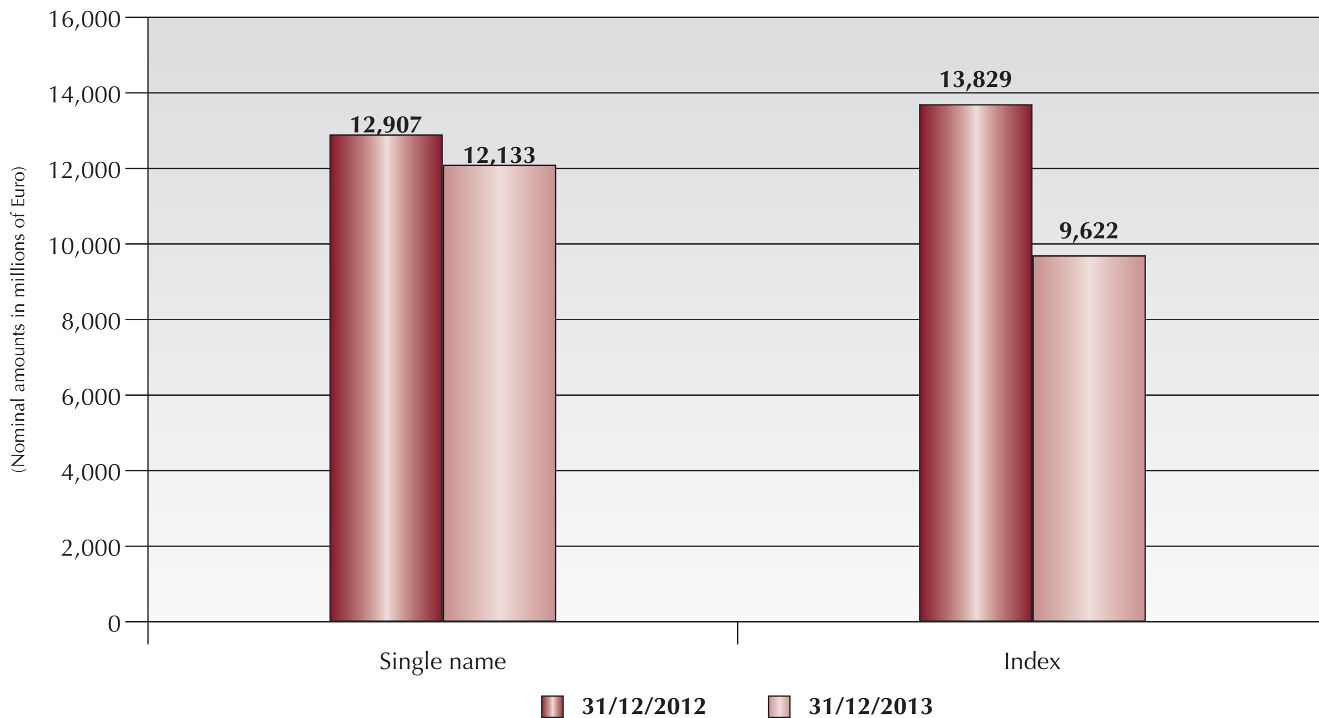
The single name derivatives mainly refer to government, bank and insurance securities. Operations are mainly under way with bank counterparties (65.37% of purchases and 61.54% of sales).

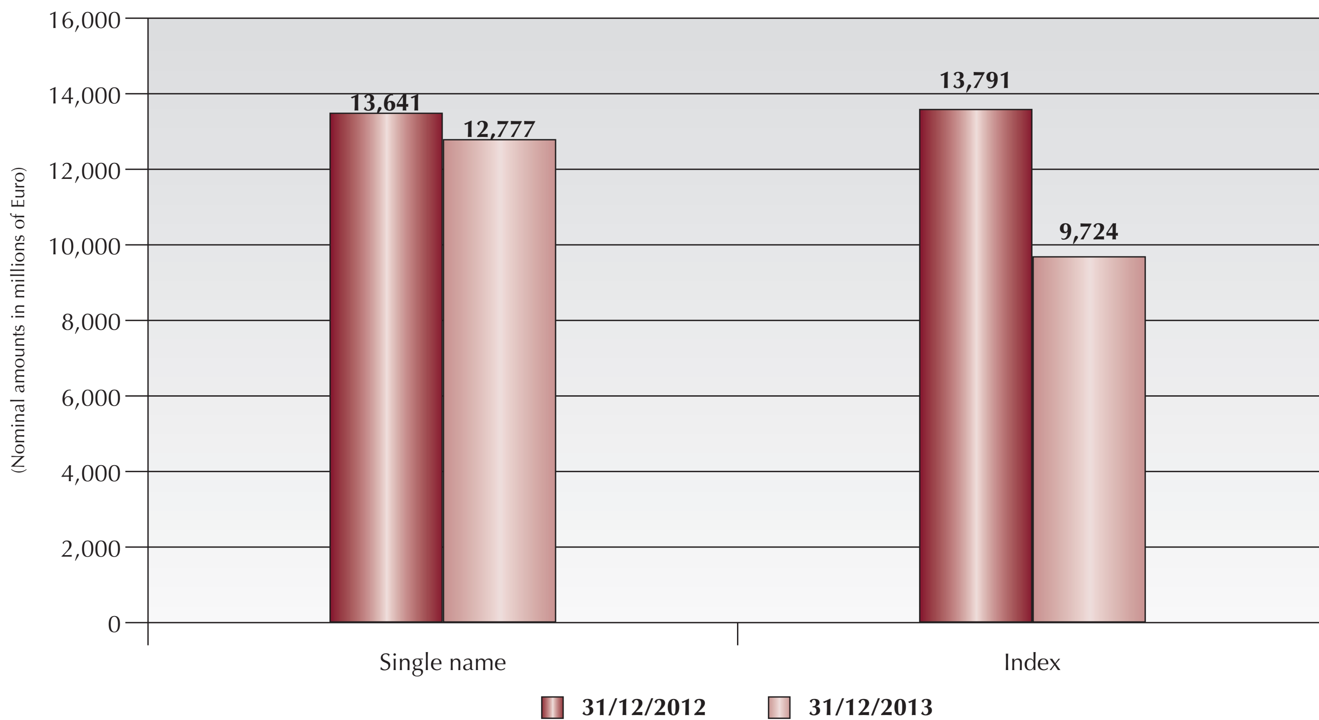
(nominal amounts in thousands of Euro)

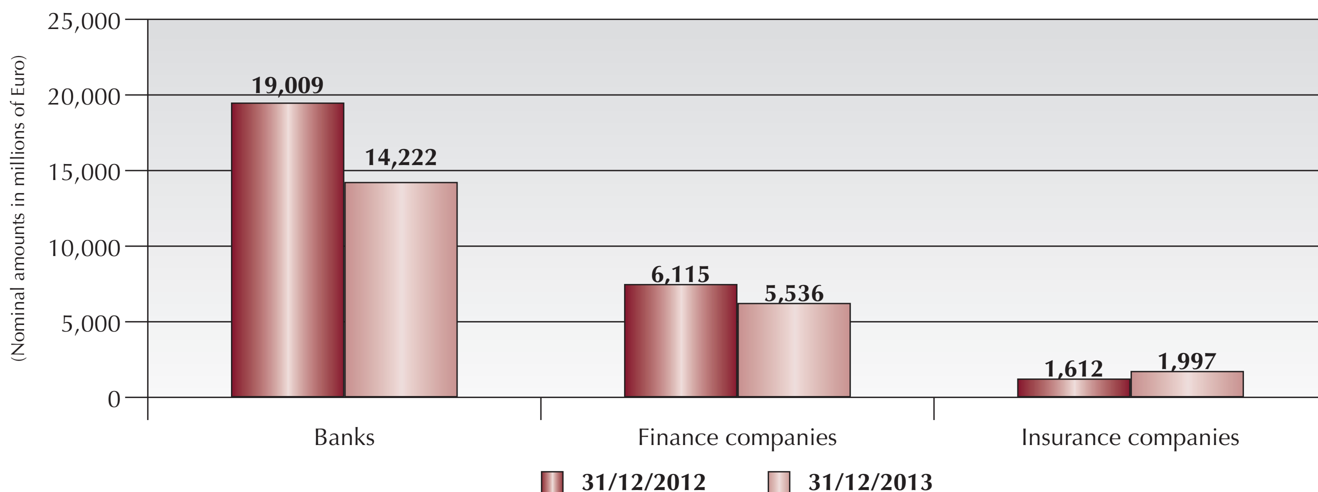
Credit derivatives	*31/12/2013*	*31/12/2012*	*Changes from 12/2012*	
			Absolute	*%*
Protection purchases	21,754,958	26,735,723	(4,980,765)	(18.63)
Protection sales	22,501,527	27,432,165	(4,930,638)	(17.97)

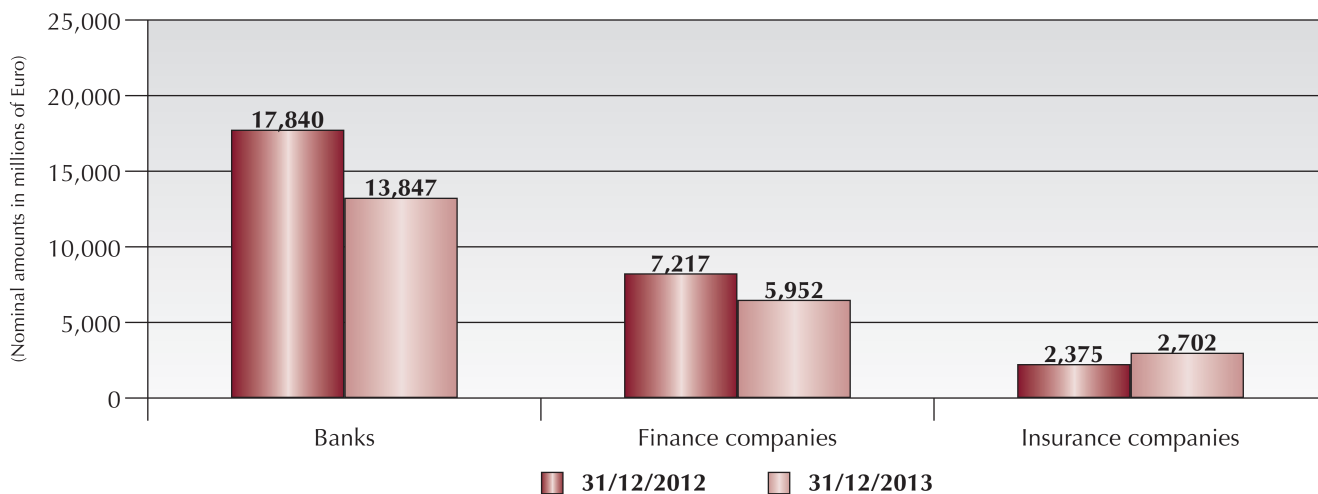
Credit derivatives *Single name underlying asset*	*Protection purchases %*	*Protection sales %*
Corporate	11	10
Sovereign	61	64
Bankassurance	28	26

Credit derivatives *Counterparty type*	*Protection purchases %*	*Protection sales %*
Banks	65.37	61.54
Finance companies	25.45	26.45
Insurance companies	9.18	12.01


PROTECTION PURCHASES - BREAKDOWN BY UNDERLYING ASSET
(Nominal amounts in millions of Euro)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
12,907
12,133
13,829
9,622
Single name
Index
31/12/2012
31/12/2013


PROTECTION SALES - BREAKDOWN BY UNDERLYING ASSET
(Nominal amounts in millions of Euro)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
13,641
12,777
13,791
9,724
Single name
Index
31/12/2012
31/12/2013



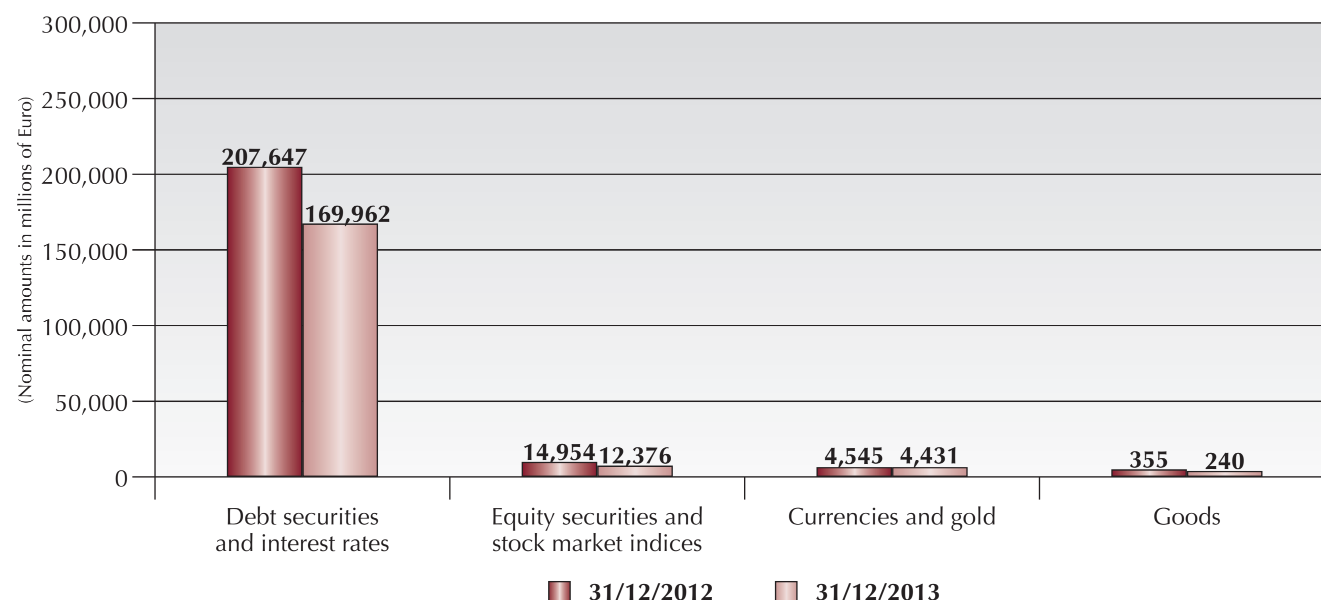


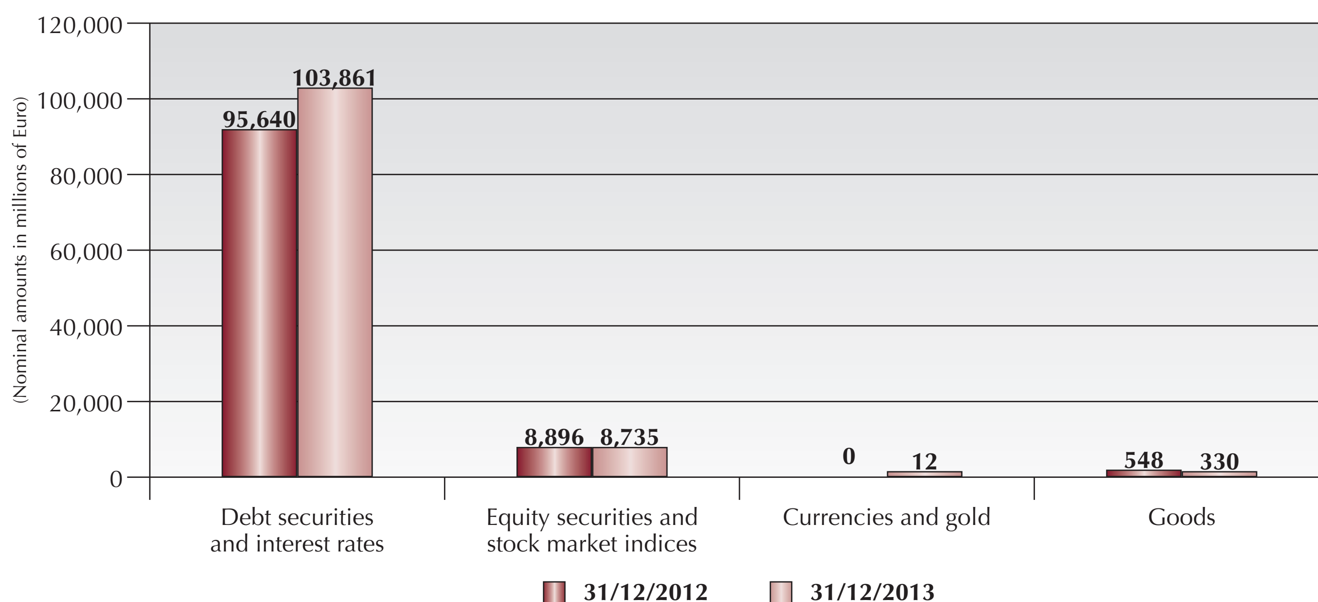
For additional quantitative information, please see Section 2.4 of Part E of the explanatory notes.

Also for the financial derivatives sector, an overall decrease in terms of nominal values with respect to the previous year is seen (9.81%). Within the aggregate, we can see a 17.8% decrease of the notional amounts of OTC (largely attributable to the decline in market making activities for swaps and rate derivatives) against a 7.47% increase in those regulated through Central Counterparties. The ratio of nominal amounts to CCPs with respect to the totality of the same nominal amounts is significant (in percentage terms, equal to 37.65%).
After a fairly promising start to the year, with expectations of a recovery, trading activities remained substantially more contained and conservative than in 2012, focusing attention on the volatility of the markets, in particular of interest rates.

(nominal amounts in millions of Euro)

Financial derivatives	*31/12/2013*	*31/12/2012*	*Change from 12/2012*	
			Absolute	*%*
Over the counter	187,009,871	227,501,489	(40,491,618)	(17.80)
Central counterparties	112,937,276	105,084,287	7,852,989	7.47
Total	**299,947,147**	**332,585,776**	**(32,638,629)**	**(9.81)**

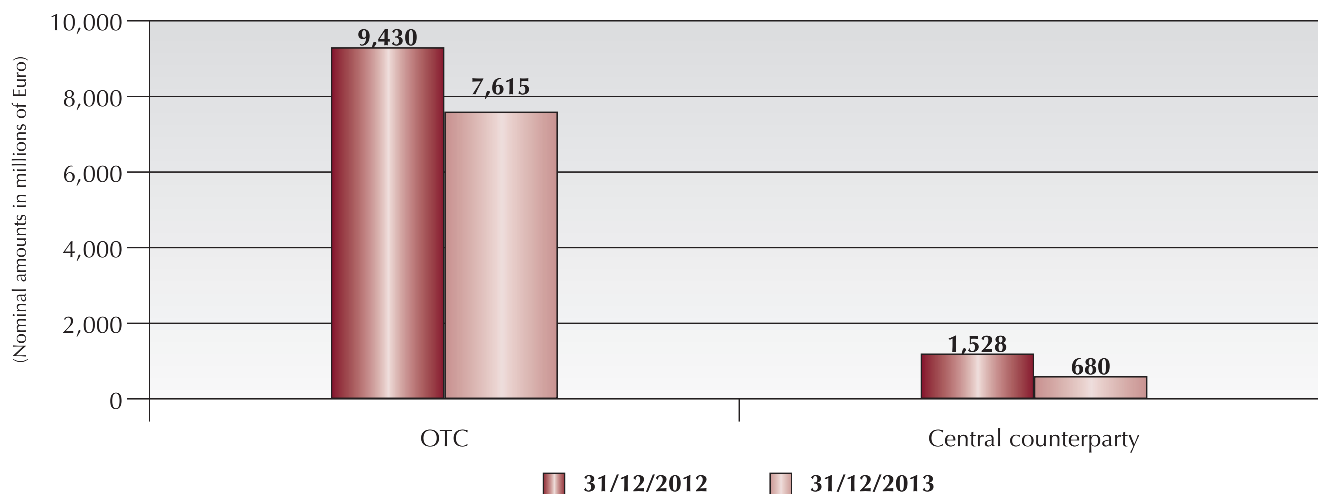


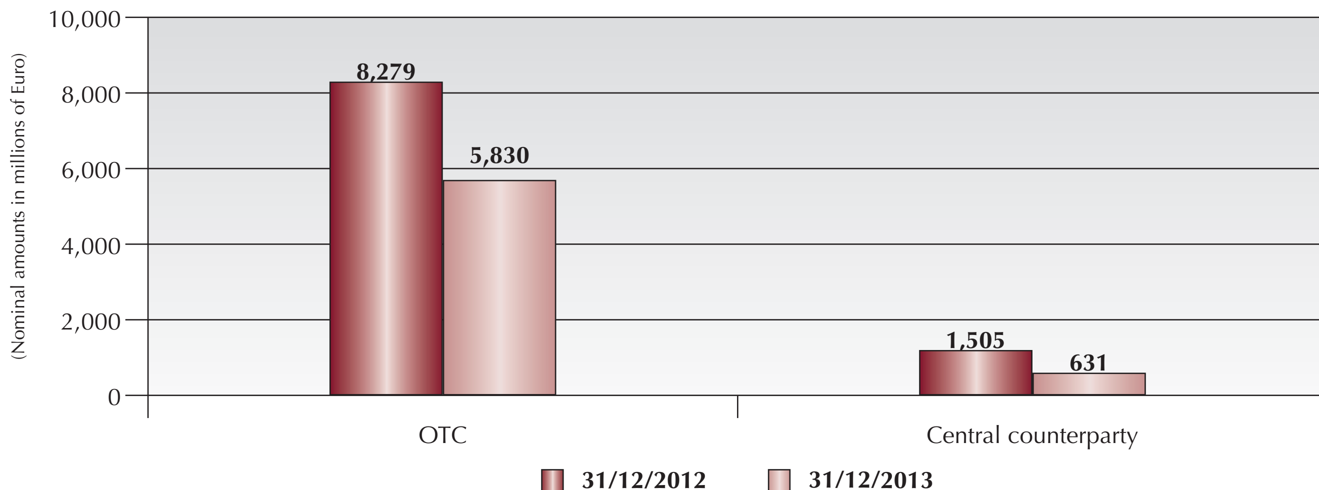


The overall evaluations as at 31 December 2013, compared with the values of the previous year, are shown below. Naturally, listed future style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

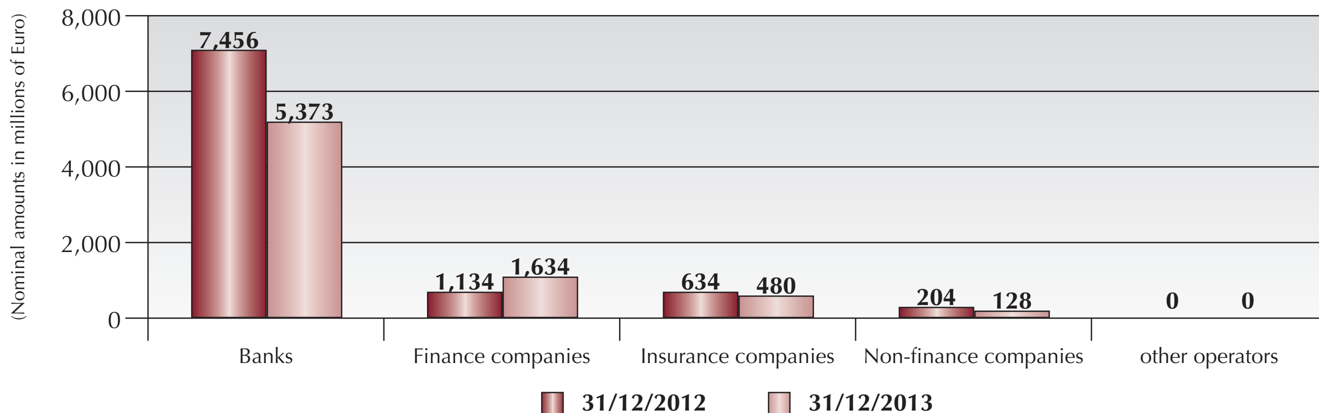
(amounts in thousands of Euro)

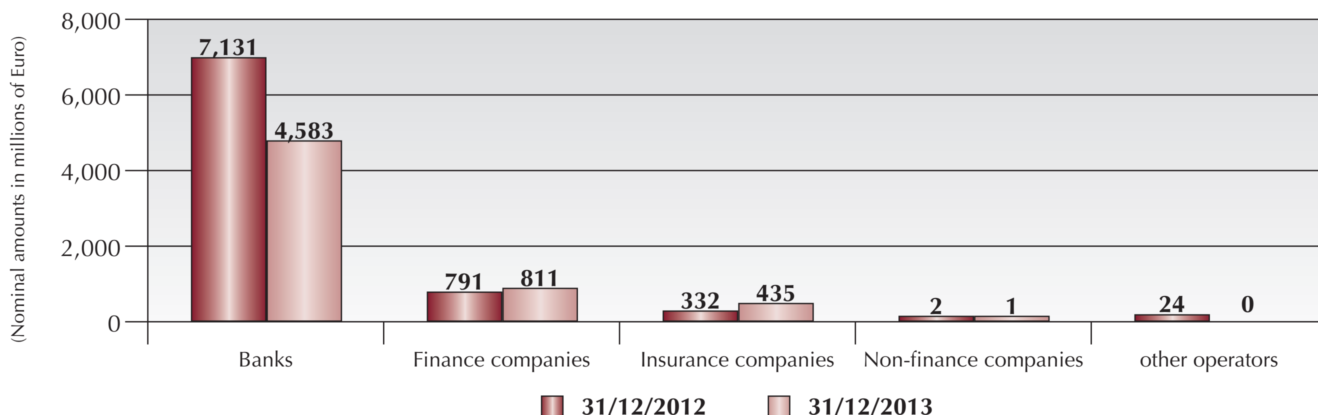
Financial derivatives	*31/12/2013*	*31/12/2012*	*Change from 12/2012*	
Valuation (fair value)			*Absolute*	*%*
Positive (of which Assets item 20)	8,294,723	10,957,747	(2,663,024)	(24.30)
Negative (of which Liabilities item 40)	(6,460,403)	(9,784,225)	3,323,822	(33.97)



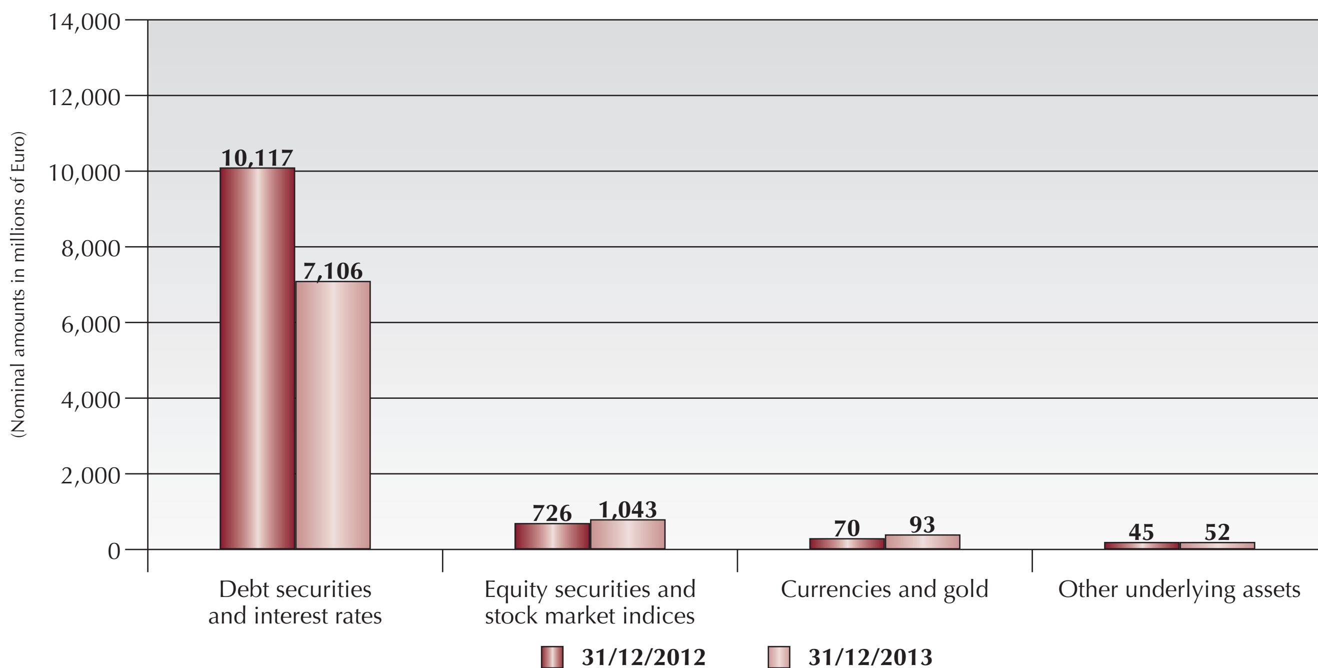


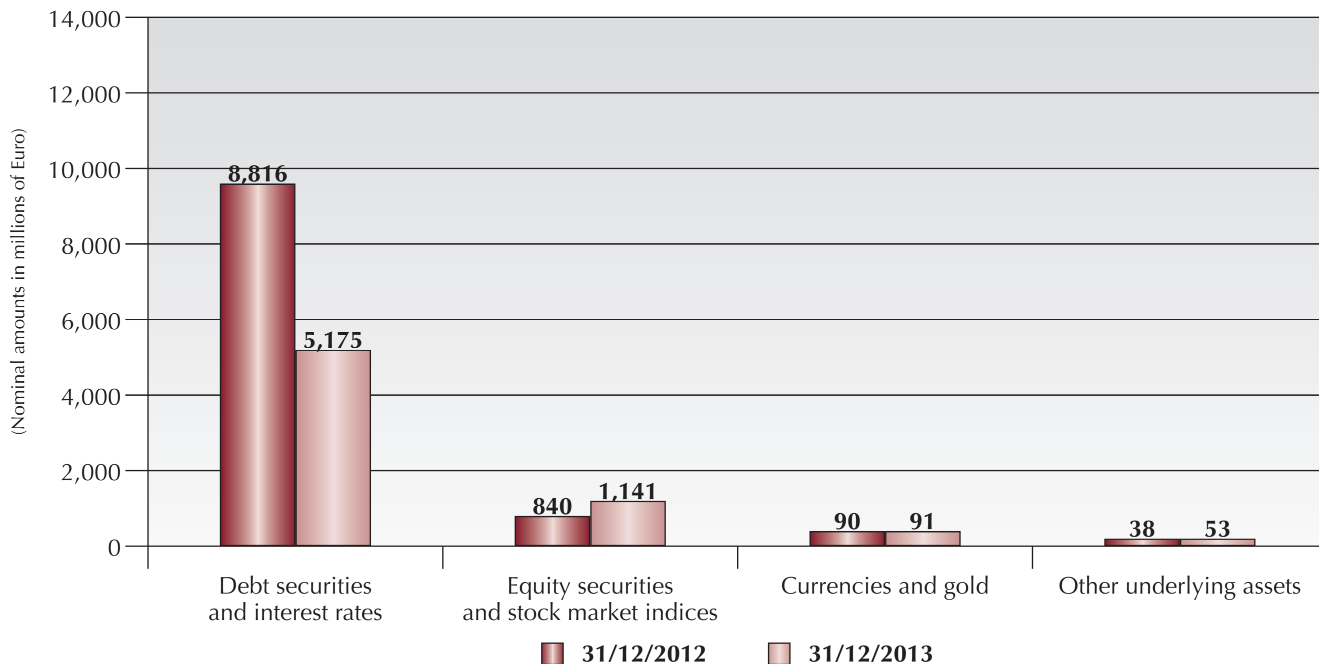
The "Central Counterparty" item includes exposures in fair value terms to Swapclear, which as at 31 December 2013 amount to € 446 million as positive fair value and € 457 million as negative fair value. The contraction comparing counter values at 31 December 2012 (respectively equal to € 1,343 million and € 1,377 million) is also justified by the portfolio compression which was more or less replicated in 2013 as well.





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.





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. Given that almost all the Banks counterparties in fact operate with netting agreements (the total of the non-netted positive fair value is € 180 million, representing 1.94% of the total), which usually contemplated the reciprocal payment of guarantees to mitigate the risk deriving from net exposure, below we provide a quantitative summary of the values of the exposures which are subject to compensation agreements, or not.

OTC DERIVATIVE CONTRACTS - COMPENSATION AGREEMENTS

(amounts in millions of Euro)

Positive measurement of	*31/12/2013*	*No netting*	*Netting*
Derivatives of debt securities and interest rates	7,106	153	6,953
Derivatives of equity securities and indexes	812	27	785
Derivatives of currency and gold	93	-	93
Credit derivatives	1,233	-	1,233
Commodities derivatives	51	-	51
Total	**9,295**	**180**	**9,115**

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

(amounts in millions of Euro)

Negative measurement of	*31/12/2013*	*No netting*	*Netting*
Derivatives of debt securities and interest rates	5,184	4	5,180
Derivatives of equity securities and indexes	959	-	959
Derivatives of currency and gold	91	-	91
credit derivatives	1,260	-	1,260
commodities derivatives	53	-	53
Total	**7,547**	**4**	**7,543**

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

Equity Investments

The total amount is € 37.6 million, versus € 86.6 million as at 31 December 2012. The reduction is mainly attributable to value adjustments for impairment carried out during the year (totalling € 38.9 million) as well as disinvestments for a total value of € 12.1 million.
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*	*Carrying amount*
Fenice Holding S.p.A.	16.38%	13,044
Moncada Solar Equipment S.r.l.	14.52%	4,024
Marina di Stabia S.p.A.	15.37%	3,272
Other*		7,185
Equity investments classified among “Financial assets available for sale” Item 40		**27,525**
Interporto Toscano Amerigo Vespucci S.p.A.	19.00%	4,268
Agricola Merse S.r.l.	20.00%	5,004
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	15.00%	779
Equity investments classified under item 100 “Equity investments”[2]		**10,051**
TOTAL EQUITY INVESTMENTS		**37,577**

In the context of equity investments classified among “financial assets available for sale,” in 2013 investments totalling € 1,869 thousand were made, of which € 1,600 thousand related to operations regarding investee associations pursuant to Law 24/12/2007 no. 244, paragraphs 325 and 327 - cinematographic credit. The remaining portion regarded the acquisition of share-based financial instruments connected to financing restructuring operations.

The disinvestments carried out in 2013 totalled € 12,108 thousand, of which € 3,920 thousand related to investee companies classified among financial assets available for sale (in particular regarding the partial sale of the equity investment held in Moncada Solar Equipment S.r.l. for a value of € 2,000 thousand and redemptions obtained in return for the provision of capital for investee associations pursuant to Law 24/12/2007 no. 244, paragraphs 325 and 327 - cinematographic credit) and for € 8,188 thousand for equity investments (in particular, the full sale of the equity investment held in RE.GE.IM. S.p.A.).

** of which € 3,362 thousand for investee associations as per Law 24/12/2007 no. 244, paragraphs 325 and 327 - cinematographic credit*

[2] We note that among "non-current assets held for sale" (IFRS 5), are i) the 48% equity interest held in MPSVenture SGR S.p.A. (carrying amount € 972 thousand) and ii) the 14% equity interest held in Sviluppo Imprese Centro Italia SGR S.p.A. (carrying amount € 728 thousand), for which sales agreements are currently being negotiated. In addition, the Bank holds 33.33% of the company Immobiliare Centro Milano S.p.A., entirely written-off.

Below we provide the details of the writedowns for impairment carried out during the year:

(amounts in thousands of Euro)

Name/Headquarters	*Value adjustments*
Fenice Holding S.p.A.	29,033
Marina di Stabia S.p.A.	1,045
Other[3]	6,828
Financial assets available for sale	**36,906**
Interporto Toscano Amerigo Vespucci S.p.A.	1,992
Equity investments	**1,992**

Regarding Fenice Holding S.p.A., in consideration of the general negative performance of the real estate market, and following the publication of the Group's 2012 consolidated financial statements, an additional € 8 million was added to the previous writedown of € 21 million, recognised in 2012 among provisions for risks and charges, and subsequently moved to its own item. The other writedowns reflect the permanent negative performance of the investee companies.

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 in 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 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, in 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, reduced to € 13 million this year.

Moncada Solar Equipment S.r.l. - Aragona (AG). The company, established in 2008, is part of the Moncada Energy Group. In December 2013, the partial sale of the equity investment (equal to approximately 7.1%) to M$A Rinnovabili S.r.l. (a company which also is part of the Moncada Energy Group), while the sale of the remaining 15.52% is envisaged during the present year.

Marina di Stabia S.p.A. - Castellammare di Stabia (NA). This company holds a concession (lasting until 31 December 2080) for the construction and management of a tourist marina in Castellammare di Stabia, deriving from the conversion of an inactive industrial complex. The majority of the company's capital is held by a group of entrepreneurs and professionals from Castellammare di Stabia. The Bank holds 15.37% of the capital.

[3] *Of which € 2,018 thousand for investee associations as per Law 24/12/2007 n° 244 par. 325 and 327 – cinematographic credit.*

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)). During 2013, the company carried out a share capital increase for € 10.7 million, to which the Bank did not adhere and, as a consequence, the percentage of equity held was diluted, going from 36.3% to 19.00%.

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." for an investment of € 5 million.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. - Florence. The company manages four closed-end mutual funds, Fondo Centroinvest, Fondo Toscana Venture, Fondo Toscana Innovazione and Fondo Rilancio e Sviluppo. 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%). The equity interest which represents 14% of the asset management company was reclassified among "non-current assets held for sale" (IFRS 5), as procedures for the sale have begun.

Main economic aggregates and management indicators

ECONOMIC AGGREGATES

MPSCS closed its financial statements as of 31 December 2013 with a net profit of € 48.65 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 € 0.95 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".
- 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 € 0.26 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 € 1.15 million). " The aggregate was show net of changes for a total amount of € 0.05 million.
- "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), as well as depreciation included under item 170. Regarding personnel costs, the differences between the balance shown in the financial statements and the management figure can be attributed to contingent assets. These amount to a total of € 0.60 million and are classified for management purposes in the aggregate "Other operating income/charges." Regarding the subitem "other administrative expenses," the differences between the accounting figure and the management figure can be attributed to the non-inclusion of costs relative to the collection of loans in dispute charged to customers at € 4.93 million, charges deriving from previous years for € 0.3 million and also at € 0.3 million for lesser costs relative to recovered expenses which for accounting purposes are included under item 190 "Other operating income/charges." In conclusion, the overall difference between the "Operating costs" and "Administrative expenses" aggregates amounts to approximately € 4.93 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 € 7.06 million, and has an overall positive management value of € 0.88 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 31/12/2013	Cons. at 21/12/2012	Change % 2013-2012
INTEREST MARGIN	**301.22**	**231.00**	**-23.31%**
TOTAL FEES FROM CUSTOMERS	**33.08**	**46.78**	**41.40%**
OTHER REVENUES FROM FINANCIAL MANAGEMENT	**179.40**	**149.86**	**-16.47%**
MARGIN FROM FINANCIAL AND INSURANCE MANAGEMENT	**513.71**	**427.64**	**-16.75%**
Net value adjustments for impairment	**-365.03**	**-293.66**	**-19.55%**
RESULT OF FINANCIAL AND INSURANCE MANAGEMENT	**148.67**	**133.98**	**-9.89**
OPERATING COSTS	**-73.18**	**-69.30**	**-5.29**
NET OPERATING PROFIT	**75.50**	**64.67**	**-14.34%**
Net provisionsforrisks and charges	-37.32	22.79	**-161.06%**
Other operating income/charges	**0.72**	0.88	21.37%
PROFIT (LOSS) BEFORE TAXES	**38.90**	**88.34**	**127.11**
Income taxes on current operations	-37.62	-39.69	5.50
Tax Rate	96.7%	44.9%	
PROFIT (LOSS) FOR THE PERIOD	**1.28**	**48.65**	**3,711.34**

In short, the ***"*Interest margin*"*** shows a decrease of 23.31% compared to 2012, while **"Total Customer Fees"**, compared with the same period of the previous year, shows a rise of 41.40%; the item **"Other Financial Management Revenues"** shows a value of € 149.86 million against € 179.40 million at 31 December 2012.
The decrease in the item "Net interest income," can be mainly attributed to an initial restructuring of the maturity dates of funding, aimed at realigning mismatches between assets and liabilities. In addition to the decrease in net interest income, the reduced levels of new disbursements during the year in question had an impact, as did the notable numbers of transfers to disputes seen during the same period.
Fee income saw a sizeable increase, mainly due to the early repayment of loans transferred to non-performing and the increase in fees received for sureties provided for pool operations.
Regarding "Other revenues from financial management", we note that these decline with respect to the exceptional numbers seen the previous year, in any case settling at a figure that was well above the target established beforehand. In addition, in view of the continuing signals of deterioration of the economic situation in question and the increase again registered in 2013, of unpaid differentials by corporate customers (exposures which present critical elements regarding recovery, as they lack collateral), the Bank has proceeded to register analytic adjustments for € 10.9 million.

Consequently, the **"Margin from Financial and Insurance Management"**, at € 427.64 million, is 16.75% less than that of 2012 (equal to € -86.07 million).

"Net value adjustments for Impairment" increased significantly to € 293.66 million, against € 365.03 million in 2012. Despite the significant decrease with respect to the previous year, writedowns nonetheless remain quite high. The Bank has continued constant and careful supervision of risks deriving from problematic loans during a time of particular complexity for both the company and the economic situation. For further details, see the preceding paragraph on "Impaired Assets".

With respect to "**Operating Costs*"***, there was a decrease of 5.29% compared to 2012, as a direct result of the Bank's constant attention to containing costs, based on the guidelines issued by the Parent Company. Note that this item also includes the greater outflows for outsourced services carried out by dedicated structures, the annual cost of which

increased with respect to the previous year by around € 2 million. Regarding Personnel Costs, the decreases recorded with respect to the previous year, quantifiable at around € 4.5 million, are mainly due to the reduction in staff carried out by the Bank, in accordance with the Group policy.

The item "**Net provisions for risks and charges"**, saw a positive balance of € 22.79 million, mainly due to the release of the provision of € 21 million carried out in 2012 at the time of the verification of the total exposure to the La Fenice Holding S.p.A. Group, an amount which was moved to its own item during the first half of 2013. During the year, the Bank found it appropriate to review the debt exposure towards LBSF, on the basis of the last communications with the receivers, adjusting the provision for risks and charges towards a specific additional allocation of € 9.2 million, the impact of which was compensated for with the release of provisions for which the need for recognition no longer existed.

The item **"Profit before Taxes"** amounts to € 88.34 million, versus € 38.90 million in 2012, with a positive difference of about € 49.4 million (+127.11%).

"Income taxes" for the period, both current and deferred, amounted to € 39.69 million with an effective tax rate of 44.9%. The 2013 tax rate with respect to 2012 (which was over 96%), declined mainly due to the effect of the regulations introduced by the Stability Law which, as of 2013, made it possible to allow income statement item 130 "Net value adjustments/write-backs due to impairment of: a)loans" to be included in the IRAP taxable base, an impact which was partially neutralised by the introduction of additional IRES at 8.5% (envisaged only for 2013). In addition, 2012 also saw significant negative effects deriving from capital losses on equity investments that could not be deducted as regards pex.

"Profit for the period", net of taxes, was € 48.65 million against € 1.28 million the previous year.

MANAGEMENT INDICATORS

(values in millions of Euro)

	31/12/2013	21/12/2012	% Change
Credit quality indices (%)			
Net non-performing loans / Loans to customers	16.00	12.56	27.38
Net watch-list loans / Loans to customers	8.05	6.97	15.43
Profitability indices (%)			
R.O.E. on shareholders' equity (1)	4.24	0.12	3,583.69
R.O.E. on capital balance (2)	4.32	0.12	3,627.03
Interest margin/Operating revenues (3)	172.41	202.61	(14.90)
Net fees/Operating revenues (3)	34.92	22.25	56.92
Operating costs/Operating revenues (3)	51.72	49.22	5.09
Net adjustments on credit / End of period loans	2.05	2.48	(17.33)
Capital ratios (%)			
Tier 1 capital ratio (4)	6.93	6.61	4.84
Total capital ratio (4)	7.22	7.17	0.70

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

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

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

(4) Equity ratios
Calculated without 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).

GOVERNANCE SYSTEM

The risk governance system adopted by the Group features a clear distinction of roles and responsibilities between the first, second and third level control functions. In 2013, the organisational structure was further improved to guarantee greater robustness for the Group's system of internal controls and more incisive risk management actions and increased effectiveness of the whole risk management process.
The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's statutory bodies. Specifically:

- the BoD of the Parent Company defines and approves the strategic guidelines and risk governance policies and, at least once a year, expresses in numeric terms, in terms of Economic Capital, the Group's total level of risk appetite;
- the Board of Statutory Auditors and the Internal Risk and Control Committee assess the level of efficiency and adequacy of the internal control system, specifically regarding control of risks;
- the Managing Director/General Manager guarantees compliance with the risk policies and procedures.

In addition, the Director assigned responsibility for the internal control and risk management system, established in accordance with the Code of Conduct for Listed Companies, as the BMPS Parent Company, is responsible for establishing and maintaining an effective system of internal control and risk management.

In order to support efficiency and flexibility in the decision making process and to smooth interaction between the various corporate departments involved, specific Management Committees exist, which are responsible for risks (most only within the Parent Company):

- the Risks Committee establishes the risk management policy and verifies overall respect for the limits assigned to the various levels of operations; proposes the allocation of capital to be submitted for approval by the BoD; evaluates, at a comprehensive level and at the level of individual companies, including MPSCS, the risk profile achieved and hence capital consumption (both supervisory and economic); analyses trends in risk/return performance indicators;
- the Finance and Liquidity Committee formulates the principles and strategic guidelines for proprietary finance; resolves and puts forward proposals regarding exposure to interest rate risk and liquidity in the banking book and to define capital management actions ;
- the Credit, Credit Policies and Credit Assessment Committee expresses guidelines regarding and an opinion on credit policies at least once per year, verifying commercial sustainability and compliance with risk appetite, it also approves the corporate credit assessment policies at least once a year, also for the purpose of its subsequent representation in the financial statements.

[1] *For further details on Risk Management methods and models, see the Explanatory Notes Part E "Information on risks and on relative hedging policies"*

In the context of the Internal Control System, the Internal Audit Area carries out third level controls, while the Risks Division is responsible for second level controls and the BCUs for the first level controls. Specifically:

- the Internal Auditing department carries out independent and objective assurance and advisory activities aimed on one hand to check, also with on-site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation;
- the Risks Division, reporting directly to the Managing Director, includes the risk management function, the compliance function, the anti-money laundering function and the internal validation function. The Division therefore is responsible for:
  - guaranteeing the overall functioning of the risk management system;
  - supervising the assessment of capital adequacy and the definition of the risk appetite;
  - defining strategic policies on the credit portfolio;
  - discharging the function of ensuring compliance and the anti-money laundering function envisaged by Law.

The Risks Division also ensures the necessary reporting to the Group's decision making bodies and top management. The organisational structure of these functions will be the subject of a review, in accordance with that envisaged in the 15th update to Bank of Italy Circular 263/06.
Specifically, within the Risks Division, the Risk Management Area defines the integrated methods to assess and analyse risks and ensures that they are constantly monitored. It develops internal risk models and verifies respect for the operational limits established by the BoD for the Group.

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

In the context of a more general process of spreading the Group's culture and its distinctive values, the spread of a "risk culture" within the Bank has been up to now guaranteed through the publication of glossaries and process regulations on the subject of risk management. Specific initiatives have also been implemented regarding corporate bodies, under the responsibility of the Risks Division, using "Board Induction" on the issues of risks and informational flows.

The autonomy and independence of the operations of the Risks Division are ensured by specific requirements, such as the appointment/revocation and determination of the remuneration structure of the Risks Division Manager on the part of the BoD, upon a proposal from the Director assigned responsibility for the internal control and risk management system, shared with the Chairman of the Board of Directors, upon receiving a favourable opinion from the Internal Risk and Control Committee, as well as hearing from the Board of Statutory Auditors and the Human Resources and Internal Communication Division.

ACTIVITIES RELATED TO INTERNATIONAL SUPERVISORY ACTIVITIES

- First pillar: since 2008, the Group has used internal models validated by the Bank of Italy to assess and manage credit (AIRB - Advanced Internal Rating Based) and operating (AMA - Advanced Measurement Approach) risks. Over time, in concert with the Supervisory Authority, these models have been further developed and at the same time activities aimed at improving internal models to manage market and counterparty risk have continued.
- Second pillar: during the year, the internal management models were improved and some actions were taken to further improve the Group's Internal Capital Adequacy Assessment Process (ICAAP), for which the obligatory disclosure was provided to the Bank of Italy.
- Third pillar: the relative Market Disclosure is released quarterly on the Group's website, at www.mps.it/Investor

+Relations and is updated continuously in respect of regulatory developments on the subject.
In 2013, the methodological and application assessments 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.

In addition, the Group was involved in self-assessment (Gap Analysis) in reference to the 15th update to Bank of Italy Circular 263/06 of 2 July 2013, regarding internal control systems, disclosure systems, and operational continuity.

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.

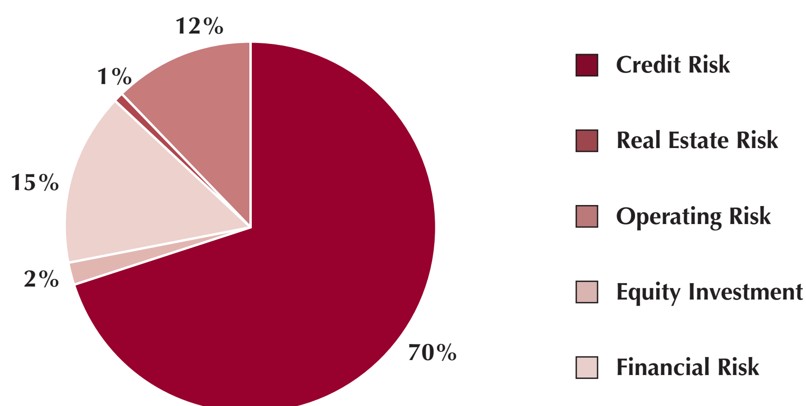
Assessment models
The Risk Management Area quantifies Economic Capital on a regular basis relative to each risk type and periodically reports to the Risk Committee and the decision making bodies in the context of the informational flows prepared by the Risks Division.
Above all, assessment models developed internally are used, based on a Value-at-Risk (VaR) approach.
For the purposes of calculating Total Economic Capital, the assessments relative to each risk type are rendered homogeneous both regarding the timeframe (annual holding period) and to the preselected confidence interval, in line with the Group's rating target, and are subjected to intra-risk and inter-risk diversification processes.
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%	Internal VaR Credit model	PD and LGD differentiated by counterparty type, CCF differentiated by product	Correlation based on multi-variable analysis between internal default rates and macroeconomic variables	Copula t-Student
Equity investments	3 M VaR, 99%	VaR Montecarlo	Volatility of share prices and comparable indexes	Correlation between share prices Correlation between proxy indexes	1 Y, 99.93%, Copula t-Student
Market (Banking Book)	1 Y, shift sensitivity for 25 bp	Maturity Gap	Bucketing on nodes Parallel shifts and twists of interest rate		1 Y, 99.93%, Copula t-Student
Market (Trading Book)	1 day VaR 99%	VaR historical simulation -full revaluation	All Market Risk factors (IR, EQ, FX, CS,...)	Implicit in the full revaluation historical simulation	1 Y, 99.93%, Copula t-Student
Operating	1 Y VaR, 99.9%	LDA with full integration of external data, plus qualitative self assessment	Frequency and severity by event type	Perfect correlation for conservative reasons	99.93%, Copula t-Student
Business	1 Year 99%	EaR Parametric	Volatility of costs and revenues	Correlation between costs and revenues	99.93%, Copula t-Student
Real Estate	1 Y VaR, 99%	VaR Parametric	Volatility of real estate indexes	Correlation between proxy indices	99.93%, Copula t-Student

As of 31 December 2013, the Total Diversified Economic Capital of MPSCS (excluding intra-group operations) was 70% attributable to credit risk (including counterparty and issuer risk), 2% attributable to equity investment portfolio risk and 12% to operational and business risk. Risk management capital covering financial risks (comprising the typical risks of the trading portfolio and the ALM-Banking Book) amounts to approximately 15% of the Total Economic Capital, whilst capital covering property risks is almost negligible.

DIVERSIFIED ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31/12/2013



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 2013 was as follows:

	(a) MPSCS employees	*(b) MPSCS employees at Group companies or subsidiaries*	*(c) Group company employees at MPSCS*	*Work force (a-b+c)*
Executives	28	6	5	**27**
Managers	303	114	39	**228**
Professionals	213	96	12	**129**
Total	**544**	**216**	**56**	**384**

Actual employees	*31/12/2013*	*31/12/2012*	*Changes*	
			Absolute	*%*
Executives	27	29	(2)	(6.70)
Managers	228	251	(23)	(9.16)
Professionals	129	146	(17)	(11.64)
Total	**384**	**426**	**(42)**	**(9.86)**

The trend is indicated below, starting from the workforce existing at 31 December 2012:

Workforce at 31 December 2012		**426**
Increases		**10**
due to hiring	7	
due to termination of outgoing transfers to BMPS Group	2	
due to outgoing transfers to BMPS Group	1	
Decreases		**52**
due to resignations	8	
due to access to the Solidarity Fund	9	
due to outgoing transfers to the Group (*)	35	
Total		**384**

(*)
relative to outgoing transfers for activities related to the former Auxiliary Administrative Accounting Auxiliary Division of the Parent Company and for transfers for specialist activities related to credit requested by the Parent Company.

DISTRIBUTION BY AGE GROUP AND AVERAGE AGE

The following information pertains to the "workforce" situation as at 31 December 2013:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	*age*
Women	6	43	68	34	151	44
Men	11	55	111	56	233	44
Total 2013	**17**	**98**	**179**	**90**	**384**	**44**
Incidence	4.4%	25.5%	46.6%	23.5%	100.00%	
Total 2012	**20**	**119**	**186**	**101**	**426**	**44**
Incidence	4.7%	27.9%	43.7%	23.7%	100.00%	

PERSONNEL TRAINING

Training in 2013 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 4,949 hours, of which 4,442 in the classroom and 507 on-line (in 2012 these were respectively 9,105, 8,618 and 487). The main areas in which training was provided were:

- finance (901 hours);
- legal/juridical, compliance and auditing (541 hours);
- management skills development (1,024 hours);
- production, organisation and process systems (865 hours);
- other courses (558 hours).

EMPLOYMENT AND TRADE UNION RELATIONS

Corporate meetings with trade unions continued with positive results regarding the implementation of the objectives and strategic guidelines of the Business Plan and supervision in terms of containing the cost of staff regarding holiday time, banked hours, overtime and missions continued.

Organisational and Technological Dynamics

The he main project areas addressed in 2013 were:

Increase of organisational efficiency
In the context of the constant attention paid to changes in the regulations, the market, and increasing the efficiency and streamlined nature of processes, various structural projects were carried out, including:
- the combination of the Central-North and Central-South Sales Offices into a single Sales Office, from which the Diagnostics function was eliminated;
- in the context of the Investment Banking Division, a) unification of the Debt Capital Management and Equity Capital Management functions into the Capital Markets Office and b) creation of the FIG Origination and Structured Credit Office, which combines the functions of the former Capital Markets Solutions and Securitisation and Principal Finance structures;
- the closure of the Credit Disbursement office under the Credits Division (following the passage of the rating assignment/resolution function to the Parent Company) as well as the inclusion of the Proposal Review Office in the Credit Evaluation Office and the establishment of the Ordinary Finance Portfolio Management Office, also reporting to the Credits Division;
- in compliance with the prudential supervisory regulations (XV update to Bank of Italy circular 263), the Internal Audit Office and Compliance Office now report directly to the Board of Directors;
- activities regarding supervisory notifications and back-office were centralised with the Parent Company and auxiliary services (post and couriers, contracts) were externalised
- closure of the Communication Staff and assignment of supervision of the related material to the Sales Planning Office.

Projects
2013 was notable for a variety of project development activities related to technology in the face of business requirements and new regulations, some of which were already in effect as of the date of these financial statements. Specifically:
- Dodd Frank Act and EMIR. For these themes, many projects and technological/organisational developments were implemented and are still undergoing completion, involving the new international rules on OTC derivatives. The Bank participates actively, including in terms of coordination, in the working group established by the Parent Company;
- Tobin Tax France and Italy (taxation of financial instrument transactions);
- Minibond. The Montepaschi Group has promoted an initiative aimed at the establishment of a fund (“Fondo Minibond”) that invests in bonds and debt securities issued by small and medium size Italian businesses. In this project, MPSCS acts as the arranger of the issue operations and as the Fund’s advisor.
- FATCA (Foreign Account Tax Compliance Act), which will be applied in the near future.

Adaptation of the Internal Regulations and Conformity Aspects
The subjects which were affected by changes in 2013 were:
- management of the Master Agreement for compensation and collateralisation;
- operations with brokers for investment services;
- securities lending for BMPS customers;
- transactions with Related Parties by the Parent Company and with Connected Subjects by the BMPS Group;
- anti-money laundering;
- the activities of all the functions within the Corporate Finance Division;
- the Group’s Code of Ethics and the Corporate Code of Conduct
- market abuses regulations;

- the process for the activities of the Structuring & Product Engineering Office and those of the Customer Desk;
- management of the instructions regarding compliance related to "Personal Transactions," in the provision of investment services;
- EU Regulation 236/2012 regarding short selling and credit default swaps;
- best execution in the context of the processes relative to the execution of orders transmitted by the distribution network of the Montepaschi Group;
- OTC derivatives operations with corporate customers;
- transparency.

Internal Audit

The Internal Audit Office, Internal Audit Corporate Function, is responsible for independently verifying the regularity of the operations and risks performance and evaluating the functionality of the overall Internal Control System (ICS). These tasks are carried out under the coordination of the similar Parent Company Function, in cooperation with the Bank's other control functions and, above all, in respect of the objectives defined in the specific annual audit plan approved by the Board of Directors, the body with strategic supervision responsibilities to which the Function reports directly.

The optimisation of the ICS represents an essential condition for pursuing the corporate and Group objectives, including adherence to the provisions dictated on the subject by the Supervisory Body. Regarding the latter, we note that during the second half of the year, at the Group and company level, analysis was carried out in preparation for the adjustment of the structure to the changes that will be introduced as of July 2014, according to a detailed program of deadlines, in response to the 15th update to Bank of Italy Circular 263/2006 "New prudential supervisory regulations for banks." With this update, 3 new chapters are anticipated ("Chapter 7 - the internal control system, Chapter 8 - the disclosure system and Chapter 9, operational continuity"), the first of which is of particular importance both regarding the control environment in Bank Groups and regarding individual legal entities. The implementation of the Control System will be regulated, as usual, through updates to Group Directives and the specific internal documents dedicated to the subject.

Bearing in mind the need to subject to verification, from a multi-year perspective, all of the important components regarding operations and the company structures, as well as carrying out "obligatory" reviews, that is those envisaged in specific external and/or internal provisions, the annual audit plan envisages cyclical actions and certifications of the operating processes judged to be most exposed to risk or to potential problems (Finance and Credit), identified through a combination of relevant factors in the areas of investigation and the level of risk associated with the same, also following the results of periodic Risk Assessment activities.

In addition, the audit plan is integrated with targeted actions related to issues of wide-reaching interest, others relative to aspects regarding compliance with external and internal regulations, and others focused on assurance of the decision-making and control bodies. Finally, accompaniment/validation activities take on importance, in particular in the context of verifying the coherence of the controls indicated with the process regulations with respect to the overall ICS and for follow-up, supervising the progress of actions to resolve problems that emerged in the context of the interventions carried out.

The reviews performed during 2013 by the Internal Audit Office, which were reported to the Board of Directors on a half-yearly basis, contributed to the confirmation of the substantial adequacy of the Bank's Internal Control System. This assessment also includes the judgements on the topic that were made over time by the business functions (responsible for controls within their areas of competence) and by the other corporate control functions (responsible for supervising specific areas of risk), envisaged in the Internal Control System Governance Model, defined in the correlated Directive issued by the Parent Company BMPS. Among these last structures, we especially note the Compliance Function, assigned to manage non-compliance risk and the Risk Control Function, externalised with the Parent Company's Risk Management Area, which is responsible for monitoring and supervising credit, market and operating risk, guaranteeing the execution of specialist controls and the assessment of the various risk components.

The Internal Audit Office performed its control activities in respect of the projects envisaged in the 2013 Audit Plan, also carrying out certain actions that were not foreseen, upon request by the Board of Statutory Auditors and General Management. The reviews carried out during the year as usual involved the Bank's various business areas in a transversal manner, also taking into account the issues for which there are specific controls envisaged in external regulations and the provisions of the Supervisory Bodies. With the goal of verifying the effective execution of first level controls, and hence indirectly the solidity of the Control System adopted, some projects were carried out, with essentially positive results, regarding the proper performance of operations and/or proper execution of line controls on the part of certain structures, in both the credit and finance areas.

Internal Audit controls regarding the process of credit selection and disbursement were then implemented, continuing those of previous years, through the verification of the models adopted during the credit granting stage for positions with anomalous risk codes. In addition, checks were established on the use of override abilities during the stage to determine the ratings of counterparties and the coherence of the relative justifications.
Regarding the finance area, in addition to checks on the first level controls performed by certain structures, checks were also carried out on the process of trading OTC derivatives with the Bank's corporate customers, placing the contracts and controls under observation at a Local Office, as well as the respect for the purposes of hedging, compliance profiles in terms of MiFID provisions and, finally, management of OTC derivative operations with unpaid differentials. In addition, specific interventions were made in regard to the propriety of trading activities for the systematic DDT internaliser and market making activities on bonds and capitalisation hybrids (financial instruments not deducted from supervisory capital). The basically positive results of this last intervention, relevant for the purposes of the prudential supervisory provisions, were brought to the attention of the Board of Statutory Auditors and the Board of Directors.
Regarding the auditing of regulatory processes and compliance, specific checks were performed on the issue of the respect of regulations pursuant to Law 108/96 on usury, the regulations for transparency of banking operations and services (Consolidated Law on Banking and Bank of Italy Supervisory Instructions), and the application of Law 262/2005 related to general accounting. As usual, the annual check on the functioning of the operating risks governance and management system was done, envisaged to maintain recognition of the Group's internal model by the Supervisory Authority for the purposes of the AMA approach ("advanced" method for the determination of capital absorption covering operating risks). Anti-money laundering controls also continued, and there is a specific long-term audit plan on this topic to control all related components.

Compliance

The activity of the Compliance Office in 2013 regarded the issues described in the "2013 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 2013.
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.

Relative to the compliance of investment services during the year, on the issue of Bank operations for the trading of over the counter (OTC) derivatives - traded outside of regulated markets), a new internal regulatory document was issued which newly takes up and details the corresponding Parent Company document in the light of the new aspects introduced in the Group Directive regarding the commercialisation of OTC derivatives, approved by the BoD of the Parent Company.
In reference to the obligations which mainly originate from the regulations which implement the MiFID Directive, we note that further updates and new internal regulatory documents were issued, shared with the various relevant functions. Among these, we call attention to the document which contains the Bank's code of conduct which was modified in relation to personal operations permitted for employees, so as to make them correspond to the provisions issued by the Parent Company regarding the use of home banking applications, and as a consequence, the regulations regarding the instructions for personal operations were also amended. In addition, the document related to the Market Abuses Regulations was reissued, to introduce the amendments arising with the latest version of the Group Directive on the subject of 09 March 2012, accepted by the Bank's BoD on 05 April 2012, as well as Consob Resolution 18406 of 13 December 2012, which prescribes the admission of market practices regarding the repurchase of bond loans with pre-established conditions. Also regarding internal regulatory documents, we note that following the entering into force of European Regulation 236/2012 on 1 November last year, which governs non-hedged operations with sovereign debt securities, shares issued for listing on regulated markets and their relative derivatives, a special document was prepared and issued which gathers all the regulations and operational provisions able to describe the controls required regarding short selling.

Pursuant to the legislative provisions contained in Law 62/2005 on Market Abuse (described in the internal regulatory document containing the indications gathered in the last Group Directive on the subject), the Compliance office carried out monitoring on the trading carried out, both in terms of propriety and when relevant, on the account of the customers, for listed financial instruments issued by issuers on the watch list (and on those connected to the same) for the entire period they appeared on said list. The analysis of the verifications carried out during both the first and second half highlighted the respect for the norms that prohibit improper use of privileged information, related to the financial instruments of issuers found in the Register.

On the other hand, regarding the compliance of banking services and in particular on the subject of anti-usury, from a regulatory point of view no new significant issues arose during the period in question. 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. In addition, the usual sampling-based checks were carried out on the proper functioning of the procedures in order to determine any exceeding of the threshold rate at the time of enquiry for operations.

In addition, during the period in question the activity was concluded to prepare the process and procedural rules to implement the Bank of Italy provisions relative to the regulations issued on 12 December 2011 through the 9th update to Circular 263/2006 related to "Risk activities and conflicts of interest with connected subjects" (in compliance with

CICR Resolution 277 of 29 July 2008 and in implementation of article 53, paragraphs 4 and subsequent of the Consolidated Banking Law). The Bank, assisted by the relevant BMPS functions (gathered in a specially created working group), had already provided for the establishment of the Committee of Independent Directors, through a BoD resolution on 8 June 2012 (consisting of 3 members) and to the preparation and approval of the regulations for the operations of the same and, subsequently, on 28 June 2012, the MPSCS BoD, in virtue of the favourable opinions expressed by the Committee of Independent Directors and the Board of Statutory Auditors, had resolved to approve the "Decision-making Procedures" that must be followed in order to carry out transactions with connected subjects. The Bank then proceeded to prepare the process regulations and issue them, having already worked together with the Parent Company functions to define the various requirements for the implementation of the activities in question. To complete these new tasks, the reporting activities envisaged in the document in question relative to the various quarters of 2013 have already begun.

Concerning Model 231, we note that in November 2013 a special working group was established, following the review of the organisational structure of the Parent Company and the legislative amendments made on the issue of the administrative responsibility of legal persons of companies and associations, even free of legal identities pursuant to 231/2001, and also following the approval by the BoD of Banca MPS of the new Policy on the subject at its meeting on 23 October 2013, with which the principles that each company in the Group must refer to are identified, as well as the guidelines relative to the behavioural requirements and rules to be followed for the application of the aforementioned legislative Decree and for the updating of the relative organisational models, acts to carry out the activities envisaged for the integration of said model. During the period, control activities were carried out specifically in reference to the document which summarises the provisions related to transparency of bank operations and the document which governs complaints and extra-judicial dispute resolution.

On the subject of compliance in terms of anti-money laundering activity and combating terrorism, again in 2013 the activities of the working group related to D236 continued, on the subject of anti-money laundering. The tasks carried out by the working group during the period covered in these financial statements continued to focus on two objectives in particular: on one hand, activities to recover and file documentation continued, for the purposes of re-evaluating pre-existing customers; on the other, actions were taken to improve the efficiency of the maintenance of the Single Electronic Archive (SEA), in particular regarding the provisional SEA through the management of incomplete files which are sent daily by the Group Operational Consortium (GOC). In order to achieve 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 was also created aimed at implementing a check of the operational management systems which impedes the registration of a resolution (new or reviewed) without the flag which testifies to the acquisition of all the anti-money laundering documentation necessary (so-called checklist procedure).
We note that, on average, the daily notifications of incomplete operations number only a few, and are managed with respect for the timeframes indicated in the regulations, further confirming that there are not critical problems related to the proper maintenance of the SEA.

In terms of investment services, during the year four complaints were presented relative to the differentials on hedging derivatives, which were rejected. However, 36 complaints were presented on banking services, of which none 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 June 2013, 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 ongoing 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 2013. Part H "Transactions with Related Parties" - in the Explanatory Notes - gives a breakdown of the existing relations with Group companies as of 31 December 2013. 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 (directives, policies, process regulations) which were fully brought to the attention of the MPSCS Board of Directors.

The outsourcing of activities to other MPS Group organisations and companies has enabled MPSCS to maximise synergies and economies. 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[4]:

- 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[5], 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;
- anomalous credit recovery activities and the relative delegated management of expense items, entrusted to the Parent Company's Credit Recovery Area, and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to 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 Risks Division;
- the activity to supervise publicity, communications and image through the Banca MPS Communications Area;
- technological supervision, maintenance and development of the IT system assigned to the Consorzio Operativo Gruppo MPS, with which a specific SLA has been defined;
- the typical administrative activities of the B.O. of the finance area, centrally managed by the Specialised Business Services Area at the Parent Company (activities to complete the SLA are currently under way);
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Purchasing and Cost Optimisation Service;
- the transfer to MPS Immobiliare of activities connected with the disposal/sale of the real estate property still owned by the Bank;
- the conferment of the delegated management of the expense items of the real estate sector to the Parent Company's Real Estate Assets Management Area;
- the support provided by the Parent Company's Prevention, Protection and Environment Service, regarding workplace health and safety, as well as the sustainable development of the activities of the Bank, with reference to the possible consequences in terms of the environment;
- the lease of premises owned by the Group.

[4] *For the quantitative data, we refer the reader to that indicated in part H of the Notes.*
[5] *MPS Ireland was merged into the Parent Company. The operation occurred in February of this year, effective as of 1.1.2014.*

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

No significant changes in the Bank's operations were noted during the course of 2013 and also in the first few months of the new year, activities continued as in the past and in line with the directives of the current Group business plan.

As is well known, as of 1 January 2014, the new regulatory system known as Basel 3 took effect (in synthesis, CRD IV and CRR), which:

- introduces an increase in the minimum levels of capitalisation, both at the consolidated (Parent Company) and individual levels (as regards MPSCS, it will take place gradually over time), as well as the introduction of an additional level of regulatory capital - Common Equity Tier 1;
- removes the benefit granted by the previous regulations (Basel 2) of the 25% discount factor for the total of equity requirements in virtue of belonging to a banking group;
- introduces new risk items to be considered for the purposes of calculating RWAs (CVA risk).

As a consequence, the Bank, on the basis of the estimates made together with the Parent Company, has begun the process of capital adjustment, approving the issue of a TIER II bond loan for the nominal value of € 250 million within the first quarter of 2014 and the execution of a € 200 million capital increase under the terms envisaged in the relevant regulations.

The Parent Company, which expressed its favourable opinion regarding the start of this capital reinforcement process through a Board of Directors resolution on 20 February 2014, fully subscribed the subordinate bond loan issued on 14 March 2014 and has indicated its willingness to underwrite the capital increase as soon as the terms and methods have been determined.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2013 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 2013 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2013

- to the ordinary reserve (1/20)	Euro	2,432,399.97
- to the reserve required by the Articles of Association		
pursuant to Article 26 (1/20)	Euro	2,432,399.97
- to the extraordinary reserve	Euro	43,783,199.49
PROFIT FOR 2013	Euro	**48,647,999.43**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2013*	*31/12/2012*	*Change*	
				Absolute	*%*
10.	Cash and cash equivalents	72	1,308	(1,236)	(94.50%)
20.	Financial assets held for trading	23,581,324,960	25,675,969,947	(2,094,644,987)	(8.16%)
40.	Financial assets available for sale	204,350,467	236,062,290	(31,711,823)	(13.43%)
60.	Due from banks	6,185,759,103	7,205,651,105	(1,019,892,002)	(14.15%)
70.	Loans to customers	13,069,982,546	13,919,550,781	(849,568,235)	(6.10%)
100.	Equity investments	10,051,207	20,112,647	(10,061,440)	(50.03%)
110.	Property, plant and equipment	14,398,089	14,837,918	(439,829)	(2.96%)
130.	Tax assets	220,127,075	140,671,565	79,455,510	56.48%
	a) current	*13,149,778*	-	*13,149,778*	-
	b) prepaid	*206,977,297*	*140,671,565*	*66,305,732*	*47.14*
	of which Law 214/2011	*173,589,563*	*115,884,865*	*57,704,698*	*49.79%*
140.	Non-current assets and groups of assets subject to disposal	1,699,513	972,000	727,513	*74.85%*
150.	Other assets	32,086,315	37,789,203	(5,702,888)	(15.09%)
	Total Assets	43,319,779,347	47,251,618,764	(3,931,839,417)	(8.32%)

(*)
the balances relative to the year 2012, presented for purposes of comparison, were reclassified to reflect the effects of the retrospective application of the new version of IAS 19 and the other cases illustrated in detail in Attachment 1 to the Notes.

Balance Sheet

	Liabilities and Shareholders' Equity	*31/12/2013*	*31/12/2012*	*Change*	
				Absolute	*%*
10.	Payables to banks	8,016,938,430	7,827,290,789	189,647,641	2.42%
20.	Due to customers	8,604,045,963	10,591,772,735	(1,987,726,772)	(18.77%)
30.	Outstanding securities	70,551,678	106,616,376	(36,064,698)	(33.83%)
40.	Financial liabilities held for trading	25,272,623,465	27,387,672,319	(2,115,048,854)	(7.72%)
60.	Hedging derivatives	1,368,987	2,071,433	(702,446)	(33.91%)
80.	Tax liabilities	4,279,844	13,694,358	(9,414,514)	(68.75%)
	a) current	*4,279,844*	*13,694,358*	*(9,414,514)*	*(68.75%)*
	b) deferred				
100.	Other liabilities	128,997,898	117,587,916	11,409,982	9.70%
110.	Severance indemnities				
	for personnel	2,850,888	2,964,241	(113,353)	(3.82%)
120.	Provisions for risks and charges:	49,971,875	75,163,205	(25,191,330)	(33.52%)
	a) pensions and similar obligations	*5,795,539*	*5,531,851*	*263,688*	*4.77%*
	b) other provisions	*44,176,336*	*69,631,354*	*(25,455,018)*	*(36.56%)*
130.	Valuation reserves	(25,442,013)	(18,158,940)	(7,283,073)	40.11%
160.	Reserves	640,420,356	639,100,361	1,319,995	0.21%
170.	Share premiums	228,089,231	228,089,231	-	-
180.	Capital	276,434,746	276,434,746	-	-
200.	Profit for the period	48,647,999	1,319,994	47,328,005	3,585.47%
	Total Liabilities and Shareholders' Equity	43,319,779,347	47,251,618,764	(3,931,839,417)	(8.32%)

(*)
the balances relative to the year 2012, presented for purposes of comparison, were reclassified to reflect the effects of the retrospective application of the new version of IAS 19 and the other cases illustrated in detail in Attachment 1 to the Notes.

Income Statement

	Items	*31/12/2013*	*31/12/2012*	*Change*	
				Absolute	*%*
10.	Interest income and similar income	517,509,116	701,929,787	(184,420,671)	(26.27%)
20.	Interest expense and similar charges	(287,462,051)	(401,042,682)	113,580,631	(28.32%)
30.	**Net interest income**	**230,047,065**	**300,887,105**	**(70,840,040)**	**(23.54%)**
40.	Fee income	150,163,145	110,314,914	39,848,231	36.12%
50.	Fee expense	(103,647,748)	(77,166,109)	(26,481,639)	34.32%
60.	**Net fee and commission income**	**46,515,397**	**33,148,805**	**13,366,592**	**40.32%**
70.	Dividend and similar income	4,512,978	53,353,836	(48,840,858)	(91.54%)
80.	Net trading gains (losses)	153,341,607	140,895,965	12,445,642	8.8%
90.	Net hedging gains (losses)	43,979	(7,880)	51,859	(658.11%)
100.	Gains (losses) on disposal or repurchase of:	(6,945,129)	(12,647,615)	5,702,486	(45.09%)
	a) loans	*(488,485)*	*(7,968,598)*	*7,480,113*	*(93.87%)*
	b) financial assets available for sale	*(6,456,644)*	*(4,679,017)*	*(1,777,627)*	*37.99%*
	c) financial assets held to maturity	-	-		
	d) financial liabilities	-	-		
120.	**Net interest and other banking income**	**427,515,897**	**515,630,216**	**(88,114,319)**	**(17.09%)**
130.	net value adjustments/write-backs due to impairment of:	(293,661,085)	(365,030,984)	71,369,899	(19.55%)
	a) loans	*(257,465,148)*	*(355,192,639)*	*97,727,491*	*(27.51%)*
	b) financial assets available for sale	*(36,905,937)*	*(6,994,406)*	*(29,911,531)*	*427.65%*
	c) financial assets held to maturity	-	-		
	d) other financial transactions	*710,000*	*(2,843,939)*	*3,553,939*	*(124.97%)*
140.	**Net income from financial activities**	**133,854,812**	**150,599,232**	**(16,744,420)**	**(11.12%)**
150.	Administrative expenses	(73,786,173)	(76,397,780)	2,611,607	(3.42%)
	a) personnel expenses	*(32,259,901)*	*(36,359,216)*	*4,099,315*	*(11.27%)*
	b) other administrative expenses	*(41,526,272)*	*(40,038,564)*	*(1,487,708)*	*3.72%*
160.	Net provisions for risks and charges	22,789,121	(37,321,598)	60,110,719	(161.06%)
170.	net value adjustments/write-backs on tangible assets	(439,829)	(469,621)	29,792	(6.34%)
190.	Other operating income/charges	7,064,192	4,654,195	2,409,997	51.78%
200.	**Operating costs**	**(44,372,689)**	**(109,534,804)**	**65,162,115**	**(59.49%)**
210.	Profit (loss) on equity investments	(1,145,785)	(2,109,106)	963,321	(45.67%)
250.	**Profit /loss on current operations gross before taxes**	**88,336,338**	**38,955,322**	**49,381,016**	**126.76%**
260.	Income taxes for the period from current operations	(39,688,339)	(37,635,328)	(2,053,011)	5.46%
290.	**Profit (loss) for the period**	**48,647,999**	**1,319,994**	**47,328,005**	**3,585.5%**

(*)
the balances relative to the year 2012, presented for purposes of comparison, were reclassified to reflect the effects of the retrospective application of the new version of IAS 19 and the other cases illustrated in detail in Attachment 1 to the Notes.

Basic and Diluted Earnings per Share

	31/12/2013	*31/12/2012*
Basic earnings per share		
- from current operations	0.05455	0.00148
- on groups of assets subject to disposal		
Diluted earnings per share		
- from current operations	0.05455	0.00148
- on groups of assets subject to disposal		

Statement of Comprehensive Income

	Items	*31/12/2013*	*31/12/2012*
10.	**Profit (loss) for the period**	**48,647,999**	**1,319,994**
	Other revenue components net of taxes without transfer to income statement		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	(461,197)	68,066
50.	Non-current assets held for sale		
60.	Portion of equity investments revaluation reserves booked to shareholders' equity		
	Other revenue components net of taxes with transfer to income statement		
70.	Foreign investment hedging		
80.	Exchange differences		
90.	Cash flow hedging		
100.	Financial assets available for sale	(6,821,877)	(13,754,274)
110.	Non-current assets held for sale		
120.	Portion of equity investments revaluation reserves booked to shareholders' equity		
130.	**Total other revenue components net of taxes**	**(7,283,074)**	**(13,686,208)**
140.	**Comprehensive income (Item 10+130)**	**41,364,925**	**(12,366,214)**

(*)
the balances relative to the year 2012, presented for purposes of comparison, were reclassified to reflect the effects of the retrospective application of the new version of IAS 19 and the other cases illustrated in detail in Attachment 1 to the Notes.

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

				Allocation of the result of the preceding financial year		*Changes for the period*							
							Shareholders' Equity transactions						
	Balances as at 31/12/2012	*Changes in initial balances*	*Balances as at 01/01/2013*	*Reserves*	*Dividends and other allocations*	*Changes in Reserves*	*Issue of new shares*	*Purchase of treasury shares*	*Extraordinary dividend distribution*	*Change in equity instruments*	*Derivates on treasury shares*	*Stock options*	*Total income 2013*	*Shareholders' equity as at 31/12/2013*
Capital:	**276,434,746**		**276,434,746**											**276,434,746**
a) ordinary shares	***276,434,746***		***276,434,746***											**276,434,746**
b) other shares														
Share premiums	**228,089,231**		**228,089,231**											**228,089,231**
Reserves:	**639,100,361**		**639,100,361**	**1,319,994**										**640,420,355**
a) profit	***392,770,117***		***392,770,117***	***1,319,994***										***394,090,111***
b) other	***246,330,244***		***246,330,244***											***246,330,244***
Valuation reserves	**(18,158,940)**		**(18,158,940)**										**(7,283,074)**	**(25,442,014)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**1,319,994**		**1,319,994**	**(1,319,994)**									**48,647,999**	**48,647,999**
Shareholder's equity	**1,126,785,392**		**1,126,785,392**	**0**									**41,364,925**	**1,168,150,317**

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

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	Changes 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**	**621,830**	**620,906,964**	**18,164,933**		**28,464**								**639,100,361**
a) profit	*373,954,890*	*621,830*	*374,576,720*	*18,164,933*		*28,464*								*392,770,117*
b) other	*246,330,244*		*246,330,244*											*246,330,244*
Valuation reserves	**(3,176,469)**	**(1,296,263)**	**(4,472,732)**										**(13,686,208)**	**(18,158,940)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**45,407,131**		**45,407,131**	**(18,164,933)**	**(27,242,198)**								**1,319,994**	**1,319,994**
Shareholder's equity	**1,167,039,773**	**(674,433)**	**1,166,365,340**	**0**	**(27,242,198)**	**28,464**							**(12,366,214)**	**1,126,785,392**

Note:

i) the changes to the opening balances represent the impacts deriving from the changes made to IAS 19 "Employee benefits," a principle approved by the European Commission with Regulation 475/2012 of 5 June 2012, the obligatory application of which began on 1 January 2013, effective retroactively;

ii) the items "valuation reserves" and "profit for the period," for the column "2012 comprehensive income" include effects deriving from the retrospective application of the new version of IAS 19, in compliance with the international accounting principle IAS 8 (for positive amounts of € 68,066 and 43,590, respectively);

iii) 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.

Cash Flow Statement (indirect method)

(amounts in Euro)

		31/12/2013	31/12/2012
A.	**OPERATING ACTIVITIES**		
1.	**Operations**	**(618,157,430)**	**(225,516,182)**
	- result of the period (+/-)	48,647,999	1,319,994
	- gains/losses on financial assets held for trading and on financial assets/liabilities posted at fair value	(875,275,861)	(571,400,054)
	- net value adjustments/write-backs due to impairment	256,052,148	359,674,578
	- net value adjustments/write-backs to property, plant and equipment and intangible assets	439,829	469,621
	- net provisions to risks and charges and other costs/revenues	(22,789,121)	37,321,598
	- taxes not paid	6,544,193	26,642,509
	- other adjustments	(31,776,617)	(79,544,428)
2.	**Cash flows absorbed by financial activities:**	**4,517,171,983**	**10,340,480,775**
	- financial assets held for trading	3,184,819,567	10,525,073,863
	- financial assets available for sale	(4,296,679)	(170,228,159)
	- receivables from banks - other receivables	457,343,502	(491,713,469)
	- due from customers	888,864,313	472,156,243
	- other assets	(9,558,720)	5,192,297
3.	**Cash flows generated by financial liabilities:**	**(4,222,313,180)**	**(6,814,497,331)**
	- payables to banks - other payables	411,169,482	1,719,299,699
	- due to customers	(1,987,749,962)	(1,232,104,034)
	- securities in issue	(36,615,808)	(137,788,461)
	- financial liabilities for trading	(2,265,338,506)	(6,726,612,075)
	- other liabilities	(343,778,386)	(437,292,460)
	Net cash flows absorbed/generated by operating activities	**(323,298,627)**	**3,300,467,262**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**6,915,871**	**1,440,000**
	sale of equity investments	6,195,871	-
	- dividend collected from equity investments	720,000	1,440,000
	- sale of property, plant and equipment	-	
	- sale of intangible assets	-	
2.	**Cash flows absorbed by:**	**0**	**(3,661,040)**
	- purchase of equity investments	(3,661,040)	
	- purchase of property, plant and equipment		
	- purchase of intangible assets		
	Net cash flows absorbed by investing activities	**6,915,871**	**(2,221,040)**
C.	**FUNDING ACTIVITIES**		
	issue/purchase of treasury shares	-	
	issue/purchase of equity instruments	-	
	distribution of dividends and other purposes	(27,242,198)	
	Net cash flows absorbed by funding activities	**0**	**(27,242,198)**
D	**(A+B+C) NET LIQUIDITY ABSORBED/GENERATED IN THE PERIOD**	**(316,382,756)**	**3,271,004,024**

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	*31/12/2013*	*31/12/2012*
Cash and cash equivalents at the beginning of the period	999,824,358	(2,271,179,666)
Total net cash flows absorbed/generated during the period	(316,382,756)	3,271,004,024
Cash and cash equivalents: effect of changes in currency rates		
Cash and cash equivalents at the end of the period	683,441,602	999,824,358

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".

NOTES TO THE ACCOUNTS

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 2013.
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 2013. 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 second revision of 21 January 2014.
The company's financial statements include:
- balance sheet
- income statement
- statement of comprehensive income
- statement of changes in shareholders' equity
- cash-flow statement
- 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.
In the Notes, all of the information requested by the international accounting principles and the provisions contained in Bank of Italy "updated Circular 262" is provided, in addition to further non-obligatory details held necessary to provide a true, correct, relevant, reliable, comparable and comprehensible representation.
The balance sheet, income statement and statement of comprehensive income consist of numbered items, sub-items (identified by letters), and by additional details (the "of which" of the items and sub-items). The items, sub-items and related details constitute the financial statement accounts.
The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income. If the account balances are not comparable, the prior-year balances are adjusted. The lack of comparability and the restatement or the impossibility of restatement are noted and discussed in the 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. When necessary, the amounts indicated in the Financial Statements are subject to adjustment to reflect events subsequent to the reference

date which, pursuant to principle IAS 10, involve the obligation of making an adjustment (adjusting events). Subsequent events that do not involve adjustments and hence reflect circumstances that occurred after the reference date (non adjusting events) are disclosed in section 3 below when relevant and able to influence the economic decisions of users.

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 2013 financial statements

Among the changes to the accounting standards and to the interpretations that are subject to mandatory application starting from 2013, the following are noted. For purposes of completeness, we note that said amendments did not have significant impacts on the preparation of these financial statements, with the exception of the application of the revised version of IAS 19 "Employee Benefits," the impacts of which are disclosed in these Notes.
In June 2011, the IASB published the revised version of **IAS 19 "Employee benefits"**.
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.
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 most important change introduced with the new version of IAS 19 is that which modifies the criteria for recognition of actuarial profits and losses for defined benefit plans, for which the previous version of the principle envisaged three alternative methods of recognition: full recognition in the income statement, full recognition in shareholders' equity among other income components, or recognition in the income statement of the part exceeding 10% of the greater between the current value of the defined benefit obligation and the fair value of the assets serving the plan ("corridor method"). The Bank, in line with the Group's accounting policies, had adopted the "corridor method". The new version

instead envisages only one method of accounting, which consists in the full recognition of the actuarial losses and gains of the defined benefit plans to shareholders' equity among the other income components.

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 carrying amount of the asset, whether through sale or through use. The way in which the carrying amount of an asset or liability is recovered (for example through sale rather than through depreciation) can in fact determine both a different tax rate at the time of recovery and a different tax base. An entity measures deferred tax assets and liabilities using rates and tax bases consistent with the expected manner of asset recovery. In order to decrease subjectivity in estimating the asset's expected manner of recovery, a rebuttable presumption was introduced based on which it is assumed that the assets measured at fair value pursuant to IAS 40 are recovered through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendments also incorporate into IAS 12 the guidance previously contained in SIC-21 "Income Taxes—Recovery of revalued non-depreciable assets". The amendment, 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). The application of the new principle did not have any impacts on the Bank's equity and economic situation.

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 contained 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 new principle introduced some new disclosure requirements in regard to fair value hierarchy and measurement techniques, which were accepted with the second update of 21 January 2014 of Bank of Italy circular 262. 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. The application of the new principle did not have any impacts on the Bank's equity and economic situation.

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 compliance with said amendment, the statement of comprehensive income structure was modified by the Bank of Italy with the second update to circular 262.

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 part of offset agreements. 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. The new disclosure requirements were accepted by the Bank of Italy with its second update to circular 262 on 21 January 2014.

On 13 March 2012 the IASB issued an amendment to **IFRS 1** entitled **"Public loans**". This amendment adds an exception to the retrospective application of IFRS principles for 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 is to be applied for financial periods beginning on or after 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 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.

“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.

a) **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. The entity must provide information regarding the reasons due to which:
   1. application of the IFRS was interrupted;
   2. the IFRS were once again applied;
   3. if relevant, it was decided to not apply IFRS 1.
b) **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.
c) **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.
d) **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.
e) **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”.
f) **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.

The document was approved by the European Commission on 27 March 2013 with Regulation n° 301/2013 and it must obligatorily be applied from the financial periods which start as from 1 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 2013.
Pursuant to IAS 8, paragraphs 30 and 31, we point out that as of 23 January 2014 the European Commission had endorsed certain standards and interpretations issued by the IASB, whose mandatory application is effective after 31 December 2013. In these cases, the Bank did not make use of the option for early application for cases in which it was possible. Said standards and interpretations are indicated below.

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 "Interest 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.

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). Below are the most important clarifications contained in the document:

a) it is clarified that the date of initial application of IFRS 10 coincides with the start of the annual period in which the principle is applied for the first time (1 January 2014 for EU entities with financial years that follow the calendar year);
b) as of the date of initial application of IFRS 10, adjustments should not be made to previous financial statements in relation to entities which:
    - would be consolidated under both IFRS 10 and IAS 27/SIC 12;
    - would not be consolidated under either IFRS 10 or IAS 27/SIC 12;
c) in the case in which an investor concludes that as of the date of the initial application of IFRS 10 it is necessary to consolidate an investee company not consolidated under IAS 27/SIC 12, IFRS 10 must be applied retroactively, adjusting the annual period previous to the date of initial application or the initial shareholders' equity of said period in the case that the date on which control was obtained pursuant to the new principle is before the start of the annual period prior to the date of initial application;
d) in the case in which an investor concludes that as of the date of initial application of IFRS 10 it is necessary to deconsolidate an investee company previously consolidated under IAS 27/SIC 12, the interest in the (former) investee company must be recognised at the value at which it would have been recognised if IFRS 10 had been in effect when the investor made the investment. The difference between this value and the accounting value as of the date of initial application of the assets, liabilities and non-controlling interests must be recognised adjusting the annual period prior to the date of initial application or the initial shareholders' equity for said period in the case in which the date on which the investment was made is prior to the start of the annual period prior to the date of initial application;

e) in the case that the above cannot be carried out pursuant to IAS 8, simplifications are envisaged that allow application of the new IFRS 10 at the start of the first period in which the application of that requested above is possible (this period may also be the year of initial application).

The amendment was approved by the European Commission on 04 April 2013 with Regulation n° 313/2013 and it must obligatorily be applied from the financial periods which start as from 01 January 2014.

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. In 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. The amendment was approved by the European Commission on 20 November 2013 with Regulation n° 1174/2013 and it must obligatorily be applied from the financial periods which start as from 01 January 2014.

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. 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 01 January 2014.

In May 2013, the IASB published the **amendment to IAS 36 "Recoverable amount disclosures for non-financial assets**." The amendment clarifies the disclosure to be provided regarding the recoverable value of assets that have suffered a reduction in value involves only those assets for which the recoverable value is based on the fair value net of sales costs; in this case, the disclosure regarding the fair value hierarchy level must be provided, as well as that of the measurement techniques used and the key assumptions used for the 2nd and 3rd level evaluations. The amendment was approved by the European Commission on 19 December 2013 with Regulation n° 1374/2013 and it must obligatorily be applied from the financial periods which start as from 01 January 2014. Early application is allowed if the entity has already applied IFRS 13.

In June 2013, the IASB published the amendment to IAS 39 "Novation of derivatives and continuation of hedge accounting." The amendment clarifies that a hedge accounting report must not be interrupted in the case of novation of hedging instruments with a central counterparty in obeisance to laws or regulations. The amendment, which must be obligatorily applied as of financial statements for financial years that begin as of 1 January 2014, was published in the context of the regulatory changes that involve numerous jurisdictions regarding the centralisation of over the counter derivatives with central counterparties. The amendment was approved by the European Commission on 19 December 2013, with Regulation 1375/2013.

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 2013, 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 phase 2) the IASB has not yet published any standard, 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.

Regarding stage 3 "Hedge accounting", the IASB published principle "**IFRS 9 - Financial instruments: hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39**" in November 2013. The document contains a substantial revision of the regulations which govern hedge accounting, which should make it possible to more faithfully reflect risk management activities in financial statements. The document also contains an amendment that allows application separately from the rest of IFRS 9 of the regulations that govern, in said principle, the treatment of own creditworthiness (recognition of fair value changes of liabilities in fair value option in "other comprehensive income"). Finally, the indication of 1 January 2015 as the date for the obligatory initial application of IFRS 9 was removed, for the purposes of allowing the editors of IFRS financial statements sufficient time to manage the transition to the new rules.
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.

In November 2013, the IASB published the amendment to IAS 19 **"Defined Benefit Plans: Employee Contributions."** The amendment clarifies the treatment of contributions paid in by employees or third parties for defined benefit plans. Specifically, it governs the method of attributing contributions that are connected to services carried out by the employees to service periods, with an eye to simplifying the methods of accounting for contributions that do not depend on the number of years of service but which, for example, are determined as a fixed percentage of salaries. The amendment must be applied for financial periods beginning after 1 July 2014.

"Improvements to International Accounting Standards - 2010-2012 cycle" Project
On 12 December 2013, the IASB published a set of changes to the IFRS within the scope of this project. Below we provide a summary of these:

- **IFRS 2 "Share-based payment"** The definitions of "vesting conditions" and "market conditions" were changed, and the definitions of "performance condition" and "service condition", which formerly were incorporated under the definition of "vesting condition", were added.
- **IFRS 3 "Business combinations".** It was clarified that contingent considerations classified as assets or liabilities are always measured at fair value at each subsequent financial statement date following initial recognition.
- **IFRS 8 "Operating segments".** It requires that an entity provide information regarding the discretionary choices made by management in applying the operating segment aggregation criteria.
- **IFRS 13 "Fair value measurement"**. This clarifies that the amendments to IAS 39 and IFRS 9 following the publication of IFRS 13 did not eliminate the possibility of measuring short term receivables and payables with no stated interest rate in their invoices without discounting, if the impact of the discounting is immaterial.
- **IAS 16 "Property, plant and equipment"**. It is noted that when an item from property, plant and equipment is revalued, the revaluation of the gross amount must be carried out using a method in line with the revaluation of the net amount.
- **IAS 32 "Financial instruments" IAS 24 "Related Parties."** It is specified that an entity that provides strategic direction services to the entity that prepares the financial statements is a related party of the latter.
- **IAS 38 "Intangible assets".** It is clarified that when an intangible asset is revalued, the revaluation of the gross amount must be carried out using a method in line with the revaluation of the net amount.

These changes must be obligatorily applied for financial periods beginning after 1 July 2014.

"Improvements to International Accounting Standards - 2011-2013 Cycle" Project. On 12 December 2013, the IASB published a set of changes to the IFRS within the scope of this project, relative to four themes summarised below:

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

These changes must be obligatorily applied for financial periods beginning after 1 July 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 2013 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.4 "Fair value disclosure", below, for a description of the criteria used to determine the fair value of financial instruments.
Equity instruments and the related derivatives whose fair value cannot be reliably determined according to the guidelines above, are stated at cost, adjusted for any impairment losses. These impairment losses are not written back.
In determining the cost of the securities portfolio, the Bank applies the "weighted average daily cost" method.

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

statements as a payable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among payables to banks, or to customers, 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 DESIGNATED 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 designated 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.4 "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.4 “Fair value disclosure” below.
Impairment testing is carried out at the close of each set of financial statements or interim report. Indicators of a possible impairment are, for example, significant financial distress of the issuer, breaches or failure to pay interest or principal, the possibility that the beneficiary may file for bankruptcy or is subjected to another insolvency procedure, the disappearance of an active market for the asset. In particular, regarding equity instruments listed on active markets, objective evidence of impairment is considered the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the original purchase cost, or the prolonged presence for over twelve months of a market

value lower than cost. If additional reductions occur in the following years, they are recorded directly in the income statement. 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 carrying amount 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 carrying amount. A similar measurement criteria is adopted for receivables with undefined maturity date or which are valid until cancelled.
In classifying impaired exposures into the various risk categories (non-performing, watch-list, restructured and past due exposures), the Bank referred to the regulations issued by the Bank of Italy, complemented by internal provisions setting criteria and automatic rules for the passage of the receivables within the distinct risk categories.
With reference to the restructuring of credit exposures, three cases have been identified:

- true restructuring (as defined in Bank of Italy circular 272);
- renegotiated;
- elimination of the debt through replacement of the debtor or equity debt swap.

In accordance with the supervisory regulations, debt restructuring (credit exposure) means an operation by which the Bank, for economic reasons, grants a concession to the debtor in consideration of said debtor's financial difficulties, a concession that otherwise would not have been granted and which creates a loss for the creditor. Said concession consists in the Bank's renunciation of certain contractually defined rights, which translate to an immediate or deferred benefit for the debtor, who obtains an advantage from said renunciation, and a corresponding loss for the creditor Bank. The effects of this renunciation are measured by the negative (positive) change in the economic value of the credit (debit) with respect to the carrying value of the credit (debit) prior to restructuring.
Renegotiating of credit exposures agreed upon by the Bank with performing customers can essentially be seen as the opening of a new position, in the case that this is essentially for commercial reasons, other than financial/economic difficulties of the debtor, and always with an applied interest rate that is the market rate at the time of renegotiation.
As an alternative to the cases described above (restructuring and renegotiating), the Bank and debtor may agree on the elimination of the original debt through:

- the novation or subentry of another debtor (release succession);
- a substantial change in the nature of the contract which envisages a debt-equity swap.

Said events, involving a substantial change in the contractual terms, from an accounting view lead to the elimination of the pre-existing relationship and the consequent recognition of the new relation at fair value, recognising a profit or loss in the income statement equal to the difference between the carrying value of the old credit and the fair value of the assets received.
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 carrying amount of said receivables at the time of measurement (amortised cost) and the current value of future cash flows, calculated applying the original effective interest rate. In the case of restructured exposures, the estimate of the 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.

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

d) derecognition - 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 at the moment in which the element hedged is derecognised in the financial statements.
For cash flow hedges, any reserve is transferred to the income statement when the hedged item, still existing, generates its effects on the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred to the income statement at the time the hedged element is derecognised.

7) EQUITY INVESTMENTS

a) 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 carrying amount, 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 carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statement of the net assets of the same investment, including the related goodwill, the Bank assesses whether there is an indication that the investment has undergone impairment.

d) derecognition

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

If the Bank is engaged in a sale plan that entails loss of control 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 carrying amount of the asset is compared to its recoverable value, i.e. the lower of the fair value, net of any costs to sell, and the related value in use of the asset, taken to be the current value of the cash flows originated by the asset. Any adjustments are recorded in the income statement under item 170 "Net value adjustments/write-backs to property, plant and equipment". Periodic depreciation is recorded in the same item.

If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not

exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment. Leasehold improvement costs (typically on leased property), other than those referable to this section, are capitalized in item 150 “Other assets”, whilst the related depreciation is recorded in item 190 “Other operating income/charges”.

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

9) INTANGIBLE ASSETS

a) initial recognition
Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. They are stated at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributed to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.
Goodwill is booked to assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.
If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference (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. Assets representing relations with customers or connected to brands, which can be recognised at the time of business combinations, are amortised at constant rates.
On closure of each set of financial statements, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement item “180 Net value adjustments/write-backs to intangible fixed assets”, is equal to the difference between the carrying amount of the assets and the recoverable value. Periodic depreciation is recorded in the same item.
Recorded goodwill is not amortised but subject to periodic checks on its carrying amount, carried out annually or more frequently in the presence of signs of an impairment in value. For such purposes, the cash generating units to which the goodwill is to be allocated are identified. The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recorded in the income statement item 230 “Value adjustments to goodwill”. Again regarding goodwill, the statement of any subsequent write-backs is not permitted.

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

10) NON-CURRENT ASSETS HELD FOR SALE

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

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

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

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

11) CURRENT AND DEFERRED TAXATION

a) initial recognition
The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.
Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.
The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.
In detail, current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances and other tax credits for withholdings made. Current assets also include tax assets whose repayment was requested from the cognisant Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.
Prepaid and deferred taxes are determined on the basis of the timing differences - without time-limits - between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes, applying the so-called balance sheet liability method.
Prepaid tax assets are recorded in the financial statements to the extent that there is a probability they will be recovered, assessed on the basis of the ability of the Bank to generate positive taxable income on an on-going basis. 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 Law 225/2010, 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.
Current, 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 carrying amount of deferred tax assets is reviewed as of each balance sheet date to check the continuance of the condition of recoverability and, if necessary, it is reduced to the extent it is no longer probable that sufficient taxable income exists for the purpose of permitting the full or partial recovery of said assets.
Moreover, the balance of the tax provisions is adjusted to cover the charges that may derive from assessments already notified or otherwise from current disputes with the tax authorities.
As a result of compliance with the tax consolidation system, the liability relating to tax charges for IRES (company earnings' tax) which may be realistically predicted on the basis of legislation or current tax regulations, stated on the basis of a prudent estimate of the taxable income, has been recorded in relation to the Consolidating Entity under item 100 "Other liabilities". In the presence of tax losses, the Consolidating Entity recognises the credit (to be classified under item 150 "Other assets") to the extent that, if the Bank did not participate in tax consolidation, the Bank itself could have used the losses 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 carrying amount of the liability and the amount paid to acquire it is recorded in the income statement under item 100 “Profit (loss) from sale or repurchase of financial liabilities”.
The re-placing of own securities on the market subsequent to their repurchase is considered as a new issue with statement at the new re-placement price, without any effect on the income statement.
In compliance with the provisions of IAS 32, the potential commitment to purchase treasury shares due to the issue of put options is represented in the financial statements as a financial liability with a reduction in the shareholders’ equity for present value of the contractually set repayment amount as a direct offsetting entry.

13) FINANCIAL LIABILITIES HELD FOR TRADING

a) initial recognition

For purchase and sale transactions involving standard financial instruments, 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 designated 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.4 "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 carrying amount of the liability and the amount paid to acquire it is recorded in the income statement under item 110 "Net result from financial assets and liabilities at fair value".

e) income recognition
Gains and losses deriving from the change in the fair value of financial liabilities are recorded in the income statement

item 110 “Net result from financial assets and liabilities at fair value”; the same treatment is reserved for derivative liability instruments associated with the fair value option, whose economic effect is classified in item 110 “Net result from financial assets and liabilities at fair value”.

15) PROVISIONS FOR RISKS AND CHARGES

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

Allocations to the provisions for risks and charges are made solely when
- there is a current (legal or implied) obligation as a result of a past event;
- it will probably be necessary to use resources able to produce economic benefits to meet the obligation;
- the amount of the obligation can be estimated reliably.

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 the 2011 revised version of international accounting standard IAS 19 “Employee benefits” for the purpose of making good the technical deficit of the supplementary welfare funds with defined benefits. Pension plans are divided up into the two categories “defined benefits” and “defined contributions”. While for defined contribution plans the liability of the company is established in advance, with regard to defined benefit plans, the liability is estimated and must take into account any insufficiency in the contributions or an insufficient return on the assets in which these contributions were invested, when relevant.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the aforementioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method.
In particular, the logical path followed to represent the liabilities inherent to defined benefit funds in the financial statements is the following:
- the surplus or deficit of the plan is determined as the difference between the current value of the defined benefit obligation (DBO) and the fair value of the assets serving the plan;
- when the plan is in deficit, the net liability for defined benefits to be recognised in the balance sheet coincides with the deficit itself;
- when the plan is in surplus, it is necessary to first determine the current value of the future economic benefits available for the Bank under the form or reimbursements or reductions in future contributions to the plan (asset ceiling);
- when the asset ceiling is less than the surplus, the net assets for defined benefits must be recognised in the financial statements at an amount equal to the asset ceiling.

Essentially, when the Bank cannot make use of the surplus in any way, no net assets are recognised in the balance sheet.
The increase in the current value of the DBO attributable to services provided by employees during the current period is recognised in the Bank’s income statement regardless of the surplus or deficit position of the plan, equal to that relative to the services provided during past years and the interest component.
Instead, the following components are recognised immediately in the statement of comprehensive income:
- actuarial profits and losses of the DBO;
- the difference between the effective yield of the assets serving the plan and the interest component for the same assets;
- the changes in adjustments carried out to adjust the surplus to the asset ceiling, net of the interest component.

The sub-item 120 “Provisions for risks and charges: “other provisions” includes the provisions against estimated losses

on legal disputes, including action for revocation, the estimated outlays for customer claims on security brokerage activities, and other outlays estimated for legal or implicit obligations existing at the end of the period. When the provisions have been valued analytically, the amounts provided are used directly to cover the charges effectively incurred.

16) FOREIGN CURRENCY TRANSACTIONS

a) 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-monetary items designated at fair value are converted using the exchange rates in force as of the period-end date.

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

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

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

17) OTHER INFORMATION

■ Treasury shares

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

■ Share-based payments

The outstanding stock granting plan, 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. To determine the liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee benefits" is used. Therefore, we refer the reader to that illustrated in the section "Provisions for risks and charges" relative to defined benefit pension funds.

Costs accrued during the year for servicing the plan are recorded in the income statement, under item 150 "Administrative expenses of which: a) personnel expenses".

Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued up until 31.12.2006 remain with the Bank, while the portions of severance indemnity accruing as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or are maintained within the Bank, which then transfers said portions to the Treasury Funds managed by INPS (National Institute of Social Insurance).

■ Other assets and other liabilities

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

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

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

Starting from these financial statements, capital gains/losses deriving from the measurement of regular way securities operations not yet regulated, with a regulation date in the first few days of the subsequent year, are recognised, respectively, under asset item 150 "Other assets" and under liability item 100 "Other liabilities".

■ Dividends and recognition of revenues and costs

Revenues are recognised when they are obtained or in any case: for sales of goods or services, when it is likely that future benefits will be received and such benefits can be quantified reliably; for services, when they are rendered.

Specifically:

- 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 carrying amount of the financial asset or liability. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).
The effective interest rate must be re-determined if the financial asset or liability was subjected to fair value hedging and said hedging relationship has ceased to exist.
In cases where it is not possible to reliably estimate the cash flows or the estimated life, the Bank uses the cash flows envisaged contractually for the entire duration of the agreement.
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortization process. The determination of the amortized cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate. With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. With regard to floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the determination of the cash flows is carried out on the basis of the last known rate. As of every rate review date, steps are taken to recalculate the repayment plan and the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.
Measurement at amortised cost is carried out for receivables, financial assets held to maturity and those available for sale, for payables and outstanding securities. 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.4 “Fair value disclosure”, below; while for the other cases, the most relevant and significant qualitative issues subject to discretion are illustrated in more detail below.

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

- significant financial hardships of the issuer or debtor;
- contract violation, e.g. a breach or a missed payment of interest or principal;
- granting the beneficiary some favourable terms which the Bank took into consideration mainly due to economic or legal reasons linked to the beneficiary’s financial hardship, which otherwise it would not have granted;
- reasonable likelihood that the beneficiary will declare bankruptcy or other financial restructuring procedures;

- disappearance of an active market for that financial asset due to financial difficulties (however, the disappearance of an active market because the financial instruments of the company are no longer publicly traded is not evidence of an impairment);
- measurable data indicating the existence of a considerable reduction in estimated future cash flows for a group of financial assets from the time of the initial measurement of those assets, although the reduction cannot yet be identified with the individual financial assets in the group, including:
  - unfavourable changes in the status of beneficiaries' payments in the BMPS Group

or

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

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

The impairment evaluation is carried out on an analytical basis for the financial assets that exhibit objective evidence of impairment losses and collectively for the financial assets for which the collective assessment is not requested or for which the analytical evaluation has not determined a value adjustment. The objective evaluation is based on the identification of homogeneous risk classes of the financial assets with reference to the characteristics of the debtor/issuer, to the industry, the geographical area, the presence of any guarantees or of other significant factors.

With reference to receivables due from customers and from banks, the credits that were attributed the status of non-performing, watch-list, restructured receivables according to the definitions of the Bank of Italy, consistent with the IAS/IFRS principles, were subjected to analytical evaluation.

Said receivables are subject to analytical measurement and the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said receivables at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated applying the original effective interest rate. The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure. The cash flows pertaining to receivables whose recovery is expected in the short term are not discounted, because the financial factor is not significant. "The amount of the loss is booked to the income statement under Item 130 ""a) Net value adjustments/write-backs due to impairment of loans""."

The process for the analytical evaluation of the aforesaid impaired receivables entails the need to define repayment plan for each individual position, in order to determine the cash flows deemed recoverable. Receivables for which no individual, objective evidence of impairment was detected are subject to collective evaluation. This evaluation takes place for categories of receivables that are homogeneous in terms of credit risk and indicative of the debtor's ability to return the amounts due according to the contractual terms.

The segmentation drivers used for this purpose are composed of: i) 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.

c) Procedure for determining the impairments of equity investments and of other tangible and intangible assets
Equity investments
The impairment process provides for the determination of the recoverable value, represented by the fair value net of costs to sell or value in use, whichever is the higher. Value in use is the present value of the expected financial flows deriving from the impaired assets; it reflects the estimate of the cash flows expected from the asset, the estimate of the possible changes in the amount and/or in the timing of the cash flows, the cash value of time, the price able to remunerate the riskiness of the business and other factors that may influence the appreciation, by market operators, of the expected cash flows deriving from the asset. Therefore, to estimate the congruity of the recognition value of the equity investments, numerous assumptions are necessary; consequently, the result of this test inevitably discounts a certain level of uncertainty.
Other tangible and intangible assets
Tangible and intangible assets with defined useful life are subjected to impairment test if there is an indication that the carrying value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
The fair value of properties is mainly determined on the basis of an appraisal. The property is periodically re-appraised

each time there is a change in the performance of the real estate market which leads to the belief that the previous estimates are no longer valid. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the carrying amount. 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.

d) 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, or other similar non-recurring circumstances.

e) 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.
In reference to said principle, we note that, starting from 1 January 2014, the new regulatory system known as Basel 3 will take effect and, in addition to the change in economic/equity aggregates expected for 2014, will also lead to additional capital requirements with respect to the quantities existing at 31 December 2013. As a consequence, in order to maintain equity balance and respect for the supervisory prudential requirements, the Bank, on the basis of the estimates made together with the Parent Company, has begun the process of capital adjustment, approving the issue of a TIER II bond loan for the nominal value of € 250 million within the first quarter of 2014 and the execution of a € 200 million capital increase under the terms envisaged in the reference regulations. The Parent Company, which expressed its favourable opinion regarding the start of this capital reinforcement process through a Board of Directors resolution on 20 February 2014, fully subscribed the subordinate bond loan issued on 14 March 2014 and has indicated its willingness to underwrite the capital increase as soon as the terms and methods have been determined.

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 carrying amount 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 2013 (as also applied in the previous period), as set forth by accounting standards and the 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. For more details, please refer to that outlined in the previous point “Use of estimates and assumptions in the preparation of the financial statements,” pursuant to Section 1, paragraph 17 “Other Information”, Part A.2 “Part relative to accounting policies”.

A.3 - DISCLOSURE ON TRANSFERS TO OTHER FINANCIAL ASSET PORTFOLIOS

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

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

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

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

	Fair value 31/12/2013									
Voci	*Attività finanz. detenute per la negoziazione*	*Attività finanz. valutate al fair value*	*Attività finanz. disponibili per la vendita*	*Derivati di copertura*	*Passività finanz. detenute per la negoziazione*	*Passività finanz. valutate al fair value*	*Derivati di copertura*	***Tipologie***	***Tecnica di valutazione***	***Input utilizzati***
Debt securities	1,592,766	-	135,959	X	-	-	X	Bonds	Discounted Cash Flow	Rate curve, CDS Curve, Yield, Inflation Curve
								Structured Bonds	Discounted Cash Flow	Rate curve, CDS curve, Yield, Inflation curve + parameters necessary to value the optional component
								Bonds	Market price	Market price
Equity securities	11	-	22,766	X	X	X	X	Market price	Market price	
									Discount cash flow	Share prices, sector beta, risk free rate
									Net asset adjusted	Fair value asset
Units in collective investment undertakings	2,880	-	1,541	X	X	X	X		Market price	Market price
Loans/Payables	5,960,141	-	-	X	14,370,521	X	X		External Pricing/other techniques	Periodic revaluation
Financial derivates	8,061,775	X	X	-	6,278,438	X	1,369	IR/Asset/Currency Swaps	Discounted Cash Flow	Rate curve, CDS curve, yield, inflation curve, exchange rates, rate correlation
								Total return swaps	Discounted Cash Flow	Bond prices, rate curve, exchange rates
								Equity swaps	Discounted Cash Flow	Share prices, rate curve, exchange rates
								Forex Singlename Plain	Option Pricing Model	Rate curve, exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Rate curve, exchange rates, Forex volatility (surface)
								Forex Multiname	Option Pricing Model	Rate curve, exchange rates, Forex volatility, correlation
								Equity Singlename Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility
								Equity Singlename Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters
								Equity Multiname Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility, Quanto correlations, equity/equity correlations
								Equity Multiname Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters, quanto correlations, equity/equity correlations
								Plain Rate	Option Pricing Model	Rate curve, inflation curve, bond prices, exchange rates, rate volatility, rate correlations
								Foreign currency transactions	Market price	Market price, Swap Point
Credit derivatives	1,233,079	X	X	-	1,260,146	X	-	Credit Index	Market price	Market price
								Default swaps	Discounted Cash Flow	CDS curve, rates curve
								Cdo tranche	Discounted Cash Flow	Market price, basis, CDS curve, correlation base, rates curve
Total assets	**16,850,652**	**-**	**160,266**	**-**						
Total liabilities					**21,909,105**	**-**	**1,369**			

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

Items	Fair value 31/12/2013							Types	Measurement technique	non-observable input	Range (weighted average)
	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Non-current assets held for sale and discontinued operations	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives				
Debt securities	13,955	-	39,325	-	-	-	X	Bonds	Discounted Cash Flow	Liquidity yield	0-100 bp: 0.25-0.75
								Bonds	Discounted Cash Flow	Collateral components	1-5 base benchmark multiplying factor
								Bonds	External Pricing	Bid listings	0-5 million Euro
Equity securities	-	-	4,759	4,028	X	X	X		External Pricing	Bid listings	1 point bid-ask spread
									Discount cash flow	Share prices, sector beta, risk free rate	
									Net asset adjusted	Fair value asset internal estimates	
Financial derivatives	488	X	X	X	13,133	X	-	Equity Exotic	Option Pricing Model	Model Risk Smile Dynamic	None
								Repurchase agreements	Option Pricing Model	Return percentage from secondary. Return percentage managed through agreement	3.40%-4.80%, 70%-100%
Credit derivatives	-	X	X	X	-	X	-	Cdo tranche	Discounted Cash Flow	Base Correlation between basket components, underlying CDS levels	0.25-0.75, 10%/+50%
Total assets	**14,443**	**-**	**44,084**	**4,028**							
Total liabilities					**13,133**	**-**	**-**				

A.4.2 Measurement processes and sensitivity

Limited to Level 3, we note that the category "Debt Securities" contains some Structured Credit Bond positions (around € 9 million), Asset Backed Securities (around € 5 million) and the XS0562139450 security (Impregilo 10/15 6.526). They are all measured using the discounted cash flow model technique, which has non-observable input, specifically the liquidity spread used to discount expected flows. The first two positions are of a minimal amount and are measured prudentially. Regarding the ABS, these instruments were either sold in the first few months of 2014 or reclassified to level 2, given the identification of comparable listed instruments. For the XS0562139450 security, the sensitivity of the position with respect to the range of the non-observable parameter is around € 1 million.
The category "Financial derivatives" includes derivatives for which the market value depends on non-observable parameters, in particular the dynamic of the smile market. Revaluing these positions with models that treat said parameter in different ways, varying from "no dynamic" (Black&Scholes) to "stochastic volatility" (Heston Model), a market value variation of less than € 3 million is obtained.
The item "Equity securities" includes equity investments classified in "Financial assets available for sale - Item 40" valued at cost and the equity investments classified in "Non-current assets and groups of assets held for sale", valued at net asset adjusted, for which, given the lack of a market based approach in the measurement, were classified as level 3. These positions total € 5.4 million.

A.4.3 Fair value hierarchy

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the source, type and quality of the information used in the calculation. This classification has the objective of establishing a hierarchy in terms of the reliability of the fair value as a function of the degree of discretion applied by the companies, giving priority to the use of parameters than can be observed on the market which reflect the assumptions which market participants would use in pricing said assets/liabilities. The objective of the hierarchy is also to increase the consistency and comparability of fair value measurements.
Below we illustrated the three different measurement levels envisaged by the amendment in question, the choice of which is not optional, as the levels indicated must be applied in hierarchical order:
Level 1 (*effective market quotes*)
In this level, the input consists of prices listed (not modified) on active markets for instruments for identical assets and liabilities, which can be accessed as of the measurement date.
Level 2 (*comparable approach*)
This level includes instruments which, for the purposes of measurement, prices listed on active markets for similar assets or liabilities are used, or prices calculated using measurement techniques where all the significant input is based on parameters that can be observed on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.
Level 3 (*mark-to-model approach*)
This level, instead, is used when prices calculated using measurement techniques are made use of where at least one significant input is based on non-observable parameters.
To determine the methods of classifying assets in fair value Level 1, the Bank, in line with the policies of the Parent Company, used the presence of regulated markets for some categories financial instruments. In any case, classification in an active market requires the meeting of given requirements established ad hoc for each type of financial instrument. In particular stocks and bonds (with the exception of plain vanilla supranational securities issued in hard currency and government securities from the G10 and Spain, for which it was held that the significance test was not necessary to carry out for the prices given the breadth and depth of the markets on which they are listed) are subject to periodic tests in

order to verify the presence of various elements such as the bid-ask spread, the presence of numerous price contributors, the absence of listings that remain unchanged over time which demonstrate sufficient liquidity to make it possible to classify them in Level 1. Specifically, listed derivatives, exchange rates and UCITs units (limited to SICAVs and mutual funds) are considered level 1.

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

In the case that certain instruments have peculiarities that make it possible to measure them only with the assistance of measurement models that make use of unobservable market data input and/or entity specific assumptions, they are classified in Level 3.

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

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Assets / liabilities measured at fair value	*31/12/2013*			*31/12/2012*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
1. Financial assets held for trading	6,716,229	16,850,652	14,443	6,384,940	19,285,858	5,172
2. Financial assets designated at fair value						
3. Financial assets available for sale	168,299	44,084	283	193,073	42,706	
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**6,716,229**	**17,018,951**	**58,527**	**6,385,223**	**19,478,931**	**47,878**
1. Financial liabilities held for trading	3,355,075	21,909,105	8,443	3,658,474	23,716,066	13,133
2. Financial liabilities designated at fair value						
3. Hedging derivatives	1,369	2,071				
Total	**3,355,075**	**21,910,474**	**8,443**	**3,658,474**	**23,718,137**	**13,133**

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, 2013 and 2012.

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

		Financial assets held for trading	*Financial designated at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Property, plant and equipment*	*Intangible assets*
1.	**Opening balances**	**5,172**	**42,706**				
2.	**Increases**	**21,502**	**7,346**				
2.1	Purchases	5,053	1,600				
2.2	Income allocated to:						
2.2.1	Income statement	16,449					
	- of which capital gains	*6,396*					
2.2.2	Shareholders' equity	3,995					
2.3	Transfers from other levels	1,751					
2.4	Other increases						
3.	**Decreases**	**12,23**	**5,968**				
3.1	Sales						
3.2	Redemptions	11,000	1,220				
3.3	Losses allocated to:						
3.3.1	Income statement	1,230	4,748				
	- of which capital losses	*1,216*	*2,373*				
3.3.2	Shareholders' equity						
3.4	Transfers from other levels						
3.5	Other decreases						
4.	**Closing balances**	**14,444**	**44,084**				

A.4.5.3 Yearly changes in liabilities designated at fair value (level 3)

		Financial liabilities held for trading	*Financial designated at fair value*	*Hedging derivatives*
1.	**Opening balances**	**13,133**		
2.	**Increases**	**5,824**		
2.1	Issues			
2.2	Losses allocated to:			
2.2.1	Income statement	5,824		
	- of which capital losses	*1,890*		
2.2.2	Shareholders' equity			
2.3	Transfers from other levels			
2.4	Other increases			
3.	**Decreases**	**10,514**		
3.1	Redemptions			
3.2	Repurchases			
3.3	Income allocated to:			
3.3.1	Income statement	10,514		
	- of which capital gains	*7,741*		
3.3.2	Shareholders' equity			
3.4	Transfers from other levels			
3.5	Other decreases			
4.	**Closing balances**	**8,443**		

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

Financial statements at 31/12/2013

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	*Carrying amount*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Due from banks	6,185,758		6,185,758	
3. Loans to customers	13,069,982		3,050,114	10,309,386
4. Equity investments	10,051			12,466
5. Property, plant and equipment held for investment purposes	13,971			20,918
6. Non-current assets and groups of assets held for sale	1,700			4,028
Total	**19,281,462**	**0**	**9,235,872**	**10,346,798**
1. Payables to banks	8,016,938		8,016,938	
2. Due to customers	8,604,046		8,604,046	
3. Outstanding securities	70,552		70,001	
4. Liabilities associated with assets held for disposal	0			
Total	**16,691,536**	**0**	**16,690,985**	**0**

Financial statements at 31/12/2012

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	*Carrying amount*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Due from banks	7,205,651		7,205,651	
3. Loans to customers	13,919,551		3,030,964	11,554,010
4. Equity investments	20,113			23,537
5. Property, plant and equipment held for investment purposes	14,271			21,612
6. Non-current assets and groups of assets held for sale	972			3,086
Total	**21,160,558**	**0**	**10,236,615**	**11,602,245**
1. Payables to banks	7,827,291		8,349,527	
2. Due to customers	10,591,773		11,190,580	
3. Outstanding securities	106,616		106,281	
4. Liabilities associated with assets held for disposal	0			
Total	**18,525,680**	**0**	**19,646,388**	**0**

A.5 Disclosures on the so-called "day one profit/loss"

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

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

This concept does not include the profits deriving from the characteristic intermediation of the investment banks if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and credit risks.

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

Part B
Notes to the Balance Sheet

ASSETS

Section 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2013	*31/12/2012*
a. Cash in hand	-	1
b. Unrestricted deposits with Central Banks		
Total	**0**	**1**

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2013*			*31/12/2012*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	6,369,822	1,592,766	13,955	6,079,127	2,423,942	3,871
1.1 Structured securities	*253*	*338,851*	*1*	*345*	*385,881*	*1*
1.2 Other debt securities	*6,369,569*	*1,253,915*	*13,954*	*6,078,782*	*2,038,061*	*3,870*
2. Equity securities	96,417	11		104,224		
3. Units in collective investment undertakings	16,383	2,880		14,187	25,413	
4. Loans		5,960,141			4,494,313	
4.1 Repurchase agreements		*5,960,141*			*4,494,313*	
4.2 Other						
Total A	**6,482,622**	**7,555,798**	**13,955**	**6,197,538**	**6,943,668**	**3,871**
B. Derivative instruments						
1. Financial derivatives:	233,607	8,061,775	488	187,402	10,769,697	1,301
1.1 trading	*233,607*	*8,061,775*	*488*	*187,402*	*10,769,697*	*1,301*
1.2 associated with the fair value option						
1.3 other						
2. Credit derivatives	1,233,079				*1,572,493*	
2.1 trading	*1,233,079*				*1,572,493*	
2.2 associated with the fair value option						
2.3 other						
Total B	**233,607**	**9,294,854**	**488**	**187,402**	**12,342,190**	**1,301**
Total (A+B)	**6,716,229**	**16,850,652**	**14,443**	**6,384,940**	**19,285,858**	**5,172**

Note:
The above table includes the valuations on off-balance sheet transactions and the accrued coupon component.
Impaired assets, falling under the item "Debt securities - 1.2 Other debt securities," totalled € 514 thousand including bonds issued by Lehman Brothers Holdings Inc. for € 270 thousand and Argentinian government bonds for € 189 thousand.
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 a net amount of € 1,147 thousand (€ 654 thousand at 31 December 2012). Specific writedowns on impaired derivatives totalled € 41,333 thousand (€ 30,398 thousand at 31/12/2012) of which € 17,439 thousand for non-performing exposures to customers (9,902 at 31/12/2012) and € 5,443 thousand classified as watchlist (10,751 at 31/12/2012).

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	*31/12/2013*	*31/12/2012*
- Index Linked	228,204	153,720
- Reverse convertible		
- Convertible		
- Credit linked notes	1	1
- Equity Linked	14,410	16,621
- Step - up, Step - down	2,104	2,165
- Dual Currency		
- Drop Lock		
- Target redemption notes		
- Cap Floaters		
- Reverse Floaters	7,996	9,078
- Corridor		
- Commodity	27,683	41,227
- Fund Linked	57,481	152,678
- Inflation	973	1,340
- Other	253	9,397
Total	**339,105**	**386,227**

2.1.b Detail of debt instruments: junior instruments

Items / Values	*31/12/2013*	*31/12/2012*
- Debt securities	145,833	133,333
- Other loans		
Total	**145,833**	**133,333**

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

Items /Values	*31/12/2013*	*31/12/2012*
A. CASH ASSETS		
1. **Debt securities**	**7,976,544**	**8,506,940**
a) Governments and Central Banks	5,930,572	5,633,533
b) Other public entities	5	4
c) Banks	1,464,380	2,381,599
d) Other issuers	581,587	491,804
2. **Equity securities**	**96,427**	**104,224**
a) Banks	3,376	15,332
b) Other issuers	93,051	88,892
- insurance companies	*18,878*	*1,122*
- financial companies	*4,108*	*5,858*
- non-financial companies	*70,065*	*81,912*
- other		
3. **Units in collective investment undertakings**	**19,263**	**39,600**
4. **Loans**	**5,960,141**	**4,494,313**
a) Governments and Central Banks		
b) Other public entities		
c) Banks	2,994,837	2,379,846
d) Others	2,965,304	2,114,467
Total A	**14,052,375**	**13,145,077**
B. DERIVATIVE INSTRUMENTS		
a) Banks	5,593,919	7,796,595
- fair value		
b) Customers	3,935,030	4,734,298
- fair value		
Total B	**9,528,949**	**12,530,893**
Total (A+B)	**23,581,324**	**25,675,970**

Note:

Of item "A. Cash assets", "1. Debt securities - a) Governments and Central Banks" is composed mainly (in the amount of € 5,879,877 thousand) of Italian government securities with maturities as follows: E 1,955,729 thousand within a year; € 2,438,942 thousand from 1 to 5 years; € 1,356,114 thousand from 5 to 10 years.

The balance of item "A. Cash assets", "1. Debt securities - c) Banks" is notably inferior at 31 December 2013 with respect to the amount for the previous year, due to the effect of redemptions of debt securities issued by the BMPS Group, maturing in 2013 (€ 783,080 thousand).

The amount indicated in item "B. Derivative instruments", "b) Customers", includes € 446,230 thousand as an exposure to LCH (London Clearing House), against € 1,343,328 thousand registered at 31 December 2012. The decline is the result of offsets and cancellation of existing deals with completely equal contents and risk profiles (portfolio compression), continuing the policy to improve the efficiency of the administrative management of these instruments and simultaneously reduce operating risks, which had already been begun in the previous year.

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

	Categories/Balances	*31/12/2013*	*31/12/2012*
a.	Stock	121	716
b.	Bonds	255	237
c.	Balanced	7,471	7,262
d.	Hedge Funds		18,877
e.	Private Equity		
f.	Real estate		
g.	Other	11,416	12,508
	Total	**19,263**	**39,600**

2.3 Cash financial assets held for trading: annual changes

	Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	*Total*
A. Opening balances	**8,506,940**	**104,224**	**39,600**	**4,494,313**	**13,145,077**
B. Increases	**125,243,701**	**568,124**	**644,833**	**147,095,286**	**273,551,944**
B1. Purchases	121,855,337	541,009	378,479	146,985,276	**269,760,101**
B2. Positive fair value changes	109,865	5,293	2,083		**117,241**
B3. Other changes	3,278,499	21,822	264,271	110,010	**3,674,602**
C. Decreases	**125,774,097**	**575,921**	**665,170**	**145,629,458**	**272,644,646**
C1. Sales	121,178,471	561,935	337,635	145,571,482	**267,649,523**
C2. Redemptions	926,725				**926,725**
C3. Negative fair value changes	99,758	91	6,846		**106,695**
C4. Transfers to other portfolios					
C5. Other changes	3,569,143	13,895	320,689	57,976	**3,961,703**
D. Closing balances	**7,976,544**	**96,427**	**19,263**	**5,960,141**	**14,052,375**

Note:
Sub-items B3 and C5 in the columns "Debt securities" and "Equity securities" include trading profits and losses, accrued income/expenses from issue discounts and coupon interest, effects deriving from exchange rate oscillations and the components relating to technical overdrafts, these last 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 2013.

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

This year (and likewise as of 31 December 2012), 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	*31/12/2013*			*31/12/2012*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities		135,959	39,325		130,278	37,705
1.1 Structured securities						
1.2 Other debt securities		*135,959*	*39,325*		*130,278*	*37,705*
2. Equity securities		22,766	4,759	283	61,177	5,001
2.1 Carried at *fair value*		*22,766*	*1,396*	*283*	*61,177*	
2.2 Measured at cost			*3,363*			*5,001*
3. Units in collective investment undertakings		1,541			1,618	
4. Loans						
Total		**160,266**	**44,084**	**283**	**193,073**	**42,706**

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 decrease in level 2, in particular in sub-item 2. "Equity securities," can mainly be attributed to the writedown of the shares held in Fenice Holding, for a total amount of € 29,033 thousand.

4.1.a Detail of debt instruments: structured instruments

The Bank holds no structured security in this category

4.1 Financial assets held for sale: junior instruments

Items / Values	*31/12/2013*	*31/12/2012*
- Debt securities	135,959	130,278
- Loans		
Total	**135,959**	**130,278**

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

	Items/Values	*31/12/2013*	*31/12/2012*
1.	**Debt securities**	**175,284**	**167,983**
	a) Governments and Central Banks		
	b) Other public entities		
	c) Banks	134,755	128,356
	d) Other issuers	40,529	39,627
2.	**Equity securities**	**27,525**	**66,461**
	a) Banks		
	b) Other issuers	27,525	66,461
	- insurance companies		
	- financial companies	*133*	*338*
	- non-financial companies	*27,392*	*66,123*
	- other		
3.	**Units in collective investment undertakings**	**1,541**	**1,618**
4.	**Loans**		
	a) Governments and Central Banks		
	b) Other public entities		
	c) Banks		
	d) Others		
	Total	**204,350**	**236,062**

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

	Categories/Balances	*31/12/2013*	*31/12/2012*
a.	Stock		
b.	Bonds		
c.	Balanced		
d.	Hedge Funds		
e.	Private Equity		
f.	Real estate	1,541	1,618
g.	Other		
	Total	**1,541**	**1,618**

4.3 Financial assets available for sale subject to micro-hedging

Items/Values	*31/12/2013*	*31/12/2012*
1. Financial assets with specific *fair value* hedges	39,325	37,705
a) interest rate risk	*39,325*	*37,705*
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	**39,325**	**37.705**

4.4 Financial assets held for sale: annual changes

	Debt Securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*	*Total*
A. Opening balances	**167,983**	**66,461**	**1,618**		**236,062**
B. Increases	**69,841**	**38,829**			**108,670**
B1. Purchases	64,325	1,869			66,194
B2. Positive fair value changes	2,429	33			2,462
B3. Write-backs		36,906			36,906
- booked to the income statement					
- booked to shareholders' equity		*36,906*			*36,906*
B4. Transfers from other portfolios					
B5. Other changes	3,087	21			3,108
C. Decreases	**62,540**	**77,765**	**77**		**140,382**
C1. Sales	41,969	2,700			44,669
C2. Redemptions		1,220			1,220
C3. Negative fair value changes	18,718	36,906	77		55,701
C4. Write-downs due to impairment		36,906			36,906
- booked to the income statement		*36,906*			*36,906*
- booked to shareholders' equity					
C5. Transfers to other portfolios					
C6. Other changes	1,853	33			1,886
D. Closing balances	**175,284**	**27,525**	**1,541**		**204,350**

Note:
line "B3. Value adjustments - booked to shareholders' equity" and line "C4. Writedowns due to impairment - booked to the income statement" include the following value adjustments: i) € 29,033 thousand referring to Fenice Holding (for more details, please refer to the note at the bottom of Section 4 "Assets held for sale" in part B of the Notes); ii) € 2,349 thousand connected to Targetti Poulson S.p.A.; iii) € 2,096 thousand relative to S.T.B. S.p.A.; iv) € 1,045 thousand attributable to Marina di Stabia; iv) the remaining € 2,383 thousand carried out on another 11 share-based securities.
Lines "B5. Other changes" and "C6. Other changes" include the results of sales, in addition to the component related to interest which accrued during the period.

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

As of 31 December 2013 (and likewise as of 31 December 2012), 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

		Total 31/12/2013			
	Type of transaction/Balances	*Carrying Amount*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits		X	X	X
2.	Compulsory reserve		X	X	X
3.	Repurchase agreements		X	X	X
4.	Other		X	X	X
B.	**Due from banks**	**6,185,758**			
1.	Loans	6,185,758		6,185,758	
1.1	Current accounts and demand deposits	180,813	X	X	X
1.2	Restricted deposits	5,196,286	X	X	X
1.3	Other loans:	808,659	X	X	X
	- Reverse repurchase agreements		X	X	X
	- Financial lease		X	X	X
	- Other	*808,659*	X	X	X
2.	Debt securities				
2.1	Structured securities		X	X	X
2.3	Other debt securities		X	X	X
	Total	**6,185,758**		**6,185,758**	

The Bank has no impaired receivables due from banks (as at 31 December 2012).

Note:
The sub-item B. "Due from banks - 1.2. Restricted deposits" includes:
- *€ 3,466 thousand (€ 3,859 thousand in 2012), as mandatory reserve fulfilled indirectly (through the Parent Company Banca Monte dei Paschi di Siena);*
- *€ 4,630,948 thousand (€ 5,146,715 thousand at the end of 2012) 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 deposited according to CSA agreements signed with the counterparties (which differ from those mentioned in the point above, since they are fully available to the counterparty), for pool and non-pool securities lending activities, for OTC and listed derivatives and for repurchase agreements (the latter for additional marginalisations).
Additionally, the Bank holds a subordinated debt instrument for nominal € 6,000 thousand issued by Banca Popolare di Garanzia, which was subjected to compulsory winding-up with decree of the Ministry of the Economy and Finance of 16 December 2009. The position is currently classified as non-performing and it was subjected to a value adjustment equal to its entire carrying amount.

					Total 31/12/2012
	Type of transaction/Balances	*Carrying Amount*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits		X	X	X
2.	Compulsory reserve		X	X	X
3.	Repurchase agreements		X	X	X
4.	Other		X	X	X
B.	**Due from banks**	**7,205,651**			
1.	Loans	7,205,651		7,205,651	
1.1	Current accounts and demand deposits	227,528	X	X	X
1.2	Restricted deposits	5,717,752	X	X	X
1.3	Other loans:	1,260,371	X	X	X
	- Reverse repurchase agreements		X	X	X
	- Financial lease		X	X	X
	- Other	*1,260,371*	X	X	X
2.	Debt securities				
2.1	Structured securities		X	X	X
2.3	Other debt securities		X	X	X
	Total	**7,205,651**		**7,205,651**	

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

	Total 31/12/2013					
	Carrying Amount			*Fair value*		
Type of transaction/Balances	*Performing*	*Impaired*				
		purchased	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	8,686,700		4,322,292	0	2,990,624	10,307,886
1. Current accounts	28			X	X	X
2. Reverse repurchase agreements				X	X	X
3. Loans	8,135,733		4,322,292	X	X	X
4. Credit cards, loans						
personal and transfer of fifth	2,541			X	X	X
5. Financial lease				X	X	X
6. Factoring				X	X	X
7. Other loans	548,398			X	X	X
Debt securities	59,843		1,148		59,490	1,500
8. Structured securities				X	X	X
9. Other debt securities	59,843		1,148	X	X	X
Total	**8,746,543**		**4,323,440**	**0**	**3,050,114**	**10,309,386**

Note:
Sub-item 9 "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 2013 the exposure amounted to € 58,343 thousand (€ 63,778 thousand at 31 December 2012). 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 loans" and amount to € 41,483 thousand (€ 45,895 thousand at 31 December 2012).

						Total 31/12/2012
	Carrying Amount			*Fair value*		
Type of transaction/Balances	*Performing*	*Impaired*				
		purchased	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	10,519,875		3,333,257		2,966,045	11,552,510
1. Current accounts	24			X	X	X
2. Reverse repurchase agreements				X	X	X
3. Loans	9,877,986		3,333,257	X	X	X
4. Credit cards, loans						
personal and transfer of fifth	2,380			X	X	X
5. Financial lease				X	X	X
6. Factoring				X	X	X
7. Other loans	639,485			X	X	X
Debt securities	65,278		1,141		64,919	1,500
8. Structured securities				X	X	X
9. Other debt securities	65,278		1,141	X	X	X
Total	**10,585,153**		**3,334,398**		**3,030,964**	**11,554,010**

7.1.a Receivables from customers: detail of impaired assets

Category/Balances	*31/12/2013*	*31/12/2012*
1. Non-performing	2,091,365	1,748,574
2. Watch-list	1,052,110	970,737
3. Restructured exposures	312,401	164,312
4. Past due exposures	867,564	450,775
Total carrying amount	**4,323,440**	**3,334,398**

7.1.b Receivables from customers: detail of other loans

Type of transaction/Balances	*31/12/2013*	*31/12/2012*
1. Collateral credits	391,758	435,302
2. Deposits for disbursement of real estate credit transactions	49,880	80,378
3. Receivables from vehicle companies for the reversal of collections on loans	41,483	45,895
4. Other	65,277	77,910
Total	**548,398**	**639,485**

Note:
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), as in CSA agreements made by the parties.

7.2 Receivables from customers: breakdown by debtor/issuer

Type of transaction/Balances	*31/12/2013*			*31/12/2012*		
	Performing	*Impaired*		*Performing*	*Impaired*	
		purchased	*other*		*purchased*	*other*
1. Debt securities:	**59,843**		**1,148**	**65,278**		**1,141**
a) Governments						
b) Other public entities						
c) Other issuers	59,843		1,148	65,278		1,141
- non-financial companies	*1,500*		*1,148*	*1,500*		*1,141*
- financial companies	*58,343*					*63,778*
- insurance companies						
- other						
2. Loans to:	**8,686,700**		**4,322,292**	**10,519,875**		**3,333,257**
a) Governments	8,975					8,159
b) Other public entities	14,100					16,357
c) Others	8,663,625		4,322,292	10,495,359		3,333,257
- non-financial companies	*7,463,550*		*4,234,565*	*9,225,623*		*3,238,876*
- financial companies	*1,035,810*		*14,264*	*1,079,075*		*35,900*
- insurance companies	*39,975*					*48,543*
- other	*124,290*		*73,463*	*142,118*		*58,481*
Total	**8,746,543**		**4,323,440**	**10,585,153**		**3,334,398**

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 %*	*Carrying Amount*
A. Full subsidiaries					
B. Jointly controlled companies					
C. Companies subject to significant influence				**10,051**	
1. Immobiliare Centro Milano S.p.A.	Milan	connection	33.333	33.333	0
2. Agricola Merse S.r.l.	Milan	connection	20.000	20.000	5,004
3. Interporto Toscano SpA	Leghorn	connection	19.001	19.001	4,268
4. Sviluppo Imprese Centro Italia S.p.A.	Florence	connection	15.000	15.000	779
Total (A+B+C)					**10,051**

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

Name	*Total Assets*	*Revenue totals*	*Profit (loss)*	*Shareholder's equity*	*Carrying Amount*	*Fair value Level 1*	*Level 2*	*Level 3*
A. Subsidiaries, full								
B. Subsidiaries under joint control								
C. Companies subjected to notable influence					**10,051**			
Immobiliare Centro Milano SpA *(1)*	27,337	-	(61,837)	(61,243)	0			
Agricola Merse Srl	86,559	2,344	(4,316)	38,686	5,004			6,873
Interporto Toscano SpA *(2)*	185,513	10,025	64	17,309	4,268			4,268
Sviluppo Imprese Centro Italia SpA *(3)*	9,373	2,162	542	8,748	779			1,325
Total (A+B+C)					**10,051**	**0**	**0**	**12,466**

Note:

The figures refer to the latest financial statements approved at 31 December 2012.

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.

The carrying amount of the equity investment was reduced by € 1,992 thousand, with respect to the value in the 2012 financial statements, in that a writedown of the same amount was carried out, aligning the carrying amount with the issue price of the share capital increase carried out by the company in 2013.

The carrying value refers to the shares which represent 15% of SICI SGR S.p.A., which the Bank will hold as its investment, while the remaining 14% was transferred to the item "Non-current assets and groups of assets held for sale and associated liabilities" (IFRS5).

10.3 Equity investments: annual changes

	31/12/2013	*31/12/2012*
A. Opening balances	**20,113**	**19,533**
B. Increases	**846**	**3,661**
B1. Purchases		3,661
B2. Write-backs		
B3. Revaluations		
B4. Other changes	846	
C. Decreases	**10,908**	**3,081**
C1. Sales	8,188	
C2. Value adjustments	1,992	2,109
C3. Other changes	728	972
D. Closing balances	**10,051**	**20,113**
E. Total revaluations		
F. Total adjustments	4,101	2,149

Note to the 2013 financial statements
C1. In March of 2013, the Bank sold the equity investment held in RE.GE.IM. S.p.A.. The capital gains received following this sale are recognised under item B4. "Other changes."
C2. The entire amount can be attributed to the value adjustment of the investee company Interporto Toscano Amerigo Vespucci S.p.A. (see note 2 in the above section 10.2).
C3 Amount relative to the share packet representing 14% of SICI SGR S.p.A. transferred to the item "Non-current assets and groups of assets held for sale and associated liabilities" (IFRS5), for which a sales agreement has been reached.
Note to the 2012 financial statements
B1. 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 carrying amount of the investment at 31 December 2012 has consequently increased by € 3.7 million compared to that posted at 31 December 2011.
C2. The carrying amount of the holding is reduced to € 2,110 since a value adjustment has been made on the amount, aligning the carrying amount to the corresponding fraction of the carrying amount 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).
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 held for sale and discontinued operations and associated liabilities" (IFRS5), for which negotiations for sale are in progress.

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.

Section 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110

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

Assets / Balances	*31/12/2013*	*31/12/2012*
1. Company owned	**428**	**567**
a) land		
b) buildings		
c) furniture	268	397
d) electronic systems	4	14
e) other	156	156
2. Assets held under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic systems		
e) other		
Total	**428**	**567**

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

	Total 31/12/2013			
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Company owned	**13,971**			**20,918**
a) for credit recovery				
b) other				
- land	10,426			12,927
- buildings	3,545			7,991
2. Assets held under financial leases				
a) land				
b) buildings				
Total	**13,971**			**20,918**

	Total 31/12/2012			
		Fair value		
Assets / Balances	*Carrying Amount*	*Level 1*	*Level 2*	*Level 3*
1. Company owned	**14,271**			**21,612**
a) for credit recovery				
b) other				
- land	10,426			13,356
- buildings	3,845			8,256
2. Assets held under financial leases				
a) land				
b) buildings				
Total	**14,271**			**21,612**

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

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

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

There were no property, plant and equipment held for investment purposes designated at fair value.

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

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Opening balances - gross			**1,231**	**446**	**189**	**1,866**
A.1 Total value reductions - net			834	432	33	1,299
A.2 Net opening balances			**397**	**14**	**156**	**567**
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:			**129**	**10**		**139**
C.1 Sales						
C.2 Depreciation			129	10		139
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			**268**	**4**	**156**	**428**
D.1 Total net value reductions			963	442	33	1,438
D.2 Gross closing balances			**1,231**	**446**	**189**	**1,866**
E. Measured at cost			268	4	156	428

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

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

	Land	*Buildings*	*Total*
A. Opening balances	**10,426**	**3,845**	**14,271**
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:		**300**	**300**
C.1 Sales			
C.2 Depreciation		300	300
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**	**3,545**	**13,971**
E. Fair value measurement	**12,927**	**7,991**	**20,918**

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

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

11.6 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. Current tax assets and liabilities are shown in their net balance in the respective balance sheet items following the offset carried out at the level of said tax.
Current tax assets totalled € 13,150 thousand, including IRAP advances paid in reference to the tax for financial year 2013 for a total amount of 33,144, compensated with the estimated debt (shown under item 80 of the liabilities) equal to 19,994 (this determined in accordance with the criteria defined in Decree Law 133/2013). Note that the amount of the IRAP advance relative to the 2013 tax period was raised to 130%.
At 31.12.2013 current tax liabilities amounted to € 4,280 thousand, and referred to the debt for the additional IRES amount (in the amount of 8.5%) introduced solely for financial year 2013 by the Stability Law.
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 2013 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.
The significant increase in prepaid tax assets is due to the regulatory changes introduced by the Stability Law which specifically envisages:
the inclusion of net value adjustments of loans due to impairment in the taxable base for the purposes of IRAP, with the deduction of the same over five years;
the deduction of value adjustments/writebacks on loans for IRES purposes over five years, rather than eighteen years.

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 € 193,278 thousand and to IRAP for € 14,516 thousand.
Specifically:
- the sub-item "receivables" represents the total amount of the write-downs to receivables exceeding the portion allowed for deduction for IRES and IRAP purposes and to be carried forward in future financial years, as well as provisions for endorsement credits; Specifically, the prepaid taxes recognised on credit writedowns and losses will be reabsorbed over the next four years for € 76,745 thousand and over the next seventeen years for € 108,318 thousand.
- prepaid taxes under the item "reserves for valuation of financial instruments", posted as a contra item in the shareholders' equity, equal to € 12,164 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		*31/12/2013*				*31/12/2012*
	Prepaid taxes offset in income statement (IRES)	*Prepaid taxes offset by shareholders' equity (IRES)*	*Prepaid taxes offset in income statement (IRAP)*	*Prepaid taxes by shareholders' equity (IRAP)*	*Total*	*Total*
Receivables	175,570		11,473		**187,043**	**118,060**
- of which Law 214/2011	*173,590*		*11,473*		***185,063***	***115,885***
Other financial instruments						
Goodwill						
Deferred charges						
Tangible fixed assets	82		16		**98**	**99**
- of which Law 214/2011						
Entertaining expenses						
Personnel-related costs		165			**165**	**734**
Tax losses						
- of which Law 214/2011						
Reserves for valuation of financial instruments		10,115		2,049	**12,164**	**8,874**
Other	7,346		978		**8,324**	**14,699**
Prepaid tax assets - gross	**182,998**	**10,280**	**12,467**	**2,049**	**207,794**	**142,466**
Offsetting against deferred tax liabilities	**(644)**	**(91)**	**(25)**	**(57)**	**(817)**	**(1,794)**
Net prepaid tax assets	**182,354**	**10,189**	**12,442**	**1,992**	**206,977**	**140,672**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for € 735 thousand and IRAP for € 82 thousand. They are mainly recorded as offsetting entries in the income statement for € 669 thousand (versus € 1,684 thousand for 2012) in addition to € 148 thousand recorded as offsetting entries to the shareholders' equity, the latter fully recorded in revaluations of AFS securities (in 2012, they were € 110 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:

Items / Balances	*31/12/2013*					*31/12/2012*
	Deferred taxes offset in income statement (IRES)	*Deferred taxes offset by shareholders' equity (IRES)*	*Deferred taxes offset in income statement (IRAP)*	*Deferred taxes by shareholders' equity (IRAP)*	*Total*	*Total*
Capital gains to be collected						
Goodwill						
Tangible and intangible fixed assets						
Financial instruments	497	91		57	**645**	**1,511**
Personnel-related costs	12				**12**	**12**
Reserves for valuation of financial instruments						**110**
Other	135		25		**160**	**161**
Prepaid tax assets - gross	**644**	**91**	**25**	**57**	**817**	**1,794**
Offsetting against deferred tax liabilities	**(644)**	**(91)**	**(25)**	**(57)**	**(817)**	**(1,794)**
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 € 76,745 (€ 50,844 thousand in 2012), including the effects envisaged in the Stability Law, and by the taxed allocations to provisions, made during the year, i.e. € 3,580 thousand (€ 16,757 thousand in 2012). The decreases reported for the year include:

- the uses in 2013 of provisions taxed in previous years amounting to € 10,884 thousand (versus € 13,308 thousand in 2012);
- € 7,567 thousand related to writedowns of credits from previous years (before 2013), for the portion deductible in the current year, or one-eighteenth (in 2012 this amounted to € 4,743 thousand).

		31/12/2013	*31/12/2012*
1.	**Opening balance**	**133,592**	**84,042**
2.	**Increases**	**80,325**	**67,601**
2.1	Prepaid taxes recorded in the year	80,325	67,601
	a) relating to prior years		
	b) due to changes in accounting policies		
	c) writebacks		
	d) other	*80,325*	*67,601*
2.2	New taxes or increase in tax rates		
2.3	Other increases		
3.	**Decreases**	**18,452**	**18,051**
3.1	Prepaid taxes annulled in the year	18,452	18,051
	a) reversals	*18,452*	*18,051*
	b) written down as now considered unrecoverable		
	c) change in accounting policies		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases		
	a) transformation into tax credit as per law n° 214/2011		
	b) other		
4.	**Closing balance**	**195,465**	**133,592**

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

	IRES	*IRAP*	*Total 31/12/2013*	*Total 31/12/2012*
1. Opening balance	**115,885**		**115,885**	**69,784**
2. Increases	**65,272**	**11,473**	**76,745**	**50,844**
3. Decreases	**7,567**		**7,567**	**4,743**
3.1 Transfers	7,567		**7,567**	4,743
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	**173,590**	**11,473**	**185,063**	**115,885**

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.
For 2013, “new” prepaid taxes for IRAP purposes and “greater” prepaid taxes for IRES purposes are recognised, relative to net value adjustments on loans, in accordance with the regulatory changes already commented on above.

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.

	31/12/2013	*31/12/2012*
1. Opening balance	**1,684**	**3,522**
2. Increases	**657**	**5**
2.1 Deferred taxes recorded in the year	657	5
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*657*	*5*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**1,672**	**1,843**
3.1 Deferred taxes annulled in the year	1,672	1,843
a) reversals	*1,672*	*1,843*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**669**	**1,684**

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.

	31/12/2013	*31/12/2012*
1. Opening balance	**8,874**	**1,598**
2. Increases	**6,355**	**7,276**
2.1 Deferred taxes recorded in the year	6,355	7,276
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*6,355*	*7,276*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**2,900**	**0**
3.1 Deferred taxes annulled in the year	2,900	0
a) reversals		
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	**12,329**	**8,874**

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.

	31/12/2013	*31/12/2012*
1. Opening balance	**110**	**107**
2. Increases	**87**	**32**
2.1 Deferred taxes recorded in the year	87	32
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*87*	*32*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**49**	**29**
3.1 Deferred taxes annulled in the year	49	29
a) reversals	*49*	*29*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**148**	**110**

13.7 Other information

13.7.1 Current tax assets

	31/12/2013	*31/12/2012*
1. IRES advances		
2. IRAP advances	33,144	13,000
3. IRAP receivables		
4. Other receivables and withholdings		
Current tax assets - gross	**33,144**	**13,000**
Offsetting against current tax liabilities	**19,994**	**13,000**
Current tax assets - net	**13,150**	**0**

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

		31/12/2013	*31/12/2012*
A.	**Individual assets**		
A.1	Financial assets		
A.1	Equity investments	1,699	972
A.2	Property, plant and equipment		
	- for credit recovery		
	- others		
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A	**1,699**	**972**
	of which valued at cost	**1,699**	**972**
	of which designated at fair value level 1		
	of which designated at fair value level 2		
	of which designated at fair value level 3		
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading		
B.2	Financial assets designated at fair value		
B.3	Financial assets available for sale		
B.4	Financial assets held to maturity		
B.5	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		
B.	**Total B**		
	of which valued at cost		
	of which designated at fair value level 1		
	of which designated at fair value level 2		
	of which designated at fair value level 3		
C.	**Liabilities associated with individual discontinued assets**		
C.1	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
	of which valued at cost		
	of which designated at fair value level 1		
	of which designated at fair value level 2		
	of which designated at fair value level 3		
D.	**Liabilities associated with groups of discontinued assets**		
D.1	Due to banks		
D.2	Due to customers		
D.3	Outstanding securities		
D.4	Financial liabilities held for trading		
D.5	Financial liabilities at fair value		
D.6	Funds		
D.7	Other liabilities		
	Total D		
	of which valued at cost		
	of which designated at fair value level 1		
	of which designated at fair value level 2		
	of which designated at fair value level 3		

14.2 Other information

That shown under item “A.1 Equity investments” represents:
- the share package equal to 48% of MPS Venture SGR S.p.A., for which a purchase proposal has been accepted. The closing of the operation, which is subordinated, among other things, to the condition that the Bank of Italy does not deny the offerer’s acquisition of the equity interest, is envisaged for June 2014;
- the share package equal to 14% of Sviluppo Imprese Centro Italia S.p.A., relative to which the Bank has accepted a purchase proposal, to be carried out by June 2014 (also in this case, the closing is subordinated to the go ahead from the Supervisory Body).

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

Below, a summary of the economic/financial data from the relative financial statements at the end of 2012 is provided.

Corporate Name	*Total Assets*	*Total Revenue*	*Profit (loss)*	*Shareholders’ equity*	*Carrying Amount*	*Fair value*		
						Level 1	*Level 2*	*Level 3*
MPS Venture SGR S.p.A.	8,248	6,091	2,454	6,430	972			2,791
Sviluppo Imprese Centro Italia SpA (*)	9,373	2,162	542	8,748	727			1,237
Total					**1.699**	**0**	**0**	**4,028**

(*)
for a total carrying value of € 1,507 thousand if added to that shown under financial statement item 100 “Equity investments”

Section 15 - OTHER ASSETS - ITEM 150

15.1. Other assets: breakdown

Type of transaction / Balances	*31/12/2013*	*31/12/2012*
1. Amounts due from the tax authorities and similar	2,121	2,748
2. Items being processed	288	2,380
3. Amounts receivable associated with the supply of goods and services	4,582	413
4. Improvement and incremental costs on third party assets	924	1,512
5. Accrued income not attributable to own items	3,572	5,201
6. Prepaid expenses not attributable to own items	1,893	1,355
7. Receivable from consolidating entity for tax consolidation system	3,961	6,279
8. Receivables for reimbursement to personnel seconded with third parties	3,996	4,221
9. Measurement securities to be regulated (*"regular way"*)	4,630	8,456
10. Other	6,119	5,224
Total	**32,086**	**37,789**

Note:
the sub-item "Amounts due from the tax authorities and similar" include credits due from foreign tax authorities equal to € 98 thousand (€ 1,106 in 2012).
The sub-item "Receivable from consolidating entity for tax consolidation system" also represents credit relative to the higher IRES paid by effect of non-deduction of IRAP pursuant to art. 6 of Decree Law 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	*31/12/2013*	*31/12/2012*
1. Due to Central Banks		
2. Payables to banks	**8,016,938**	**7,827,291**
2.1 Current accounts and demand deposits	409,344	378,771
2.2 Restricted deposits	4,284,314	4,566,684
2.3 Loans	3,222,508	2,757,873
2.3.1 Repurchase agreements		
2.3.2 Other	*3,222,508*	*2,757,873*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other payables	100,772	123,963
Total8,016,938	**7,827,291**	
Fair value - level 1		
Fair value - level 2	**8,016,938**	**8,349,527**
Fair value - level 3		
Total fair value	**8,016,938**	**8,349,527**

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). Relative to the fair value disclosure, we note that the most of the loans indicated in sub-item 3 envisage an early repayment on demand option. As a consequence, it was decided to quantify the relative fair value as equal to the carrying amount, excluding changes which occurred in the Bank's creditworthiness subsequent to the date the individual relationships were begun.

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

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

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

1.5 Payables for financial 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	*31/12/2013*	*31/12/2012*
1. Current accounts and unrestricted deposits		
2. Restricted deposits	3,197	3,152
3. Loans	8,542,990	10,493,325
3.1 Repurchase agreements		
3.2 Other	*8,542,990*	*10,493,325*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	57,859	95,296
Total	**8,604,046**	**10,591,773**
Fair value - level 1		
Fair value - level 2	**8,604,046**	**11,190,580**
Fair value - level 3		
Total fair value	**8,604,046**	**11,190,580**

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 debts" is mainly composed of deposits for the disbursement of real estate credit operations, in addition to the payable owed 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). To that end, we note that on 6 September 2013 the Bank received a notification regarding the start of an extra-judicial mediation procedure in the United States, known as "Derivatives Alternative Dispute Resolution Procedure". Through the application for the procedure, LBSF quantified its assessment of the Bank's debt at US$ 8,654 thousand, in terms of principal. Therefore, the Bank held it appropriate to review the debt exposure regarding LBSF, adjusting the provision for risks and charges through an additional allocation of US$ 13,017 thousand, including the amount of default interest accrued on the position (for a value in Euro of 9,272 thousand). For the sake of full information, we mention that the liquidation procedure relative to the ex Lehman Brothers International Europe PLC concluded in 2013, determining a lesser disbursement, with respect to the debt recognised at the end of the previous year, of € 490 thousand.
Relative to the fair value disclosure, we note that the most of the loans indicated in sub-item 3 envisage an early repayment on demand option in favour of the Bank. As a consequence, it was decided to quantify the relative fair value as equal to the carrying amount, excluding changes which occurred in the Bank's creditworthiness subsequent to the date the individual relationships were begun.

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	*31/12/2013*				*31/12/2012*			
	Carrying Amount	*Fair value*			*Carrying Amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	70,552		70,001		106,616		106,281	
1.1 structured								
1.2 others	*70,552*		*70,001*		*106,616*		*106,281*	
2. other securities								
2.1 structured								
2.2 other								
Total	**70,552**		**70,001**		**106,616**		**106,281**	

Note:
the 2013 carrying amount includes € 551 thousand in interest accrued as of the balance sheet date (versus € 614 thousand in 2012).

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

Name of security	*Currency*	*date of issue*	*maturity*	*interest rate*	*Carrying Amount 31/12/13*	*Carrying Amount 31/12/12*
1. IT0003535223 MPS MERC 13SUB 10NC5	Euro	30/09/2003	30/09/2013	variable		14,644
2. IT0003535280 MPSMERCH SUB13 TV	Euro	30/09/2003	30/09/2013	variable		1,403
3. IT0003595318 MPS B.VERDE 13 SUB	Euro	22/12/2003	22/12/2013	variable		10,003
4. IT0003878755 MPS B IMPR SUB15 TV	Euro	30/06/2005	30/06/2015	variable	20,000	30,000
5. IT0004809601 MPSCS-TV 12/22	Euro	30/03/2012	30/03/2022	variable	50,552	50,566
			70,552	**106,616**		

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

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

3.3 Outstanding securities subject to micro-hedging

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

Section 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction / Balances	*Total 31/12/2013*				
	Nominal value or notional value	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value(*)*
A. Cash liabilities					
1. Payables to banks	11,553,390	3,164,544	8,642,590		11,807,134
2. Due to customers	5,735,610	8,566	5,727,931		5,736,497
3. Debt securities					
3.1 Bonds					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A	**17,289,000**	**3,173,110**	**14,370,521**		**17,543,631**
B. Derivative instruments					
1. Financial derivatives		181,965	6,278,438	8,443	
1.1 For trading		*181,965*	*6,278,438*	*8,443*	
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			1,260,146		
2.1 For trading			*1,260,146*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**181,965**	**7,538,584**	**8,443**	
Total (A+B)		**3,355,075**	**21,909,105**	**8,443**	

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

Note:
The amounts shown in lines "1. Due to banks" and "2. Due to customers" are mainly correlated with those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading." We also note that the sub-items "Due to banks" and "Due to customers", as above, include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.

Type of transaction / Balances	Total 31/12/2012				
	Nominal value or notional value	Fair value			Fair value(*)
		Level 1	Level 2	Level 3	
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		162,504	9,608,588	13,133	
1.1 For trading		*162,504*	*9,608,588*	*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		**162,504**	**11,205,460**	**13,133**	
Total (A+B)		**3,658,474**	**23,716,066**	**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 amounts shown in lines "1. Due to banks" and "2. Due to customers" are mainly correlated with those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading." We also note that the sub-items "Due to banks" and "Due to customers", as above, include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.

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

Name of liability	*Currency*	*date of issue*	*maturity*	*interest rate*	*Carrying Amount*
A. Due to banks					**5,421**
INTESA 10/20 5.15	EUR	16/07/2010	16/07/2020	fixed	53
INTESA-TM 10/49	EUR	01/10/2010	01/06/1949	variable	1,521
BCO POPO 11/21 6,375	EUR	31/05/2011	31/05/2021	fixed	159
INTESA-TV 06/18	EUR	26/06/2006	26/06/2018	variable	46
INTESA 08/18 6,625	EUR	08/05/2008	08/05/2018	fixed	170
BBVASM-TM 13/49	USD	09/05/2013	29/05/1949	variable	2,062
SOC GEN-TM 13/49	USD	06/09/2013	29/11/1949	variable	1,410
B. Due to customers					**-**
					-
Total (A+B)					**5,421**

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 31/12/13*	*Total 31/12/12*
A.	**Opening balances**	**7,692,108**	**4,803,878**		**12,495,986**	**16,492,267**
B.	**Increases**	**324,670,452**	**839,274,784**		**1,163,945,236**	**1,045,698,699**
B.1	Issues					
B.2	Sales	324,565,180	839,269,889		1,163,835,069	1,045,646,508
B.3	Positive fair value changes					
B.4	Other changes	105,272	4,895		110,167	52,191
C.	**Decreases**	**323,722,152**	**838,350,731**		**1,162,072,883**	**1,049,694,980**
C.1	Purchases	323,682,271	838,338,422		1,162,020,693	1,049,647,358
C.2	Redemptions				-	
C.3	Negative fair value changes				-	
C.4	Other changes	39,881	12,309		52,190	47,622
D.	**Closing balances**	**8,640,408**	**5,727,931**		**14,368,339**	**12,495,986**

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	*31/12/2013*				*31/12/2012*			
	Level 1	*Level 2*	*Level 3*	*Notional value*	*Level 1*	*Level 2*	*Level 3*	*Notional value*
A. Financial derivatives		1,369		37,500		2,071		37,500
1. *Fair value*		*1,369*		37,500		*2,071*		37,500
2. Cash flows								
3. Foreign investments								
B. Financial derivatives								
1. *Fair value*								
2. Cash flows								
Total		**1,369**		**37,500**		**2,071**		**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*	*Foreign invest.*
	Rate risk	*Currency exchange risk*	*Credit risk*	*Price risk*	*Severale risk*				
1. Financial assets available for sale	1,369								
2. Receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**1,369**								
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	*31/12/2013*		*31/12/2012*	
	taxation to shareholders' equity	*taxation to income statement*	*taxation to shareholders' equity*	*taxation to income statement*
1. IRES payables		4,280		
2. IRAP payables		19,994		26,694
3. Other amounts due for current income taxes				
Amounts due for current taxes - gross		**24,274**		**26,694**
Offsetting against current tax assets		(19,994)		(13,000)
Amounts due for current taxes - net		**4,28**		**13,694**

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".
The debt shown under sub-item 1. "IRES payables" refers to the additional IRES (8.5%) due for financial year 2013, the payment and relative declaration to the tax authorities of which will be carried out independently by the Bank (as it is excluded from the tax consolidation regime).
During the second half of 2012 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 2012 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	*31/12/2013*	*31/12/2012*
1. Taxes due to the tax authorities and similar	3,825	4,080
2. Amounts due to social security and welfare institutions	1,626	1,750
3. Amounts due to the Parent Company for tax consolidation	79,419	71,693
4. Sums available to customers	1,020	1,236
5. Liabilities for payment agreements on Parent Company shares	-	-
6. Other amounts due to employees	4,292	2,271
7. Items being processed	2,088	1,927
8. Amounts payable associated with the payment of supplies of goods and services	19,455	13,167
9. Guarantees given	7,200	7,910
10. Payables for reimbursement of cost of personnel seconded to Bank	1,194	1,478
11. Deferred income not attributable to own items	334	527
12. Accrued liabilities not attributable to own items	-	5
13. Measurement securities to be regulated (*"regular way"*)	2,931	5,777
14. Other	5,614	5,767
Total	**128,998**	**117,588**

Note:
the sub-items "Items being processed" and "Other" include transactions that were resolved in the first few days of 2014.

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: annual changes

		31/12/2013	*31/12/2012*
A.	**Opening balances**	**2,964**	**3,098**
B	**Increases**	**145**	**51**
B.2	Provision for the year	109	51
B.3	Other increases	36	
C.	**Decreases**	**258**	**185**
C.1	Liquidations carried out	258	31
C.2	Other decreases		154
D.	**Closing balances**	**2,851**	**2,964**

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.
The initial balance for financial year 2012 and the changes during the period were recalculated to retrospectively reflect the changes introduced by the new IAS 19. Specifically, the initial balance for financial year 2012 increased by € 930 thousand, while the final balance increased by € 776 thousand (due to the effect of the additional other decreases of € 154 thousand).

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

		31/12/2013
a)	Value of net liability for defined benefits on the basis of the new IAS 19	2,851
b)	Value of net liability for defined benefits on the basis of the approach used in the financial statements at 31/12/2012	2,072
c)	**Difference between the two values (a-b)**	**779**
d)	Tax effect on the difference	214
e)	**Net difference to be added as a prudential filter to supervisory capital**	**565**

11.2 Other information

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

Items/Balances	*A (-) Plan assets*	*B(+) Current DBO value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/assets for defined benefits*
Opening balances		**2,964**		**2,964**
Welfare cost relating to current work services				
Interest income/expense		109		109
Revaluation of net liabilities/assets for defined benefits:		36		36
Yield of plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions				
Actuarial gains/losses deriving from changes in financial assumptions		*36*		*36*
Changes in the effect of limitations on the available of a net asset for defined benefit plans				
Welfare cost relating to past work service and/or regulatory gains/losses				
Exchange differences				
Contributions:				
Paid by the employer				
Paid by employees				
Payments made by the plan		(258)		(258)
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**2,851**		**2,851**

11.2.b Main actuarial hypotheses used

	Main actuarial hypotheses/Percentages	*31/12/2013*	*31/12/2012*
1.	Average discounting back rate (*)	3.1639%	3.6789%
2.	Estimated salary increase rates	2.7400%	1.8000%
	Annual inflation rate	2.0000%	2.0000%

(*)
for the purposes of calculating gains/losses from discounting, the Bank uses the Euro Composite AA Curve, interpolated at 31 December 2013, and obtained from the information provider Bloomberg. This curve refers to a basket of securities issued by corporate issuers with a "AA" rating.

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

Actuarial hypotheses	*Change in the value of the bond*	*% change in the bond*
Average discounting back rate		
25 bp increase	(80)	(2.7%)
25 bp decrease	80	2.8%
Estimated salary increase rates		
25 bp increase	-	-
25 bp decrease	-	-

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

Pursuant to Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity is € 2,871 thousand (3,111 as at 31 December 2012).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2013*	*31/12/2012*
1. Company pension funds	5,796	5,532
2. Other provisions for risks and charges:	44,176	69,631
2.1 legal disputes	*13,454*	*12,537*
2.2 personnel expenses		*2,670*
2.3 other	*30,722*	*54,424*
Total	**49,972**	**75,163**

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 97% and 3%, respectively, of the total shown in the table (94% and 6% at 31 December 2012).
The sub-item "Other provisions for risks and charges: 2.2 personnel expenses" at 31 December 2012 included provisions for expenses for resignation incentives and for the creation of the Solidarity Fund (the debt remaining at 31 December 2013 was recognised under financial statement item 100 "Other liabilities").
The sub-item "Other provisions for risks and charges: 2.3 other" includes reliable estimates of probable expenses for the Bank connected to subsidised operations, some typical operating transactions (e.g. ex-Lehman Brothers Special Financing Inc., see the note under item 20 of the liabilities "Due to customers" for an amount of € 13,222 thousand), as well as the development of liabilities due to external events.
Relative to financial year 2012, we note that the sub-item "Other provisions for risks and charges: 2.3 other" also included 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 and the reference economic context, it was deemed opportune to make a prudential estimate of their recoverability. Subsequently, given the confirmation of that arising from the assessment carried out in the previous year, it was decided with the Parent Company to directly writedown the equity investment in Fenice Holding by around 50%, with the simultaneous release of the provision of € 21,000 thousand created in 2012 (for more details, see Section 4 "Financial assets available for sale" under the Assets in the Notes).

12.2 Provisions for risks and charges: annual changes

		Pension funds	*Other provisions*	*Total*
A.	**Opening balances 5,532 69,631 75,163**			
B.	**Increases 822 10,674 11,496**			
B.1	Provision for the year	221	10,661	11,262
B.2	Changes due to the passage of time	601	13	234
B.3	Changes due to discount rate changes			
B.4	Other increases			
C.	**Decreases**	**558**	**36,129**	**36,687**
C.1	Uses in the year	558	2,666	3,224
C.2	Changes due to discount rate changes		9	9
C.3	Other changes		33,454	33,454
D.	**Closing balances**	**5,796**	**44,176**	**49,972**

12.3 Defined-benefit company pension funds

12.3.1 Illustration of the characteristics of funds and their relative risks

Note that for defined benefit complementary welfare funds, the determination of the actuarial values required in the application of IAS 19 "Employee Benefits" is carried out by an independent actuary, using the "projected unit credit" method, as is explained in more detail in part A of the notes, Accounting Policies.

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

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

Items / Balances	*31/12/2013*		*31/12/2012*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**5,532**		**5,834**	
Increases	**822**		**273**	
Welfare cost relating to current work services				
Borrowing costs	221		243	
Members contributions to plan				
Actuarial losses				
Exchange losses				
Welfare cost relating to past work services	601		30	
Other changes				
Decreases	**558**		**575**	
Indemnities paid	558		575	
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	**5,796**		**5,532**	

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

Items/Balances	*A (-) Plan assets*	*B(+) Current DBO value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/assets for defined benefits*
Opening balances		5,532		5,532
Welfare cost relating to current work services				
Interest income/expense		221		221
Revaluation of net liabilities/assets for defined benefits:		601		601
Yield of plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions		*103*		*103*
Actuarial gains/losses deriving from changes in financial assumptions		*498*		*498*
Changes in the effect of limitations on the available of a net asset for defined benefit plans				
Welfare cost relating to past work service and/or regulatory gains/losses				
Exchange differences				
Contributions:				
Paid by the employer				
Paid by employees				
Payments made by the plan		(558)		(558)
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		5,796		5,975

12.3.3 Information about the fair value of the plan assets

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

12.3.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	*31/12/2013*	*31/12/2012*
1. Average discounting back rate *(*)*	2.07%	4.20%
2. Estimated salary increase rates	1.00%	1.50%
Annual inflation rate	2.00%	2.00%

(*) Euro Composite AA curve, interpolated at 31 December 2013

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

Below we provide the estimated uses in the coming years:

FUTURE PAYMENTS

Year	*2014*	*2015*	*2016*	*2017*	*2018*
Cash flow	546	531	502	472	441

OTHER INFORMATION

Number of pensioners	42
Service Cost 2014	0
Residual average length	8

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

Actuarial hypotheses	*Change in the value of the bond*	*% change in the bond*
Average annual discounting back rate and inflation rate		
DBO + 0.25% discounting	(59)	(1.01%)
DBO - 0.25% discounting	111	1.92%

12.3.6 Plans relative to more than one employer

There are no plans relative to more than one employer.

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

No plans with this feature exist.

Section 13 - REFUNDABLE SHARES - ITEM 140

There 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	*31/12/2013*	*31/12/2012*
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	640,420	639,101
4. (Treasury shares)		
5. Valuation reserves	(25,442)	(18,159)
6. Equity instruments		
7. Profit (loss) for the year	48,648	1,320
Total	**1,168,150**	**1,126,786**

Note:
The amounts in lines "3. Reserves", "5. Valuation reserves" and "7. Profit (loss) for the year," referring to 31 December 2012, were recalculated to retrospectively reflect the changes introduced by the new IAS 19. Therefore the balances found in the 2012 financial statements changed by +€ 622 thousand, -€ 1,228 thousand and +€ 44 thousand, respectively.

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 2013, 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 2013.

Items / Balances	*31/12/2013*	*31/12/2012*
Legal reserve	38,586	38,522
Reserve of treasury shares and shares of the Parent Company		
Statutory reserve	31,906	31,842
Reserve ex art. 13 Lgs. Decree 124/93		
Extraordinary reserve	323,985	322,836
Other reserves	(387)	(387)
Total	**394,090**	**392,813**

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	*31/12/2013*	*31/12/2012*
1. Financial assets available for sale	(35,769)	(25,694)
2. Property, plant and equipment		
3. Intangible assets		
4. Foreign investment hedging		
5. Cash flow hedging		
6. Exchange differences		
7. Non-current assets held for sale		
8. Special revaluation laws		
9. Employee severance indemnities	(898)	(862)
10. Company pension funds	(1,196)	(596)
11. Tax effect	12,421	8,993
Total	**(25,442)**	**(18,159)**

14.6.1.2 Valuation reserves: annual changes

	Financial assets available for sale	*Employee severance indemnities*	*Company pension funds*	*Tax effect*	*Total*
A. Opening balances	**(25,694)**	**(862)**	**(596)**	**8,993**	**(18,159)**
B. Increases:	**45,962**			**(2,987)**	**42,975**
B.1 Fair value increases	2,462			(806)	1,656
B.2 Other changes	43,500			(2,181)	41,319
C. Decreases	**56,037**	**36**	**600**	**(6,415)**	**50,258**
C.1 Fair value decreases	55,701			(6,216)	49,485
C.2 Other changes	336	36	600	(199)	773
D. Closing balances	**(35,769)**	**(898)**	**(1,196)**	**12,421**	**(25,442)**

14.6.1.3 Valuation reserves of financial assets available for sale: breakdown

Assets / Balances	*31/12/2013*		*31/12/2012*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities	255	36,782		26,832
2. Equity securities	717		1,020	
3. Units in collective investment undertakings	41		118	
4. Loans				
Total	**1,013**	**36,782**	**1,138**	**26,832**

Note:
The negative revaluation reserves for debt securities, pursuant to sub-item 1, are almost entirely attributable to the security IT0004352586 BMPS 08/18 TV, as an effect of the fair value decrease (for an amount of € 36,738 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**	**(26,832)**	**1,020**	**118**	
2. **Positive changes**	**9,023**	**36,939**		
2.1 Increases in fair value	2,429	33		
2.2 Transfer to income statement of negative reserves	0	36,906		
- for impairment		*36,906*		
- for disposal				
2.3 Other changes	6,594			
3. **Negative changes**	**18,718**	**37,242**	**77**	
3.1 Decreases in fair value	18,718	36,906	77	
3.2 Transfer to income statement of positive reserves				
- for disposal				
3.3 Other changes		336		
4. Closing balances	**(36,527)**	**717**	**41**	

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

	Amount	Possibility of utilisation (*)	Shake available	Summary of uses made in previous three years	
				for coverage of losses	for other reasons
Capital	**276,435**				
Capital reserves	**363,865**	A,B,C,	**363,865**		
Profit reserves	**450,580**	A,B,C	**411,994**		
Other reserves subject to deferred taxation	**10,632**	A,B,C	**10,632**		
Other IAS reserves	**17,990**	A,B,C	**17,990**		
TOTAL RESERVES	**843,067**		**804,481**		
Profit for 2013	65,469				
Total Equity	**1,184,971**				

(*) 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 as a portion of the merger surplus following the incorporation of the former MPS Bancaverde s.p.a. into the former MPS Merchant s.p.a., which occurred in financial year 2004. Paragraph 6 of article 172 of the Consolidated Income Tax Law envisages that the same tax regime applicable to the reserves of the incorporated company must be used for the merger surplus.
The item "Other IAS reserves" includes an amount of € 1,052 thousand as the negative reserve of profit, originating on the first application of the IAS (financial year 2005, in reference to financial year 2004), as well as € 665 thousand as a reserve which originated following the application of the changes introduced by the new IAS 19.

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	31/12/2013	31/12/2012
1. Financial guarantees given	281,835	300,380
a) Banks	*1,049*	*1,049*
b) Customers	*280,786*	*299,331*
2. Commercial guarantees given	12,505	26,805
a) Banks	*62*	
b) Customers	*12,443*	*26,805*
3. Irrevocable commitments to grant finance	3,812,697	2,856,567
a) Banks	1,223,277	148,939
- certain to be called on	*1,223,277*	*148,939*
- not certain to be called on		
b) Customers	2,589,420	2,707,628
- certain to be called on	*1,988,822*	*1,916,637*
- not certain to be called on	*600,598*	*790,991*
4. Commitments underlying derivatives on receivables: hedge sales	22,501,527	27,178,748
5. Assets lodged as collateral for third party bonds	513,963	729,553
6. Other commitments	202,512	307,663
Total	**27,325,039**	**31,399,716**

Note:
item 5. "Assets lodged as collateral for third party bonds" shows the Bank's loans backing Eurosystem loan transactions stipulated by the Parent Company. The commitments underlying derivatives on receivables for hedge sales, pursuant to sub-item 4, are met with essentially equivalent protection purchases.

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

Portfolios	31/12/2013	31/12/2012
1. Financial assets held for trading	6,087,421	6,223,416
2. Financial assets designated at fair value		
3. Financial assets available for sale	39,325	37,705
4. Financial assets held to maturity		
5. Due from banks	5,476,450	6,424,554
6. Loans to customers	391,702	435,274
7. Property, plant and equipment		

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

3 Information on operating leases

Items / Balances	*31/12/2013*	*31/12/2012*
- Within 1 year	409	617
- Between 1 and 5 years	170	263
- Over 5 years		-

4. Management and brokerage on behalf of third parties

Type of services	*31/12/2013*	*31/12/2012*
1. Execution of order on customers' behalf		
a) Purchases	8,631,153	8,980,145
1. Settled	*8,566,939*	*8,883,244*
2. Not settled	*64,214*	*96,901*
b) Sales	7,376,435	7,778,667
1. Settled	*7,335,661*	*7,699,634*
2. Not settled	*40,774*	*79,033*
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	11,082,055	10,133,215
1. Securities issued by the bank which draws up the financial statement		
2. Other securities	*11,082,055*	*10,133,215*
c) Third party securities deposited with third parties	11,033,742	10,084,903
d) Bank's securities deposited with third parties	8,010,358	8,824,663
4. Other transactions	**12,549,699**	**13,189,450**

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 € 865,637 thousand as guarantees received for security landing and derivative activities (€ 604,524 thousand in 2012), as well as securities received for repurchase and security lending operations for a nominal value of € 10,075,740 thousand (€ 9,394,014 thousand at 31 December 2012). The aggregate has a total fair value of € 11,613,614 thousand (€ 10,474,007 at 31 December 2012).
The "Other operations" indicated at point 4, represents the volumes of placement activities with or without guarantees carried out during the years in question.

5. Financial assets subject to offsets, or subject to offset framework agreements or similar

Technical forms	*Gross amount of financial assets (a)*	*Amount of financial liabilities offset in the financial statements (b)*	*Net amount of financial assets recognised in the financial statements (c)*	*Correlated amounts not subject to offsetting in the financial statements*		***Net amount 31/12/2013***	***Net amount 31/12/2012***
				Derivative instruments	*Cash deposits received as guarantees*		
1. Derivatives	**9,480,191**		**9,480,191**	**8,060,129**	**743,913**	**676,149**	**858,391**
2. Repurchase agreements	**5,960,141**		**5,960,141**	**5,860,603**	**70**	**99,468**	**37,851**
3. Securities loan							
4. Other							
Total 31/12/2013	**15,440,332**		**15,440,332**	**13,920,732**	**743,983**	**775,617**	
Total 31/12/2012							**896,242**

Note:

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

The values found in columns "a" and "c" are the same as those shown in the balance sheet.

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

Operations regarding derivatives listed on regulated markets have the characteristics referred to in the amendment to IAS 32 for offsetting financial assets and liabilities, in that the Bank has a current and unconditional right, which can be exercised during the normal course of business and also in the cause of default, insolvency or bankruptcy of the counterpart, to offset the financial asset or liability (IAS 32 §AG38B), whether the intention is to settle the amount on a net basis or to make use of the asset while simultaneously eliminating the liability (IAS 32 §AG38E). The Bank has decided against early application in the 2013 financial statements of IAS 32 section 42, hence the offset in the financial statements will be applied as of the 2014 financial statements.

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

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

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

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

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

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

OTC derivatives stipulated with customers and falling under agreements similar to offset agreements. As of July 2012, a new regulatory

agreement was introduced that governs operations with retail and corporate customers, which the Bank is gradually extending to all customers who deal with derivatives. The new regulatory agreement envisages hypotheses for offsetting both during the normal course of business and in the case of default, insolvency or bankruptcy. Nonetheless, despite the existence of the above described clauses, operating practices do not envisage regulation on the basis of net cash flows during the normal course of business and, therefore, the operational methods that would be in line with the requirements envisaged in the amendment to IAS 32 for the purposes of offsetting of financial assets and liabilities in the financial statements do not exist.

Repurchase agreements and securities lending are all governed by the following agreements, developed with an eye to mitigating credit risk:

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

On the basis of the analysis carried out, with particular reference to the contractual rules relating to the settlement of cash flows, no cases were identified that envisage settlement on a net basis of daily or infra-daily cash flows, during the normal course of business. Therefore, the requirements referred to in the amendment to IAS 32 for relative offsetting in the financial statements are not met.

6. Financial liabilities subject to offsets, or subject to offset framework agreements or similar

Technical forms	*Gross amount of financial assets (a)*	*Amount of financial liabilities offset in the financial statements (b)*	*Net amount of financial assets recognised in the financial statements (c)*	*Correlated amounts not subject to offsetting in the financial statements*		***Net amount 31/12/2013***	***Net amount 31/12/2012***
				Derivative instruments	*Cash deposits received as guarantees*		
1. Derivatives	**7,730,362**		**7,730,362**	**7,323,415**	**338,235**	**68,712**	**151,260**
2. Repurchase agreements	**14,368,338**		**14,368,338**	**14,287,586**		**80,752**	**71,250**
3. Securities loan							
4. Other							
Total 31/12/2013	**22,098,700**		**22,098,700**	**21,611,001**	**338,235**	**149,464**	
Total 31/12/2012							**222,510**

Note:

The liabilities indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting principles, that is Section 1 - part A.2, 13) Financial liabilities held for trading.

The values found in columns "a" and "c" are the same as those shown in the balance sheet.

Relative to the disclosure for offsetting rights, please refer to that found at the bottom of the above table "5. Financial assets subject to offsets, or subject to offset framework agreements or similar."

7. Securities lending

Securities lending, as for similar repurchase agreement transactions, are carried out in good part to hedge against similar and consistent transactions. They are also carried out to hedge against short positions on securities (known as technical overdrafts, representing, in terms of volumes, mainly exposures to government issuers) taken on by the trading desks for short/medium-term maturity focussed strategies.
Overall, we note highly dynamic and complex management of the trading portfolio, both in terms of investments and funding, as is demonstrated by the size of the figures in question:

- the amount of securities lending assets, at 31 December 2013, was € 4,716.8 million (against 5,332.8 million at 31 December 2012);
- securities lending liabilities totalled € 1,106.1 million (against 2,084 million at 31 December 2012).

The counterparties of securities lending transactions were only banks as at 31 December 2013. Specifically, securities lending operations as assets were all carried out with the Parent Company and regarded securities that the same borrows from its customers. Of a total of 4,716.8 million, 2,717.3 has underlying government securities, mainly BTP (2,273.0 million).
Considering all the securities lending operations (net balance positive at € 3,610.7 million) and repurchase agreements (net balance negative at € 8,408.1 million), a complex net position of funding can be seen, correlated with the financing of long positions in securities. The main objective is to optimise the carrying cost of the portfolios, benefiting from the relative value approach, in particular on the BTP market.

Part C
Notes to the Income Statement

Section 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest and other income: breakdown

Items / Technical forms	*Debt securities*	*Loans*	*Other transactions*	***Total 31/12/13***	***Total 31/12/12***
1. Financial assets held for trading	128,618	21,651		**150,269**	**240,882**
2. Financial assets available for sale	9,438			**9,438**	**9,225**
3. Financial assets held to maturity					
4. Due from banks		63,183	439	**63,622**	**68,202**
5. Loans to customers	73	294,104		**294,177**	**383,616**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets			3	**3**	**5**
Total	**138,129**	**378,938**	**442**	**517,509**	**701,930**

Note:
the interest accrued during the year relating to positions classified as "impaired" amounts to € 55,201 thousand (€ 50,720 as of 31 December 2012). Default interest was fully written down and is measured for accounting purposes only at the time of collection.

1.2 Interest and other income: differentials relative to hedging operations

1.3 Interest income and similar income: other information

	31/12/2013	*31/12/2012*
1. Interest income on foreign currency financial assets	11,172	12,913
2. Interest income on financial lease transactions		-

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/13***	***Total 31/12/12***
1. Due to Central Banks					
2. Payables to banks	(136,185)			**(136,185)**	**(130,360)**
3. Due to customers	(116,687)			**(116,687)**	**(216,283)**
4. Outstanding securities		(2,650)		**(2,650)**	**(3,712)**
5. Financial liabilities held for trading	(31,194)			**(31,194)**	**(50,282)**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			(746)	**(746)**	**(405)**
Total	**(284,066)**	**(2,650)**	**(746)**	**(287,462)**	**(401,042)**

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

Types /Items	*31/12/2013*	*31/12/2012*
A. Positive differentials relating to hedging transactions		
B. Negative differentials relating to hedging transactions	(746)	(405)
C. Balance (A-B)	**(746)**	**(405)**

1.6 Interest expense and similar charges: other information

	31/12/2013	*31/12/2012*
1. Interest expense on foreign currency liabilities	(4,001)	(4,401)
2. Interest expense on liabilities for financial lease transactions		

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

	Type of services / Balances	*31/12/2013*	*31/12/2012*
a)	guarantees given	4,344	3,470
b)	credit derivatives		
c)	asset management, brokerage and consultancy services:	82,372	52,624
	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	*78,980*	*50,068*
	7. order reception and transmission	*3,392*	*2,556*
	8. advisory services		
	8.1 on investments		
	8.2 on financial structure		
	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
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	63,447	54,125
	Total	**150,163**	**110,315**

Note:
to sub-item 6. Securities placement. Despite the reduction in the number of placement operations with or without guarantees supervised by the Bank (21 in 2013 against 35 in 2012), the increase in fees can be mainly attributed to the placement of three issues of Banca IMI and the BTP Italia security. Part of these fees were remitted to the BMPS Group network (a total of € 53.4 million).

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

Type of services / Balances	*31/12/2013*	*31/12/2012*
a) for early repayment/termination of loans and mortgage loans	33,109	23,294
b) fees for consulting services	15,907	14,055
c) fees for services	2,768	2,047
d) fees for securities lending	973	2,459
e) other	10,690	12,270
Total	**63,447**	**54,125**

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	*31/12/2013*	*31/12/2012*
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	78,980	50,068
3. third-party services and products		

2.3 Fee expense: breakdown

Services / Balances	*31/12/2013*	*31/12/2012*
a) guarantees received	(147)	(447)
b) credit derivatives		
c) management and brokerage services:	(82,565)	(51,924)
1. financial instrument trading	*(15,098)*	*(15,950)*
2. foreign exchange trading	*(4)*	*(6)*
3. asset management:		
3.1. treasury portfolio		
3.2. portfolio of third parties		
4. custody and administration of securities	*(837)*	*(458)*
5. placing of financial instruments	*(66,626)*	*(35,510)*
6. external marketing of financial instruments, products and services		
d) collection and payment services	(19)	(17)
e) other services	(20,917)	(24,778)
Total	**(103,648)**	**(77,166)**

Note:
to sub-item 5. Financial instrument placement. For more details regarding the notable increase in this component, please refer to the note below table 3.1 above, "Fee income: breakdown."

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

Type of services / Balances	*31/12/2013*	*31/12/2012*
a) presentation of loan applications	(9,173)	(12,758)
b) handling of non-performing positions	(7,292)	(6,615)
c) expense and fees paid to Barclays, Citibank and Clearstream	(3,320)	(3,509)
d) fees for securities lending	(422)	(549)
e) other	(710)	(1,347)
Total	**(20,917)**	**(24,778)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2013*		*31/12/2012*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	2,917	835	51,632	233
B. Financial assets available for sale	41		17	32
C. Financial assets designated at fair value				
D. Equity investments	720		1,440	
Total	**3,678**	**835**	**53,089**	**265**

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) 31/12/13*	*31/12/12*
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**
1. Financial assets held for trading						
1.1 Debt securities	107,678	163,530	(40,722)	(72,171)	**158,315**	**502,014**
1.2 Equity securities	5,292	17,416	(32)	(5,185)	**17,491**	**(51,236)**
1.3 Mutual fund shares	1,577	15,800	(82)	(2,817)	**14,478**	**2,871**
1.4 Loans						**(302)**
1.5 Others						
2. Financial liabilities held for trading						
2.1 Debt securities	2,187	22,868	(59,037)	(126,133)	**(160,115)**	**(280,212)**
2.3 Payables						
2.2 Others	508	3,751	(6,823)	(1,755)	**(4,319)**	**(5,098)**
3. Other financial assets and liabilities:						
- exchange differences					**(273)**	**(273)**
4. Derivative instruments						
4.1. Financial derivatives:						
- on debt securities and interest rates	992,338	7,392,441	(192,663)	(7,941,200)	**250,916**	**125,864**
- on equity securities and share indices	484,493	1,241,259	(459,118)	(1,435,313)	**(168,679)**	**2,096**
- on foreign currency and gold					**7,581**	**7,581**
- other	60,839	107,826	(58,280)	(121,776)	**(11,391)**	**11,061**
4.2 Credit derivatives	519,484	1,217,093	(445,458)	(1,241,782)	**49,337**	**(164,316)**
Total	**2,174,396**	**10,181,984**	**(1,262,215)**	**(10,948,132)**	**153,341**	**140,896**

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

5.1 Net result of hedging activities: breakdown

	Income components / Balances	*31/12/2013*	*31/12/2012*
A.	**Income related to:**		
A.1	Fair value hedging derivatives	704	
A.2	Hedged financial assets (fair value)		914
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)	**704**	**914**
B.	**Costs related to:**		
B.1	Fair value hedging derivatives		(922)
B.2	Hedged financial assets (fair value)	(660)	
B.3	Hedged financial liabilities (fair value)		
B.4	Financial derivatives hedging cash flows		
B.5	Foreign currency assets and liabilities		
	Total expense from hedging activities (B)	**(660)**	**(922)**
C.	**Net income from hedging activities (A-B)**	**44**	**(8)**

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

6.1 Profit (loss) from sale/repurchase: breakdown

Items / Income components	*31/12/2013*			*31/12/2012*		
	Gains	*Losses*	*Net profit (loss)*	*Gains*	*Losses*	*Net profit (loss)*
Financial assets						
1. Due from banks						
2. Loans to customers		(488)	(488)		(7,969)	(7,969)
3. Financial assets available for sale	563	(7,020)	(6,457)	1,347	(6,026)	(4,679)
3.1 Debt securities	*206*	*(6,986)*	*(6,780)*	*1,288*	*(6,018)*	*(4,730)*
3.2 Equity securities	*357*	*(34)*	*323*	*59*	*(8)*	*51*
3.3 Mutual fund shares						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**563**	**(7,508)**	**(6,945)**	**1,347**	**(13,995)**	**(12,648)**
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*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other recoveries*	*From interest*	*Other recoveries*	*31/12/2013*	*31/12/2012*
A. Due from banks									
- Loans									
- Debt securities									
B. Due from customers	(703)	(391,789)	0	79,651	46,082		9,294	(257,465)	(355,193
Impaired credits purchased									
- Loans									
- Debt securities									
Other receivables									
- Loans	(703)	(391,789)		79,651	46,082		9,294	*(257,465)*	*(355,193)*
- Debt securities									
C. Total	**(703)**	**(391,789)**	**0**	**79,651**	**46,082**		**9,294**	**(257,465)**	**(355,193)**

Note:
the "Cancellations" column shows the loss seen in the face of the definitive cancellation of the financial instruments, while the "other" column includes specific writedowns on impaired credits subject to analytical evaluation. The values shown in the "specific writebacks - from interests" are relative to the release of the interest of value adjustments for discounting of recoveries from non-performing and impaired positions with doubtful analytical results.

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

Transactions / Income components	*Specific Value adjustments*		*Specific Write-backs*		*Total*	
	Cancellations	*Other*	*From interest*	*Other recoveries*	*31/12/2013*	*31/12/2012*
A. Debt securities						
B. Equity securities	(36,906)				(36,906)	(6,994)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total	**(36,906)**				**(36,906)**	**(6,994)**

Note:
the value adjustments carried out in 2013 can mainly be attributed to the following equity investments in the amounts indicated: i) € 29,033 thousand in Fenice Holding (for more details, please refer to the note at the bottom of Section 4 "Assets held for sale" in part B of the Notes); ii) € 2,349 thousand in Targetti Poulson S.p.A.; iii) € 2,096 thousand in S.T.B. S.p.A.; iv) € 1,045 thousand in Marina di Stabia.

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

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

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

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Cancellations	*Other*	*Portfolio*	*From interest*	*Other recoveries*	*From interest*	*Other recoveries*	*31/12/2013*	*31/12/2012*
A. Guarantees given					210		500	710	(2,844)
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total					**210**		**500**	**710**	**(2,844)**

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

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel costs: breakdown

Type of cost /Values	*31/12/2013*	*31/12/2012*
1. Employees	**(41,363)**	**(45,718)**
a) wages and salaries	(30,448)	(30,951)
b) social security contributions	(7,538)	(7,895)
c) retirement indemnities	(974)	(1,760)
d) other pension costs		
e) provision for personnel severance indemnities	(109)	(21)
f) provision for pensions and similar obligations:	(591)	(879)
- defined contribution	*(370)*	*(636)*
- definite benefits	*(221)*	*(243)*
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	(1,703)	(4,212)
2. Other working personnel	**(71)**	**(118)**
3. Directors and Statutory Auditors	**(708)**	**(706)**
4. Retired personnel	**(33)**	**(33)**
5. Recovered expenses for employees seconded at other companies	**14,776**	**16,335**
6. Expense reimbursements for third party employees seconded at the Bank	**(4,861)**	**(6,119)**
Total	**(32,260)**	**(36,359)**

Note:
sub-item i) "other benefits in favour of employees" includes the 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 € 393 thousand for 2013 and was € 2,670 in 2012.

9.2 Average number of employees by category

Employee categories /Average number	*31/12/2013*	*31/12/2012*
Employees: a) executives	**386**	**419**
b) managers	28	30
c) other employees	232	249
Other personnel Defined-benefit company pension funds: total costs	126	140
Items/Balances	**1**	**2**
Total	**387**	**421**

For more details, please refer to that indicated in the report on operations (currently in the approval stage).

9.3 Defined-benefit company pension funds: costs and revenue

Items / Balances	*31/12/2013*	
	Defined-benefit company pension funds	*Severance indemnities*
Interest income/expense		
- welfare cost relating to current employment services		(109)
- welfare cost relating to past employment services	(221)	
Gains/losses from termination of the fund		
Total	**(221)**	**(109)**

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

Items / Balances	*31/12/2013*	
	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	105

9.5 Other administrative expenses: breakdown

Items / Balances	*31/12/2013*	*31/12/2012*
1. substitute tax	-	(11)
2. municipal property tax	(103)	(103)
3. stamp duty	(799)	(572)
4. other taxes	(317)	(76)
5. rental of bank properties	(3,398)	(2,719)
6. fees for outside professionals	(5,561)	(5,995)
7. maintenance of furnishings and property used for business purposes	(887)	(192)
8. postal	(74)	(92)
9. telephone	(140)	(194)
10. advertising	-	(18)
11. sundry rents and leasing	(5,795)	(6,519)
12. information and inquiries	(197)	(1,417)
13. transport	(333)	(337)
14. electricity, heating and water	(51)	(49)
15. surveillance	(27)	(45)
16. reimbursement of staff vehicle and travel costs	(292)	(406)
17. other personnel expenses	(1,692)	(1,873)
18. contracts for cleaning of premises	(160)	(321)
19. rental of data transmission lines	(110)	
20. printed matter, stationery and consumables	(32)	(42)
21. Insurances	(25)	(26)
22. services outsourced from Group companies	(19,774)	(17,699)
23. Association subscriptions	(330)	(354)
24. entertaining expenses	(20)	(75)
25. subscriptions to publications	(39)	(50)
26. Sundry	(1,370)	(853)
Total	**(41,526)**	**(40,038)**

Note:
the increase in sub-item 22) “services outsourced from Group companies” with respect to 31 December 2012, for € 2,075 thousand, can be attributed in good part to greater costs incurred for the externalisation of certain auxiliary, accounting and administrative services with the Parent Company. The outsourcing operation is functional to achieving the strategic objectives of the Monte Paschi Group, aimed at reducing costs and redesigning the business model.

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

10.1 Net provisions for risks and charges: breakdown

	31/12/2013			*31/12/2012*		
	Personnel expenses	*Legal disputes*	*Other*	*Personnel expenses*	*Legal disputes*	*Other*
1. Provisions for the year		(1,396)	(9,273)		(3,587)	(42,465)
2. Write-backs	5	479	32,974		1,181	7,550
Total	**5**	**(917)**	**23,701**		**(2,406)**	**(34,915)**

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, 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)*	
				31/12/13	*31/12/12*
A. Property, plant and equipment					
A.1 **Owned by the Bank**	(440)			(440)	(470)
- for functional use	*(139)*			*(139)*	*(169)*
- for investment	*(301)*			*(301)*	*(301)*
A.2 **Acquired under financial lease**					
- for functional use					
- for investment					
Total	**(440)**			**(440)**	**(470)**

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	*31/12/2013*	*31/12/2012*
1. Amounts not receivable not attributable to own items	(140)	(37)
2. Out-of-period expense not attributable to own items	(9)	(136)
3. Amortisation of leasehold improvement costs classified among "Other assets"	(596)	(595)
4. Settlements paid for litigation	(148)	(82)
5. Other	(358)	(1,272)
Total	**(1.251)**	**(851)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2013*	*31/12/2012*
1. Amounts not payable not attributable to own items	51	24
2. Out-of-period income not attributable to own items	239	41
3. Rental income from investment properties	-	166
4. Other costs charged back	5,651	5,411
5. Other	2,375	1,134
Total	**8,316**	**6,776**

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

14.1 Profit (loss) from equity investments: composition

Income components / Balances	*31/12/2013*	*31/12/2012*
A. Income	**846**	
1. Revaluations		
2. Gains on disposal	846	
3. Write-backs		
4. Other income		
B. Charges	**(1,992)**	**(2,109)**
1. Write-downs		
2. Value adjustments due to impairment	(1,992)	(2,109)
3. Losses on disposal		
4. Other expenses		
Net profit (loss)	**(1,146)**	**(2,109)**

Note to the 2013 financial statements;
Gains on disposals recognised in the amount of € 846 thousand are related to the disposal of the equity investment held in RE.GE.IM. S.p.A. (see note to the 2013 financial statements C1. at the bottom of table 10.3 pursuant to the assets item 100. Equity investments")
The value adjustment due to impairment, totalling € 1,992 thousand, is from the valuation of the equity investment in Interporto Toscano Amerigo Vespucci S.p.A. (see note 2 at the bottom of table 10.2 pursuant to the assets item 100. Equity investments")

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 to the 2012 financial statements C2. at the bottom of table 10.3 pursuant to the assets item 100. Equity investments")

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	*31/12/2013*	*31/12/2012*
1.	Current taxes (-)	(102,658)	(97,238)
2.	Changes in current taxes for previous years (+/-)	82	8,215
3.	Reduction in current taxes for the year (+)		
3.bis	Reduction in current taxes for the year due to tax credit as per law n° 214/2011 (+)		
4.	Change in prepaid taxes (+/-)	61,873	49,551
5.	Change in deferred taxes (+/-)	1,015	1,837
6.	**Taxes for the year (-)**	**(39,688)**	**(37,635)**

Note:

2013 accounting period. Sub-item 1. "Current taxes" represents the IRES and IRAP tax load relative to the financial year, including the additional 8.5% IRES introduced by Decree Law 133/2013, solely for the 2013 tax period. Among tax changes of a permanent nature, we note the partial deductibility from taxable income, both for IRES and IRAP purposes, of interest payable. This phenomenon led to greater costs of € 4,372 thousand. For the sake of completeness, we also note that as an effect of the contents of the Stability Law, starting from the current financial year, value adjustments and losses on loans are deductible from the taxable base subject to IRAP.

The increase in sub-item 4. "Change in prepaid taxes" can be attributed to the increase in value adjustments on loans exceeding the new limit established under the law, as already outlined in detail in section 13.1 "Prepaid tax assets: breakdown," in Section B of the Notes.

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). In addition, we note that this item was subject to adjustment in the amount of € 16 thousand with respect to that shown in the 2012 financial statements, due to the effects of the new IAS 19 (see attachment 1 to the Notes).

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.

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

IRES

Items / Balances	*31/12/2013*		*31/12/2012*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	88,336		38,955	
B. Profit (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxation (A+B)	**88,336**		**38,955**	
Theoretical tax charge - IRES with application of the nominal rate	**31,801**	**36,00%**	**10,713**	**27,50%**
- Non-deductible portion of interest expense	3,732		3,940	
- Non-deductible write-downs and losses on equity securities	2,706		2,503	
- Non-deductible costs	630		5,672	
- Other increases	1,447		161	
Total tax effect of increases	**8,515**		**12,276**	
- Capital gains and revaluations on exempt equity investments	267		13	
- Dividends	260		381	
- Change in current taxes for previous years	82		5,915	
- Other decreases	7,391		2,476	
Total tax effect of decreases	**8,000**		**8,785**	
IRES taxation to income statement	**32,316**		**14,204**	
of which:				
- Income taxes for the year from current operations	32,316		14,204	
- Income taxes for the year of discontinued operations held for sale				

IRAP

Items / Values	*31/12/2013*		*31/12/2012*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxation	88,336		38,955	
B. Profit (Loss) on discontinued operations				
before taxes				
Profit (Loss) gross of taxation (A+B)	**88,336**		**38,955**	
Theoretical tax charge - IRAP with application				
of the nominal rate	**4,108**	**4,65%**	**1,811**	**4,65%**
- Personnel expenses	1,500		1,690	
- Net value adjustments on receivables	1,683		16,974	
- Rate increases implemented by regions	1,226		4,250	
- Other increases	820		3,069	
Total tax effect of increases	**5,229**		**25,983**	
- Profits on equity investments				
- Prepaid taxes relating to previous years				
- Dividends	109		1,234	
- Other decreases	1,855		3,128	
Total tax effect of decreases	**1,964**		**4,362**	
IRAP taxation to income statement	**7,373**		**23,432**	
of which:				
- Income taxes for the year from current operations	7,373		23,432	
- 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	*31/12/2013*	*31/12/2012*
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	*31/12/2013*	*31/12/2012*
1. Net profit (loss)	48,647,999	1,319,994
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares - basic earnings per share numerator	**48,647,999**	**1,319,994**

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

(amounts in euros)

Items / Balances	*31/12/2013*	*31/12/2012*
1. Net profit (loss)	48,647,999	1,319,994
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	**48,647,999**	**1,319,994**

21.2.c Basic and diluted earnings per share

(amounts in euros)

Items / Balances	*31/12/2013*	*31/12/2012*
1. Basic earnings per share	0.05455	0.00148
2. Diluted earnings per share	0.05455	0.00148

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	Gross amount	Income tax	Net amount
10. Profit (loss) for the period	**88,336**	**(39,688)**	**48,648**
Other income components without transfer to income statement			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined benefit plans	(636)	175	**(461)**
50. Current assets subject to disposal			
60. Portion of equity investments valuation reserves			
booked to shareholders' equity			
Other income components with transfer to income statement			
70. Foreign investment hedging:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
80. Exchange differences:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
90. Cash flow hedging:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
100. Financial assets available for sale	(10,075)	3,253	(6,822)
a) fair value changes	(53,239)	5,410	(47,829)
b) transfer to income statement	43,164	(2,157)	41,007
- impairment adjustments	*36,906*		*36,906*
- gains/losses on disposal	*6,258*	*(2,157)*	*4,101*
c) other changes			
110. Non-current assets subject to disposal			
a) fair value changes			
b) transfer to income statement			
c) other changes			
120. Portion of equity investments valuation reserves			
booked to shareholders' equity			
a) fair value changes			
b) transfer to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
130. Total other revenue components			
140. Comprehensive income (Item 10+110)	**77,625**	**(36,260)**	**41,365**

Part E
Information on Risks and Related Hedging Policies

INTRODUCTION

For a summary of the organisation of risk governance at the Montepaschi Group, the relative processes and key functions, as well as information about the objectives of the risk management department, its tasks and responsibilities and the methods by which independence is guaranteed, we refer the reader to that found in the section "Integrated management of risks and capital" in the Report on Operations.

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 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

2.1.1 Organisational aspects: 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. In some cases, a subsidised loan is arranged, although only in a remaining few cases since public aid is limited to a few research and industrialisation projects. Operations have also continued 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 SMEs.
Evaluation of creditworthiness, to supervise the risk assumed, is carried out both through an analysis of the repayment sources on the basis of income and cash production capacity (former, current and prospective), and as a function of the

specific features of the project financed (competitive positioning, management quality, quality and quantity of equity and financial means available, and equity capacity of the shareholders). Generally, real guarantees are acquired (mortgages, liens) and/or unsecured guarantees (sureties, patronage) in order to mitigate risk and reduce capital absorption.
Loans are classified 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. In fact, the Bank evaluates its customers through a ratings system which is attributed by the Parent Company regardless of customer type as of September 2013. Previously, on the other hand, the assignment of ratings o exclusively MPSCS customers was carried out independently by the Bank itself.
The process of attributing the project rating (activated as of May 2009) for specialised lending operations, specifically identified as Income Producing Real Estate (IPRE), Project Finance or Object Finance, did not undergo changes in 2013 with respect to the previous years (at present the regulatory stage of calculating capital absorption in accordance with said ratings has not yet been activated). It is important to note that with an eye to progressively extending the advanced method (AIRB) to the Specialised Lending portfolio, in November 2013 the Parent Company defined certain changes to the current roll-out plan which, in part, also affect MPSCS. Specifically, if the additional controls envisaged for the process itself on the part of the Parent Company's dedicated departments are passed successfully, as of March 2014, specialised lending operations with exposures of more than € 5 million can be noted with the slotting criteria method, while those with lower exposures can be noted using the standardised method. It is also likely that, by the end of 2014, but only after explicit approval from the Supervisory Body, the Bank may begin to use within its management processes the advanced risk measurement methods (PD and LGD) for Project Finance exposures greater than € 15 million.
Due to the above, the experimental use of the previous economic/mathematical model has been discontinued (so-called. Expert Model) for the determination of the project rating of Project Finance and "evolved" IPRE operations. This model will be replaced by the new advanced ASIA model currently undergoing implementation.

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 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:

- Credit Assessment Office, with reference 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 and Management Control Office;
  - assessment of creditworthiness via i) the examination of requests originating from the relevant Departments (including those related to operations of a financial nature requested from corporate counterparties), 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;
  - counterparty ratings decisions for exclusive customers, with override certification, if necessary (activity carried out by the Bank through to September 2013, subsequently becoming the responsibility of the Parent Company) and decisions regarding project ratings, through the validation of the Specialised Lending questionnaire, with the

associated rating review. 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;
- limited to evolved IPRE and project finance operations, validation of the expert model (no longer in use as of September 2013);
- preparation of technical opinions, by the Proposals Review and Loans Sector, for all new loan proposals and changes in already approved credit operations, investigated by various functions in the Credit Department, with decision-making powers equal to or greater than the General Manager
- decisions regarding loan proposals falling under its powers and all other requests, including from other Departments, to higher 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.
• Ordinary Finance Portfolio Management Office, which, in addition to serving as the reference for the Bank regarding general identifying information, supervises operational actions connected to anti-money laundering relative to the activities carried out in the Credit Department. The same Office is also responsible for evaluating all proposals for changes relative to ordinary finance operations in repayment.

The above topics are analytically regulated by specific corporate standards.

2.1.2 Organisational aspects: trading portfolio

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department, is the responsibility of the Credit Assessment Office - Counterparty Assessment Service. Usually, market counterparties are regulated intermediaries, such as banks, 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 Service is tasked with carrying out all stages of the lending process, from the initial investigation review to the assessment of creditworthiness, from the loan proposal to the decision.
The credit line granted is dynamic, i.e. it may be used until reaching the overall limit for financial operations, in its various technical forms. “For the purposes of the absorption of the overall counterparty risk, weighing coefficients have been identified; they are differentiated in relation to the financial nature of the operations, to the duration and average volatility of the underlying asset.”
Credit lines have one-year validity and the Counterparty Assessment Service 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 Sector proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an appropriate reduction in its amount. Each revision is immediately notified to the involved corporate functions.
With quarterly periodicity, the Counterparty Assessment Service produces a report for the Board of Directors concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdrafts relative to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit lines and the record

of pre-lending investigations, the situation of collaterals and of the country risk.
The Parent Company BMPS is informed 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 Service 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 use. 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 Service.

2.2 Management, measurement and control systems

Analysis of the credit risk is carried out by means of the Loan Portfolio Model developed internally within the Parent Company; as analytical output it produces the classic risk measurements of the Estimated Loss, Unexpected Loss and Economic Capital (CAP) diversified inter-risk, with a time frame of one year and a confidence interval gauged to the target rating of the Group itself. 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 internal PD, LGD, and EAD models for credit risk assessment represent one of the main elements used for evaluation for all the Group structures, including MPSCS, which are involved in the credit industry, both central (Risk Management, CFO, General Management, Risk Committee, Board of Directors) and peripheral (Credit Department, Ratings Agencies and Managing Parties). Currently the Group (including MPSCS) is authorised to use advanced internal rating systems (AIRB - Advanced Internal Rating Based) for the determination of capital requirements in the face of credit risk for business portfolios and exposures to retail customers and is awaiting validation for these counterparties of the EAD parameter and the rollout of the domestic NBFI portfolio.
To develop the internal rating systems, rigorous advanced statistical methods have been used, respecting the requirements envisaged in the regulations. At the same time, models have been selected so that the results obtained are in line with the Bank’s historical experience in credit management. Finally, in order to optimise proper use of the new instruments, the rating models have been shared by Risk Management in a top-down manner, through to the individual customer managers. In the loss rate model estimate, internal evidence related to capital flows, recovery, and expense effectively recorded for past non-performing positions have been used. The results obtained from the model are subsequently compared with that observed by the Credit Recovery Area which, within the Parent Company’s Credit Department, is dedicated to managing and recovering non-performing loans.
The main features of the advanced rating systems are illustrated below:

- the rating for all validated regulatory portfolios is calculated using a counterparty approach, in line with management practices that envisage credit risk assessment, both during disbursement and monitoring stages, at the level of the individual borrower;
- the rating is based on a Group logic: each individual counterparty is attributed a single rating at the banking Group level, on the foundation of the information set relative to all the lending Banks within the AIRB perimeter. The LGD is distinct for the different companies, due to the variation in the products disbursed and the type of customers to which they are offered;
- segmentation of the rating models has been defined so as to make the individual model clusters align with the commercial, credit policy and regulatory portfolio logics envisaged by law;

- the final ratings determination varies by counterparty type. The credit process envisages a level of study proportional to the risk associated with the counterparty: the assessment of loans granted has a complex detailed structure for medium/large (SME and Large Corporate) counterparties, with larger exposure and concentration risks, and a simplified structure for Small Business and Retail customers;
- in line with the process, the final rating for PMI and LC companies is determined through a combination of several components: statistical rating, qualitative rating, override faculty, and evaluation of the economic group to which it belongs; for SB and Retail counterparties, on the other hand, the rating is determined solely on the basis of the statistical component;
- the rating has an internal validity of 12 months and, as a rule, is reviewed annually, with the exception of rating reviews which follow well-structure and codified rules or when they are moved forward upon the initiative of the manager or following grave problems on the part of the counterparty;
- the LGD rate refers to economic losses recorded and not only accounting losses; for this reason, costs sustained during the recovery process and the time factor are also included in the estimate stage;
- the loss rate in the case of default is distinct for the various types of financing and the attribution occurs at the level of the individual operations; it is differentiated by geographic area, having encountered, over time and currently, different recovery rates between Northern and Central Italy and the South and islands;
- the loss rate estimate on positions with default status other than non-performing is carried out using Cure Rates. For counterparties with a watchlist, restructure and past due status, percentages of return to performing have been determined and are used to adjust the LGD rate estimated starting from disputed cases.

The Montepaschi Group has adopted a single Master Scale for all types of exposures: this allows all the structures involved in managing credit to have an immediate comparison of the risk associated with various counterparties or portfolios. In addition, the default probability for internal rating classes are mapped to the external Standard&Poor's rating scale to make internal risk assessments comparable to those available on the financial market.

Activities to develop and monitor the rating systems are assigned to the Parent Company's Risk Management Area and subjected to control on the part of the functions responsible for internal validation and internal auditing.

MPS Capital Services used the PD, LGD and EAD parameters, estimated for regulatory purposes for the calculation of Risk Weighted Assets (RWA), also for other operational purposes and internal management. In effect, these constitute the foundation for calculation • for the various systems of measurement and monitoring, specifically:

- for measurement of economic capital in the face of credit risk;
- for the process of calculating risk adjusted performance and measuring value creation;
- for pricing risk-adjusted processes;
- in all credit processes (disbursement, review, management and continuation) which have been engineered within the PEF application (Electronic Credit Practice), in the context of which the counterparty rating is the result of a process which evaluates all the economic, financial, performance and qualitative information relative to the customers with which credit risk exists in a transparent, structure and homogeneous process.

The 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), which 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 discretionary and historical) occur.
The prudential regulatory provisions for banks, in line with that indicated in the Basel Committee guidelines and best practices, envisaged that credit institutions carry out appropriate stress testing.
MPSCS, through the Parent Company's Risk Management departments, regularly performs stress test analysis for all risk factors. Stress tests make it possible to assess the ability of the Bank to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.
Stress tests are developed on the basis of historical and discretionary scenarios.

- historical scenarios: shocks are hypothesized for a combination of risk factors observed in the past, which continue to have a certain degree of relevance and repeatability;
- discretionary scenarios: shocks are hypothesized for a combination of risk factors that could occur in the near future, in relation to the foreseeable environmental, social and economic context. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

The Montepaschi Group's methodological approach to stress tests is based on the identification of the main risk factors, with the objective being the selection of events and combinations of events (scenarios) that highlight special vulnerabilities at the Group level. To that end, specific stress test plans have been established regarding the First Pillar risks (credit, market and operating) which were then combined, together with a given stress designed ad hoc with the other risk factors, in an overall Second Pillar stress test, aimed at determining the potential impact on the Group, in the context of the ICAAP process.
Specifically, relative to credit risk, the MPS Group has defined a regressive macro-economic model to estimate changes in default probabilities, as a function of the main credit drivers. Initially, the credit drivers that explain variations in PD in a significant manner are identified. Then, on the basis of the regressive model, disturbances in the credit drivers are estimated, in line with the current and prospective economic situation. These shocks to the credit drivers determine the change in the PDs of the credit portfolio, triggering the simulation of a hypothetical downgrading of counterparties, with the consequent variation of risk in terms of expected loss, unexpected loss and the entry of new defaults.
The results of the stress tests are brought to the attention of Top Management and the Parent Company's Board of Directors. This latter body formally examines them in the context of the approval of the Annual ICAAP Report, with an eye to self-assessing the current and prospective capital adequacy of the Montepaschi Group.

2.3 Credit risk mitigation techniques

While the Bank does not make use of offsetting for exposures with credit risk with items on the opposite side in the context of the financial statements or "off balance sheet," it instead adopts policies to reduce counterparty risk with institutional counterparties, stipulating netting agreements in accordance with the international standards ISDA/ISMA and the relative collateral agreements, both for derivatives and for repurchase agreements.
The main forms of real credit guarantees used by MPS Capital Services are liens, mortgages and other forms of real guarantees (insurance, guarantee funds). On occasion they are also served by unsecured guarantees, mainly provided

by private individuals (sureties) and sometimes by companies (sureties and binding letters of patronage).
MPS Capital Services has provided itself with a single process for the acquisition of real guarantees, which at the same time is a working tool and expression of the management policies. Management of guarantees is begun following the decision to grant the loan and the process includes several stages:
- acquisition (also multiple): in this stage, controls are carried out (formal and regarding the amount) to ensure that the guarantees proposed during the decision-making stage match those provided;
- adjustment/variation/correction: makes it possible to modify the features of the guarantee without interrupting credit protection;
- querying: makes it possible to learn the current figures and historical evolution of the guarantees received;
- termination/cancellation.

In the case in which monitoring measures regarding real guarantees indicate operational anomalies during the acquisition stage or possible inadequacies/losses of the values received as liens, events that fall under the credit monitoring policy are activated that trigger operational credit risk evaluation actions.
As a whole, MPSCS accepts different credit protection instruments, that can be summarised within the categories of:
- sureties (including omnibus sureties and unsecured guarantees provided by third-party subjects);
- endorsements;
- surety policies;
- letters of comfort/binding letters of patronage;
- independent guarantee contracts;
- assumptions;
- unsecured guarantees under foreign law;
- credit derivatives;
- credit default swaps;
- total return swaps;
- credit linked notes.

The main lenders are indicated below:
- sovereign governments and central banks;
- entities in the public sector and regional entities;
- multilateral development banks;
- regulated intermediaries;
- guarantee bodies (joint facilities);
- companies and private individuals.

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

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

As already mentioned in the introduction, in the case of relations with market counterparties for operations in financial instruments (repurchase, security lending and financial and credit derivatives), 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). 91.15% of uses of derivatives are for counterparties with whom an ISDA Master Agreement exists, of which 87.46% are also supported by collateral agreements.
Another risk mitigation technique activated by the Bank is adhesion to the “SwapClear” service, through the brokers Barclays Bank PLC, Merrill Lynch International 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, deriving from automatic offsetting of mutual credit and debit positions. Net of the loans agreed upon with LCH Clearnet Ltd, the percentage of uses of derivatives with counterparties with ISDA contracts existing at 31 December 2013 rises to 99.09% and 95.08% those also supported by CSA agreements.

2.4 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” (currently being updated) and by the Parent Bank’s directives which discipline 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 Parent Company Credit Recovery Area which, last April, merged with the Bank Credit Management department that had previously been responsible for these activities.
The Credit Management Division, which manages all impaired, not yet non-performing positions, has the objective of i) recovering past due amounts and ii) returning the position to a performing status. On the basis of the analysis of each individual position and joining up with the other Group banks, it makes the most appropriate decisions, both with regard to the recovery times and methods and in relation to the classification of said position.
The return of impaired loans to 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 the Parent Company Credit Recovery Area, 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 and the performance of the real estate market. Regarding the assessment of non-performing loans, the proposal to update the assessments comes from the Parent Company Credit Recovery Area which, with reference to events, such as CTU inspections, auctions, etc., determinates the change in question.

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*	*Impaired past-due exposures*	*Non impaired past-due exposures*	*Other assets*	***Total***
1. Financial assets held for trading	514					23,465,120	**23,465,634**
2. Financial assets available for sale						175,284	**175,284**
3. Financial assets held to maturity							
4. Due from banks						6,185,759	**6,185,759**
5. Loans to customers	2,091,365	1,052,110	312,402	867,564	711,826	8,034,716	**13,069,983**
6. Financial assets posted at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives							
Total 31/12/2013	**2,091,879**	**1,052,110**	**312,402**	**867,564**	**711,826**	**37,860,879**	**42,896,660**
Total 31/12/2012	**1,748,734**	**970,737**	**164,644**	**452,252**	**897,562**	**42,591,402**	**46,825,331**

Note:
financial assets held for trading classified in the "non-performing" category consist of investments in debt securities issued by Lehman Brothers Holdings Inc., the Argentinian government, Cirio and Seat Pagine Gialle. 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*			*Performing*			
	Gross exposure	*Specific Adjustments*	*Net exposure*	*Gross exposure*	*Portfolio value adjustments*	*Net exposure*	***Total (net exposure)***
1. Financial assets held for trading	41,847	(41,333)	514			23,465,120	**23,465,634**
2. Financial assets available for sale				175,284		175,284	**175,284**
3. Financial assets held to maturity							
4. Due from banks				6,186,539	(780)	6,185,759	**6,185,759**
5. Loans to customers	6,117,697	(1,794,257)	4,323,440	8,812,426	(65,884)	8,746,542	**13,069,982**
6. Financial assets posted at fair value							
7. Financial assets pending disposal							
8. Hedging derivatives							
Total 31/12/2013	**6,159,544**	**(1,835,590)**	**4,323,954**		**(66,664)**	**38,572,705**	**42,896,659**
Total 31/12/2012	**4,807,916**	**(1,471,548)**	**3,336,368**		**(77,956)**	**43,488,963**	**46,825,331**

We note that:
- the partial cancellations carried out by the Bank during the year on impaired financial assets totalled € 35,270 thousand;
- the positive difference between the nominal value of the impaired financial assets acquired (all relative to bonds) and the purchase price of said assets amounts to € 1,065 thousand.

Details for performing exposure portfolios

Portfolio / Exposure category	*Subject to renegotiation*	*Other exposures*	*Total*
1. Financial assets held for trading		23,465,120	**23,465,120**
2. Financial assets available for sale		175,284	**175,284**
3. Financial assets held to maturity			
4. Due from banks		6,185,759	**6,185,759**
5. Loans to customers	771,125	7,975,417	**8,746,542**
6. Financial assets designated at fair value			
7. Financial assets pending disposal			
8. Hedging derivatives			
	771,125	**37,801,580**	**38,572,705**

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		635,867	635,867	(4,913)	630,954
- with amounts past due up to 3 months	1,143	74,652	75,795	(592)	75,203
- with amounts past due up to 6 months	589	33,952	34,541	(278)	34,263
- with amounts past due up to 1 year	899	25,564	26,463	(227)	26,236
- with amounts due over 1 year	207	4,308	4,515	(46)	4,469
Total	**2,838**	**774,343**	**777,181**	**(6,056)**	**771,125**
B. Other exposures					
- without past due amounts		37,285,661	37,285,661	(55,736)	37,229,925
- with amounts past due up to 3 months	58,913	143,787	202,700	(1,736)	200,964
- with amounts past due up to 6 months	4,936	183,585	188,521	(1,544)	186,977
- with amounts past due up to 1 year	5,363	154,477	159,840	(1,365)	158,475
- with amounts due over 1 year	1,007	24,459	25,466	(227)	25,239
Total	**70,219**	**37,791,969**	**37,862,188**	**(60,608)**	**37,801,580**
Total A+B	**73,057**	**38,566,312**	**38,639,369**	**(66,664)**	**38,572,705**

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	10,780,511		(780)	10,779,731
Total A	**10,780,511**	**0**	**(780)**	**10,779,731**
B. Off-balance sheet exposures				
a) Impaired				
b) Other	8,375,179			8,375,179
Total B	**8,375,179**			**8,375,179**
Total A+B	**19,155,690**	**0**	**(780)**	**19,154,910**

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

No cash credit exposure towards banks was classified among impaired exposures in either the financial statements at 31 December 2013 or the financial statements at 31 December 2012.

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

No value adjustment on cash credit exposures towards banks was found in either the financial statements at 31 December 2013 or the financial statements at 31 December 2012.

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	3,602,864	(1,510,985)		2,091,879
b) On watch list	1,248,046	(195,936)		1,052,110
c) Restructured exposures	332,202	(19,800)		312,402
d) Past due exposures	935,100	(67,536)		867,564
e) Other assets	18,329,909		(65,884)	18,264,025
Total A	**24,448,121**	**(1,794,257)**	**(65,884)**	**22,587,980**
B. Off-balance sheet exposures				
a) Impaired	124,254	(43,088)		81,166
b) Other	20,440,931		(5,445)	20,435,486
Total B	**20,565,185**	**(43,088)**	**(5,445)**	**20,516,652**
Total A+B	**45,013,306**	**(1,837,345)**	**(71,329)**	**43,104,632**

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	**2,954,417**	**1,164,671**	**180,350**	**476,271**
- of which: exposures sold and not cancelled				
B. Increases	**730,757**	**556,452**	**259,098**	**866,032**
B.1 transfers from performing loans	96,830	298,979	88,793	801,303
B.2 transfers from other categories of impaired exposures	453,887	215,979	132,856	57
B.3 other increases	180,040	41,494	37,449	64,672
C. Other decreases	**82,310**	**473,078**	**107,246**	**407,203**
C.1 transfers to performing loans	540	3,694	9,719	54,363
C.2 cancellations	17,001	32,385	4,106	7,289
C.3 collections	59,239	26,472	10,566	28,792
C.4 disposals	5,094	2,828	4,535	
C.4 bis losses on sales				
C.5 transfers to other categories of impaired exposures		407,699	78,320	316,759
C.6 other decreases	436			
D. Gross closing balance	**3,602,864**	**1,248,045**	**332,202**	**935,100**
- 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**	**1,205,682**	**193,934**	**16,038**	**25,496**
	- of which: exposures sold and not cancelled				
B.	**Increases**	**432,851**	**92,924**	**11,286**	**50,630**
B.1	value adjustments	391,561	88,885	11,200	50,354
B.1bis	losses on disposal	721		46	
B.2	transfers from other categories of impaired exposures	40,408	3,912		
B.3	other increases	161	127	40	276
C.	**Other decreases**	**127,548**	**90,922**	**7,524**	**8,590**
C.1	write-backs from valuation	105,073	12,817		
C.2	write-backs from collection	4,638	5,717	40	310
C.2bis	Gains on disposal	116			
C.3	cancellations	17,001	32,385	4,106	7,289
C.4	transfers to other categories of impaired exposures		40,003	3,332	986
C.5	Other decreases	720		46	5
D.	**Closing balance of overall value adjustments**	**1,510,985**	**195,936**	**19,800**	**67,536**
	- of which: exposures sold and not cancelled				

The increase in impaired loans (+29.67%, in terms of carrying amount, see the Explanatory Notes, Section 7, part B, “Loans to customers”) demonstrates how financial tensions continue in almost all economic sectors consequently confirming the serious difficulties companies have in respecting 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 2013 are given.

Overall, exposure to sovereign credit risk, in net nominal values, amounted to € 3,866 million (€ 3,909 million at 31 December 2012) and in the amount of € 4,025 million is represented by a net long position with the Republic of Italy (€ 3,982 million at 31 December 2012) and in the amount of € 159 million by a short position with the rest of the world (€ 71 million at 31 December 2012).

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

Country	*Debt securities*							*Loans*			*Credit derivatives*	*31/12/2013*
	Financial assets held for trading		*Financial assets available for sale*		*Receivables*			*Receivables*			*Financial assets held for trading*	*Total*
	Nominal	*Market value Carrying amount*	*Nominal*	*Market value Carrying amount*	*Nominal*	*Market value*	*Carrying amount*	*Nominal*	*Market value*	*Market value Carrying amount*	*Nominal*	*Nominal*
Argentina	347	284										347
Austria	(19,686)	(21,136)									11	(19,675)
Belgium	(9,821)	(10,619)									(6)	(9,827)
China											(3,154)	(3,154)
Croatia	224	234										224
France	(18,888)	(19,768)									(6)	(18,894)
Germany	(110,933)	(110,333)									(6)	(110,939)
Italy	3,124,391	3,226,286						23,075	23,075	23,075	877,034	4,024,500
Mexico	145	198										145
Holland	3,019	3,129									(6)	3,013
Spain	(2,988)	(3,120)									(6)	(2,994)
United States	130	143										130
Turkey	102	106										102
Ukraine	725	732										725
Hungary	1,695	1,771										1,695
Venezuela	449	447										449
Assets of others	145	177									33	178
Liabilities of others	2	2									(22)	(20)
TOTAL	**2,969,058**	**3,068,533**						**23,075**	**23,075**	**23,075**	**873,872**	**3,866,005**

OTHER INFORMATION

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

Credit derivatives in Italy	*31/12/2013*	*31/12/2012*
Protection purchases		
- Nominal	4,637,103	3,932,415
- Positive fair value	773,427	873,858
- Negative fair value		
Protection sales		
- Nominal	5,514,137	4,833,057
- Positive fair value	58	
- Negative fair value	970,282	1,158,760

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**	148,025	477,191	6,802,854	9,373,099	178,038	15,406	16,393,901	**33,388,514**
B. **Derivatives**	541,632	5,840,821	4,019,398	1,196,225	121,317	14,110	11,014,924	**22,748,427**
1. Financial derivatives	*15,033*	*506,253*	*292,856*	*359,115*	*0*	*0*	*1,039,770*	***2,213,027***
2. Credit derivatives	*526,599*	*5,334,568*	*3,726,542*	*837,110*	*121,317*	*14,110*	*9,975,154*	***20,535,400***
C. **Guarantees issued**	0	0	0	514,025	0	0	294,278	**808,303**
D. **Commitments to grant finance**	91,055	11,263	2,028,890	892,101	2,571	736	987,785	**4,014,401**
E. **Other**	0	202,855	111,073	1,006,559	0	0	215	**1,320,702**
Total	**780,712**	**6,532,130**	**12,962,215**	**12,982,009**	**301,926**	**30,252**	**28,691,103**	**62,280,347**

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 (excluding equity instruments).
Exposures in financial derivatives are expressed net of the short positions for counterparties with which offsetting agreements are in force.
The commitments to issue finance refer mainly to mortgages stipulated and to be issued, unsecured loans and commitments to underwrite equity investments.
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*							
	High quality	*Good quality*	*Quality sufficient*	*Mediocre quality*	*Quality weak*	*Administrative default*	*Unrated*	*Total*
A. **Cash exposures**	182,720	1,071,154	3,370,592	2,198,033	341,133	4,775,653	21,428,425	**33,367,710**
B. **Derivatives**	120,267	232,906	70,418	41,443	275	1,233	22,281,885	**22,748,427**
1. Financial derivatives	*828*	*18,416*	*63,466*	*41,443*	*275*	*1,233*	*2,087,366*	***2,213,027***
2. Credit derivatives	*119,439*	*214,490*	*6,952*	*0*	*0*	*0*	*20,194,519*	***20,535,400***
C. **Guarantees issued**	1,436	8,649	134,871	135,824	0	5,503	522,020	**808,303**
D. **Commitments to grant finance**	9,364	46,074	288,797	148,079	3,507	191,478	3,327,101	**4,014,400**
E. **Other**	0	73	0	0	0	0	1,320,629	**1,320,702**
Total	**313,787**	**1,358,856**	**3,864,678**	**2,523,379**	**344,915**	**4,973,867**	**48,880,060**	**62,259,542**

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, do not include UCITS shares for € 20,804 thousand.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)				Unsecured guarantees (2)							
					Credit derivatives				Endorsement credits				
						Other derivatives							
	Net exposure value	*real estate mortgages*	*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	**2,994,837**			**3,083,003**										**3,083,003**
1.1 fully secured	2,994,837			3,083,003										**3,083,003**
- of which impaired														
1.2 partially secured														
- of which impaired														
2. Credit exposures “off balance sheet” guaranteed	**1,569,288**			**888,994**	**639,211**									**1,528,205**
2.1 fully secured	1,106,960			888,994	237,193									**1,126,187**
- of which impaired														
2.2 partially secured	462,328				402,018									**402,018**
- of which impaired														

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty’s full availability.
Secure guarantees backing “off book” exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties. These guarantees are recognised at fair value estimated at the financial statement reference date, or when said information is lacking, at the contractual value of the same.

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)				*Unsecured guarantees (2)*								
						Credit derivatives					*Endorsement credits*			
							Other derivatives							
	Net exposure value	*real estate mortgages*	*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	**14.467.997**	**23.859.769**		**3.771.158**	**238.250**					**2.854**	**50.924**	**35.034**	**5.220.525**	33.178.514
1.1 fully secured	12.758.555	23.629.971		3.582.501	214.437					2.764	49.013	27.827	4.930.866	**32.437.379**
- of which impaired	*3.974.764*	*9.909.087*		*143.751*	*10.669*					*2.764*	*17.946*	*25.236*	*3.182.094*	***13.291.547***
1.2 partially secured	1.709.442	229.798		188.657	23.813					90	1.911	7.207	289.659	**741.135**
- of which impaired	*226.730*	*142.211*		*23.713*	*22*						*946*	*4.403*	*83.024*	***254.319***
2. Credit exposures "off balance sheet" guaranteed	**1.590.875**	**576.134**		**255.323**	**999.170**								**64.878**	**1.895.505**
2.1 fully secured	1.361.293	570.678		248.778	837.340								52.436	**1.709.232**
- of which impaired	*65.591*	*101.203*		*1.532*									*4.710*	***107.445***
2.2 partially secured	229.582	5.456		6.545	161.830								12.442	**186.273**
- of which impaired	*1.055*	*2.938*		*48*									*86*	***3.072***

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

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

B. EXPOSURE DISTRIBUTION AND CONCENTRATION

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

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Exposures Past due*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Governments							
- Net exposure	189				5,939,358	**5,939,547**	**5,641,692**
- Specific value adjustments							
- Portfolio value adjustments					(4)	**(4)**	**(5)**
Other public entities							
- Net exposure	1				14,785	**14,786**	**16,927**
- Specific value adjustments							
- Portfolio value adjustments					(96)	**(96)**	**(98)**
Finance companies							
- Net exposure	819	13,719			4,386,000	**4,400,538**	**3,502,594**
- Specific value adjustments	(75)	(4,051)				**(4,126)**	**(18,707)**
- Portfolio value adjustments					(4,344)	**(4,344)**	**(4,550)**
Insurance companies							
- Net exposure					49,323	**49,323**	**64,996**
- Specific value adjustments							
- Portfolio value adjustments							
Non-finance companies							
- Net exposure	2,036,682	1,025,988	312,402	860,690	7,750,269	**11,986,031**	**12,772,178**
- Specific value adjustments	(1,477,038)	(190,979)	(19,800)	(67,157)		**(1,754,974)**	**(1,395,231)**
- Portfolio value adjustments					(60,471)	**(60,471)**	**(70,130)**
Other operators							
- Net exposure	54,187	12,402		6,874	124,290	**197,753**	**200,598**
- Specific value adjustments	(33,871)	(906)		(379)		**(35,156)**	**(27,212)**
- Portfolio value adjustments					(968)	**(968)**	**(2,392)**

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

Counterparties / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Governments						
- Net exposure				10,852,715	**10,852,715**	**10,938,918**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				224,373	**224,373**	**253,930**
- Specific value adjustments						
- Portfolio value adjustments						
Finance companies						
- Net exposure		902		3,001,548	**3,002,450**	**3,454,043**
- Specific value adjustments		(1,500)			**(1,500)**	**(1,500)**
- Portfolio value adjustments				(51)	**(51)**	**(49)**
Insurance companies						
- Net exposures				923,698	**923,698**	**1,465,765**
- Specific value adjustments					**0**	
- Portfolio value adjustments						
Non-finance companies						
- Net exposure	66	40,444	39,650	5,414,786	**5,494,946**	**9,110,547**
- Specific value adjustments	(17,455)	(5,457)	(18,676)		**(41,588)**	**(31,249)**
- Portfolio value adjustments				(5,068)	**(5,068)**	**(5,301)**
Other operators						
- Net exposure		104		18,150	**18,254**	**13,875**
- Specific value adjustments						
- Portfolio value adjustments				(325)	**(325)**	**(209)**

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 (carrying amount)

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Italy							
- Net exposure	2,086,754	1,051,779	312,402	859,524	17,527,614	**21,838,073**	**21,059,887**
- Total value adjustments	(1,497,234)	(195,913)	(19,800)	(66,768)	(64,808)	**(1,844,523)**	**(1,503,834)**
Other European countries							
- Net exposure	4,664	331		7,835	705,478	**718,308**	**1,070,943**
- Total value adjustments	(13,751)	(23)		(757)	(1,044)	**(15,575)**	**(14,299)**
America							
- Net exposure	460			205	30,818	**31,483**	**67,511**
- Total value adjustments				(12)	(32)	**(44)**	**(194)**
Asia							
- Net exposure					61	**61**	**76**
- Total value adjustments							
Rest of world							
- Net exposure					56	**56**	**566**
- Total value adjustments							

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Italy						
- Net exposure	66	41,346	39,650	8,969,778	**9,050,840**	**9,135,947**
- Total value adjustments	(17,190)	(6,957)	(18,676)	(5,364)	**(48,187)**	**(37,832)**
Other European countries						
- Net exposure		104		9,875,105	**9,875,209**	**14,132,430**
- Total value adjustments	(266)			(80)	**(346)**	**(448)**
America						
- Net exposure				1,380,656	**1,380,656**	**1,705,978**
- Total value adjustments						**(28)**
Asia						
- Net exposure				83,173	**83,173**	**89,654**
- Total value adjustments						
Rest of world						
- Net exposure				126,559	**126,559**	**173,071**
- 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 (carrying amount)

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Restructured exposures*	*Past due exposures*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Italy							
- Net exposure					10,279,208	**10,279,208**	**10,800,519**
- Total value adjustments					(577)	**(577)**	**(461)**
Other European countries							
- Net exposure					310,407	**310,407**	**889,560**
- Total value adjustments					(166)	**(166)**	**(226)**
America							
- Net exposure					190,116	**190,116**	**405,374**
- Total value adjustments					(37)	**(37)**	**(93)**
Asia							
- Net exposure							
- Total value adjustments							
Rest of world							
- Net exposure							
- Total value adjustments							

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

Geographic area / Exposures	*Non-performing*	*Watch-list*	*Other impaired assets*	*Other exposures*	*Total 31/12/13*	*Total 31/12/12*
Italy						
- Net exposure			2,435,946	**2,435,946**	**1,949,739**	
- Total value adjustments						
Other European countries						
- Net exposure			4,119,427	**4,119,427**	**5,472,921**	
- Total value adjustments						
America						
- Net exposure			480,209	**480,209**	**637,010**	
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure			19,110	**19,110**	**60,072**	
- 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.4 Large risks

	31/12/2013	*31/12/2012*
a) amount (carrying value)	33,741,966	33,632,380
b) amount (weighted value)	3,797,240	4,173,833
c) number	24	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.
In 2013, 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 € 471.1 million (€ 304.6 million at 31 December 2012); while the bank portfolio (item 40 of the assets "Financial assets available for sale) contains an amount of € 1.2 million (€ 1.9 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 2013, 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, as amended.

QUANTITATIVE INFORMATION

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

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

Quality of underlying assets / exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Gross exposure	*Net exposure*	*Gross exposure*	*Net exposure*	*Gross exposure*	*Net exposure*
A. Own underlying assets						
a) Impaired						
b) Others						
B. Third party underlying assets	**376,474**	**376,474**	**94,193**	**94,193**	**1,608**	**1,608**
a) Impaired			*1,112*	*1,112*		
b) Others	*376,474*	*376,474*	*93,081*	*93,081*	*1,608*	*1,608*
Total 31/12/2013	**376,474**	**376,474**	**94,193**	**94,193**	**1,608**	**1,608**
Total 31/12/2012	**272,618**	**272,618**	**33,891**	**33,891**		

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 € 3.7 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*	
	Carrying Amount	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*
- analysis of home mortgages	28,785					
- analysis of non-residential mortgages	278,975		93,080		1,608	
- bonds	68,714		1			
- other assets		1,112				
Total 31/12/2013	**376,474**		**94,193**		**1,608**	
Total 31/12/2012	**272,617**		**33,892**			

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*	
	Carrying Amount	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*
SPOLETO MTG 04/35 TV	2,670					
CORDUSIO UB 06/42 TV	2,365					
CASSA CENTR-TV 07/43	8,913					
CLARF-TV 11/60 A2	5,004					
BERICA-TV 09/48	9,833					
TOTAL	**28,785**					

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

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*
PATRIMONIO 06/21 TV			1,204			
FIP FUND 05/23 TV	19,790					
SMPER IF TV 07/46					1,608	
SMPER 1C TV 07/46			2,299			
CASAFORTE 10/40 CL A	259,185					
CASAFORTE CL B 10/40	89,577					
TOTAL	**278,975**		**93,080**		**1,608**	

At 31 December 2013, the transactions to be settled include the sales on the Casaforte 10/40 CL A security for a total net nominal value of € 56.5 million.

C.1.3.3 Type of securitised assets: breakdown of bonds

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*
PATAGONIA F 1/80 ZC	59,780					
EMPYR 06/13 TV			1			
GREYL 06/14 TV	8,934					
TOTAL	**68,714**		**1**			

C.1.3.4 Type of securitised assets: breakdown of other assets

Exposures	*Cash exposures*					
	Senior		*Mezzanine*		*Junior*	
	Carrying Amount	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*	*Carrying Amount*	*Adjustments/ write-backs*
SANFI 06/35 TV (*)			1,112			
TOTAL			**1,112**			

(*) consumer loans

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 31/12/2013*	*Total 31/12/2012*
1. Cash exposures	**471,071**		**1,204**			**472,275**	**308,117**
- “Senior”	376,474					376,474	272,617
- “Mezzanine”	92,989		1,204			94,193	33,892
- “Junior”	1,608					1,608	1,608
2. Off-balance sheet exposures	**54,296**					**54,296**	**4,57**
- “Senior”	54,296					54,296	4,570
- “Mezzanine”							
- “Junior”							

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

The total amount of securitised assets underlying the junior security SMPER 1F TV 07/46 is € 2,468 thousand, of which € 173 thousand for past-due exposures and 2,296 as other assets. This is a traditional securitisation with third-party underlying assets.

C.1.6 Interests 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 2013)		***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*
116,205	2,447,539	2,201	221,136	-	18.45%	-	-	-	-

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

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%

C.2 DISPOSAL TRANSACTIONS

C.2 DISPOSAL TRANSACTIONS

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

The assets indicated in the following tables are debt and credit securities and have been sold in the context of repurchase agreements and securities lending with repurchase obligations at maturity.
Repurchase agreements, as for similar securities lending operations described in paragraph 7 of the Notes - part B - Other operations, are carried out, largely, to cover similar consistent operations in the context of the dynamic and complex management of trading activities.
Considering Securities Financing Transactions (SFT) as a whole, a total net funding position emerges, correlated to the financing of long positions in securities, with the objective of optimising carrying costs for portfolios, benefiting from the relative value approach, in particular on the BTP market.
The underlying assets of repurchase agreements are 96.39% Italian government securities and 64.53% BTP. The securities are posted among assets in the balance sheet, under items 20 and 40, and the benefits and risks connected with their ownership remain, in any case, those of the Bank.
Securities transferred are shown as committed but this status does not exclude the possibility of selling them, by covering the momentary lack of the availability of the security through securities lending or repurchase agreements.

QUANTITATIVE INFORMATION

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

The financial assets sold and not cancelled are shown below at full and at carrying amount.

Portfolio / Technical forms	*Financial assets held for trading*	*Financial assets designated at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Due from banks*	*Loans to customers*	*Total 31/12/2012*	*Total 31/12/2011*
a. Cash assets	**6,087,421**		**39,325**				**6,126,746**	**6,261,121**
1. Debt securities	6,010,837		39,325				**6,050,162**	**6,216,845**
2. Equity securities	76,584						**76,584**	**44,276**
3. Collective investment undertakings								
4. Loans								
B. Derivative instruments								
Total 31/12/2013	**6,087,421**		**39,325**				**6,126,746**	**6,261,121**
of which impaired								
Total 31/12/2012	**6,223,416**		**37,705**					**6,261,121**
of which impaired								

Repurchase agreements carried out using own securities, shown in table C.2.1.a below, were stipulated at 64.72% with the Parent Company BMPS and at 32.99% with Cassa Compensazione e Garanzia.

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

Type of transaction / Balances	*31/12/2013*	*31/12/2012*
Borrowing repurchase agreements	6,070,679	6,136,638
Securitisations		
Pool securities lending	56,066	124,483
Disposals		
Total	**6,126,745**	**6,261,121**

C.2.2 Financial liabilities with respect to sold and not derecognised financial assets: carrying amount

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 designated at fair value*	*Financial assets available for sale*	*Financial assets held to maturity*	*Due from banks*	*Loans to customers*	*Total*
1. Due to customers	**1,947,059**						**1,947,059**
a) against assets recorded in full	1,947,059						**1,947,059**
b) against assets recorded partially							
2. Payables to banks	**3,955,032**						**3,955,032**
a) against assets recorded in full	3,955,032						**3,955,032**
b) against assets recorded partially							
Total 31/12/2013	**5,902,091**						**5,902,091**
Total 31/12/2012	**6,075,005**						**6,075,005**

C.2.3 Sale transactions with liabilities with recourse only on assets sold: fair value

There is nothing to report.

B. Financial assets sold and cancelled entirely with registration of continuing involvement

Qualitative information
There is nothing to report.

Quantitative information
There is nothing to report.

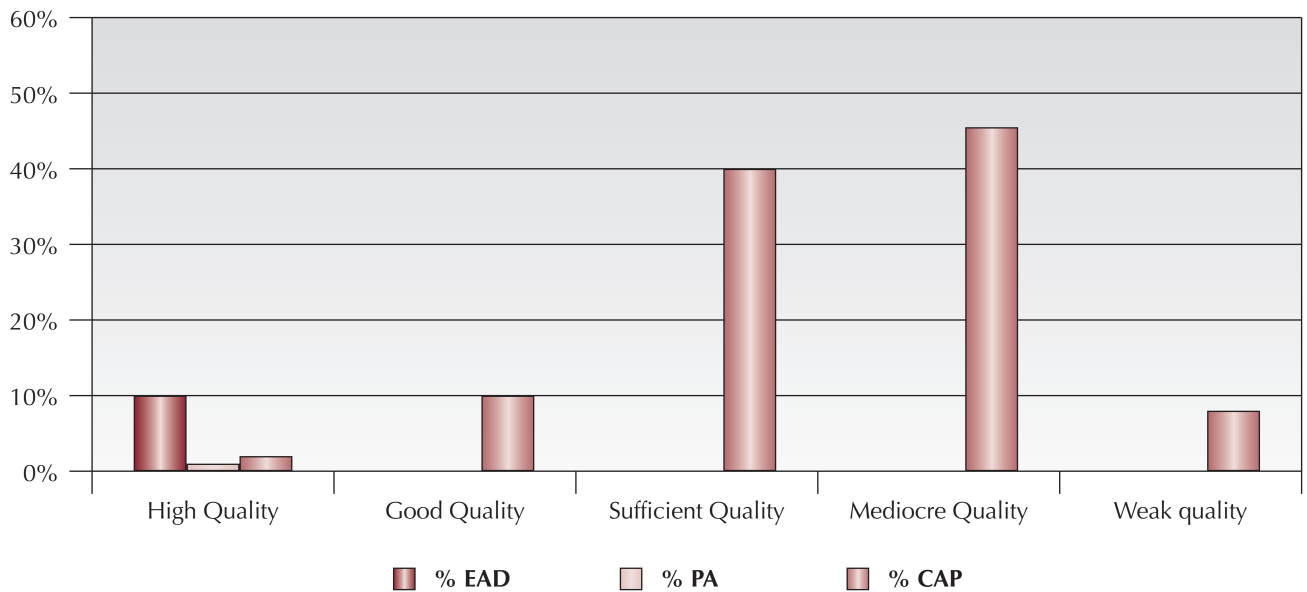
C.3 COVERED BOND TRANSACTIONS

The Bank issued no covered bank bonds.

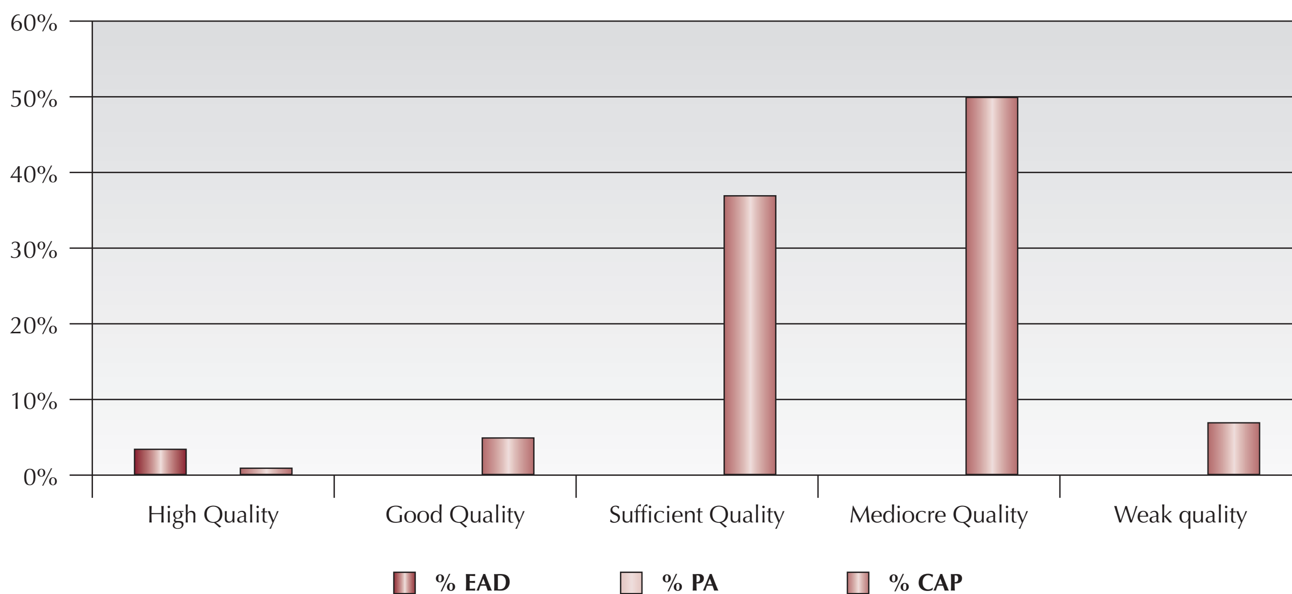
D. CREDITWORTHINESS ASSESSMENT MODELS

The chart below indicates the distribution of the loan quality of the Bank's loan portfolio at 31/12/2013 (excluding positions in financial assets). The graphic representation shows that approximately 28% of the exposures at risk are granted to high and good quality customers. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking institutions, not included in AIRB model. For such counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

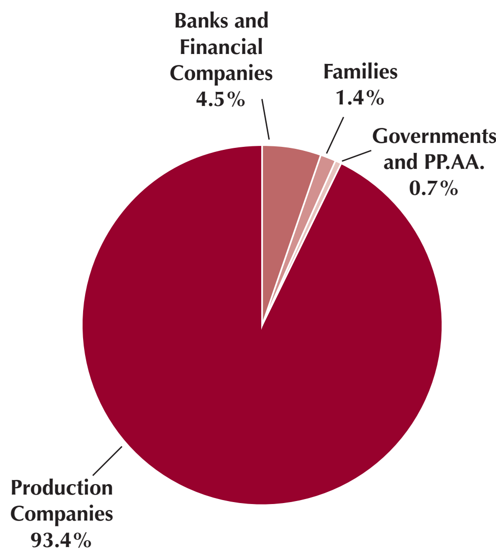
QUALITY DISTRIBUTION OF PERFORMING LOAN PORTFOLIO
MPS CAPITAL SERVICES - 31 December 2013



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 31/12/2013 is 16% of total exposures.



RISK EXPOSURE
MPS CAPITAL SERVICES - 31 December 2013

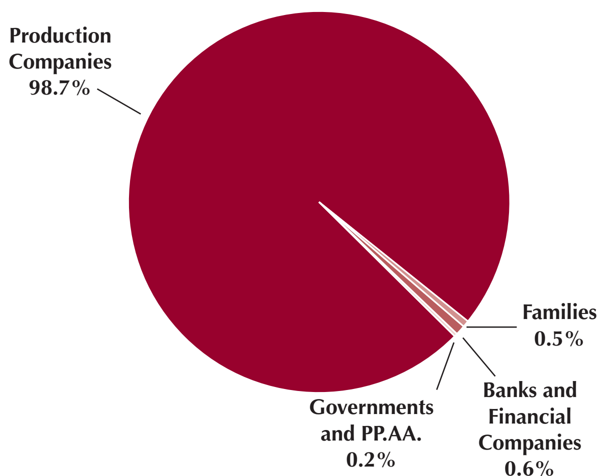


The findings obtained at the end of 2013, indicate that the exposures at risk of the Bank are mainly directed at "Production Companies" customers (93.4% on total disbursements) and "Banks and Financial Firms" (4.5%). The remaining portion is divided between "Family" customers and "Governments and Public Administration," with 1.4% and 0.7%, respectively.

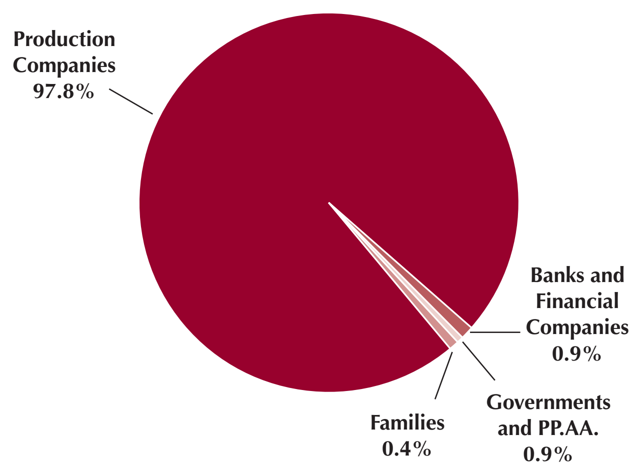
In terms of risk measurements, it is apparent that the "Production Companies" customer segment absorbs 98.7% of Estimated Loss and 97.8% of Economic Capital.

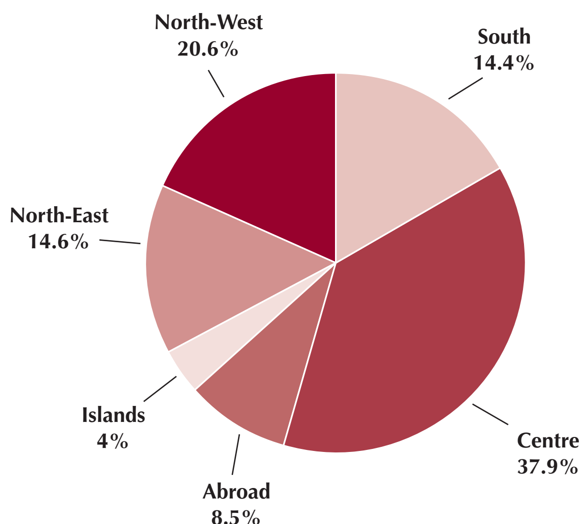
Analysis of the geographic distribution of MPSCS customers shows that risk exposures are mainly concentrated in the Central regions (37.9%), followed by the Northwest and Northeast (with 20.6% and 14.6%, respectively), the South (14.4%), Abroad at 8.5% and the Islands (4%).

EXPECTED LOSS
MPS CAPITAL SERVICES - 31 December 2013

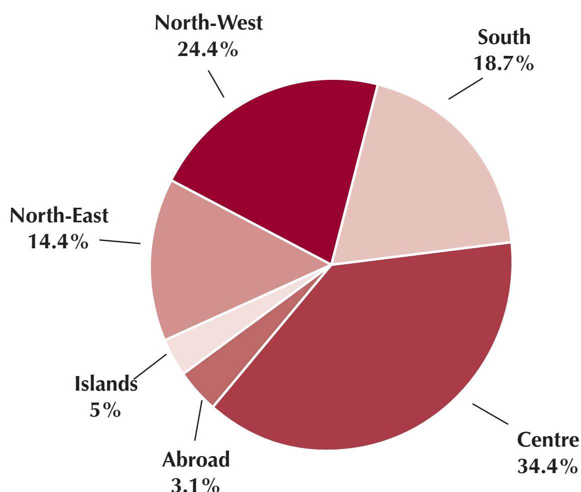


ECONOMIC CAPITAL
MPS CAPITAL SERVICES - 31 December 2013





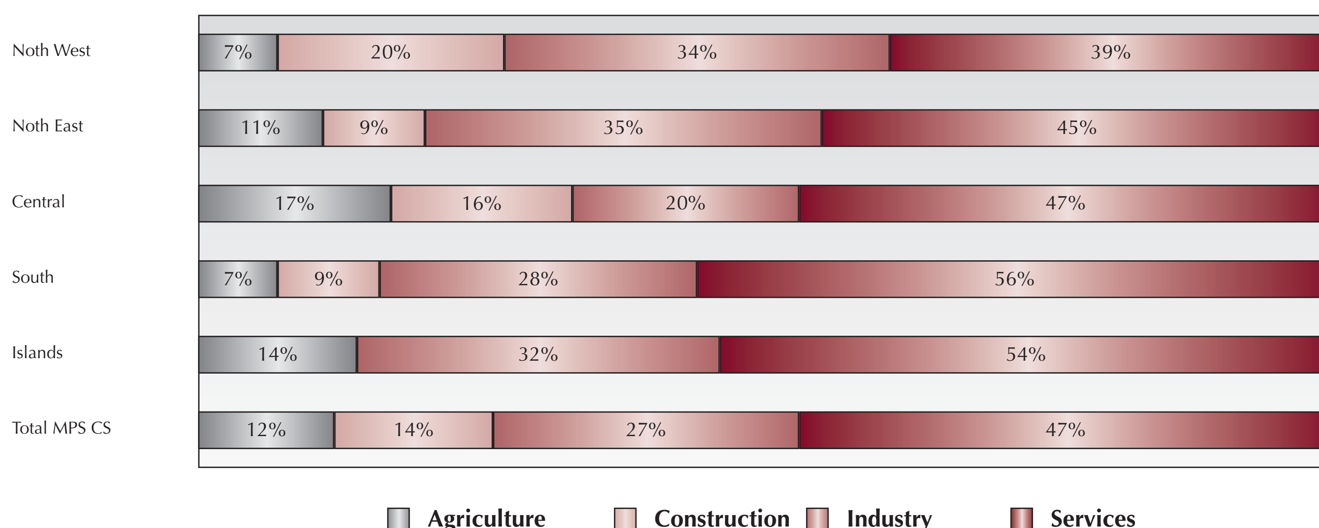
Total risk measurements (Estimated Loss + Economic Capital) are best explained in the composition of the loans more heavily present in the Central regions (34.4%) and in the Northwest (24.4%). This is followed by the South (18.7%), the Northeast (14.4%), the Islands (5%) and Abroad (3.1%).



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.

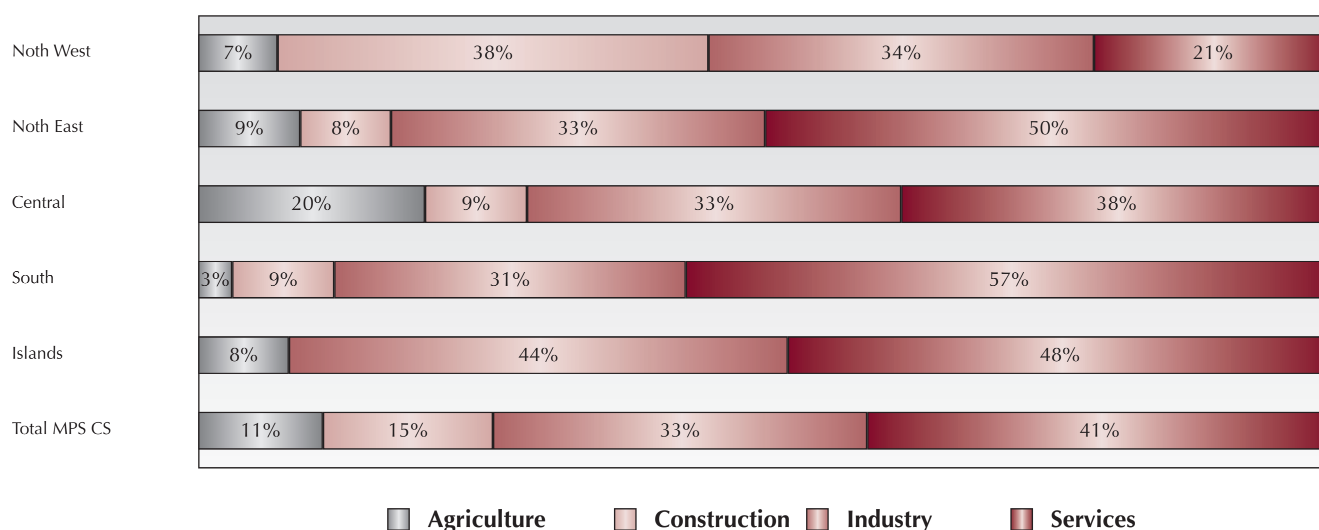
The highest portion of company default exposure is in the services sector in all geographic areas. Out of the MPSCS total, that concentration is 47% and is followed by industry (27%), building (14%) and finally by agriculture with 12%.

PERFORMING ITALIAN CORPORATE CUSTOMERS 31/12/2013
Defualt exposure distribution by geographic area and business division



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

PERFORMING ITALIAN CORPORATE CUSTOMERS 31/12/2013
Distribution by risk measurement (Expected loss + economic capital)
by geographic area and business area



SECTION 2 - MARKET RISK

MARKET RISKS RELATING TO THE SUPERVISORY TRADING PORTFOLIO

2.1 INTEREST RATE RISK AND PRICE - SUPERVISORY TRADING PORTFOLIO

The risk management model for market risks inherent to the 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) and MPS Capital Services (MPSCS). Transactions in derivatives, also carried out on behalf of Group 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 MPS Group PNV 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 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 and Stress. In addition, 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 (part of the disclosure is also made available to MPSCS).

The macro-types of risk factors considered within the Internal Markets Risks Model are IR, EQ, FX, CS, as illustrated below:

• IR: interest rates on all the relevant curves, 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.

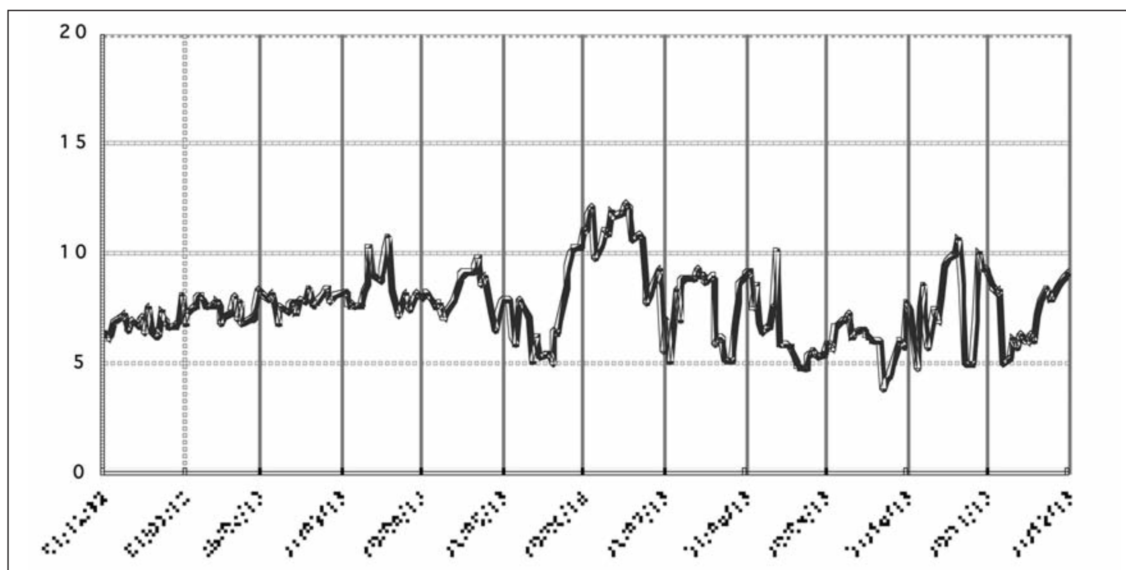
The Group (like MPSCS) does not currently use an internal model based on the VaR in the calculation of capital requirements for market risks.

Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments. Stress tests make it possible to assess the ability of the Bank to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital. Stress tests are developed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what 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.

We note that the VaR methodology described above is also applied, for management purposes, to that portion of the bank portfolio which consists of financial instruments that are similar to those of trading (e.g. share-based securities/AFS bonds).

During the course of 2013, market risks for the Bank's PNV demonstrated, in terms of VaR, a trend characterised by notable volatility with respect to the previous year, settling at € 9.12 million at 31 December 2013. In absolute terms, the VaR was influenced by the IR segment for trading activities, mainly in long futures and interest rate future options, by activities connected to the structuring and hedging of policies and changes in the market parameters (credit spread and interest rate).

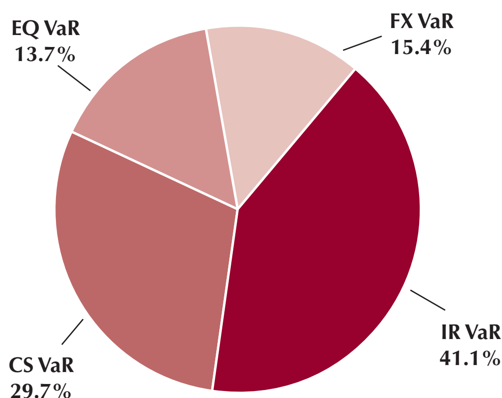
MPS CAPITAL SERVICES: SUPERVISORY TRADING PORTFOLIO
- VaR Credit Spread 99% 1 day in €/mln -



In terms of VaR composition by risk factors, as of 31 December 2013 the MPSCS portfolio is mainly absorbed by the interest rate risk factor (IR VaR, 41.1%). This is followed by the credit spread risk factor (CS VaR, 29.7%), the exchange rate risk factor (FX VaR, 15.4%) and the equity risk factor (EQ VaR, 13.7%).

During the course of 2013, the Bank's PNV VaR oscillated between a minimum of € 3.80 million at 22 October 2013 and a maximm of € 12.26 million at 17 July 2013, recording an average value of € 7.64 million. The PNV VaR at 31 December 2013 was € 9.12 million.

MPS CAPITAL SERVICES
Supervisory Trading Portfolio
VaR Breakdown by Risk Factor 31.12.2013



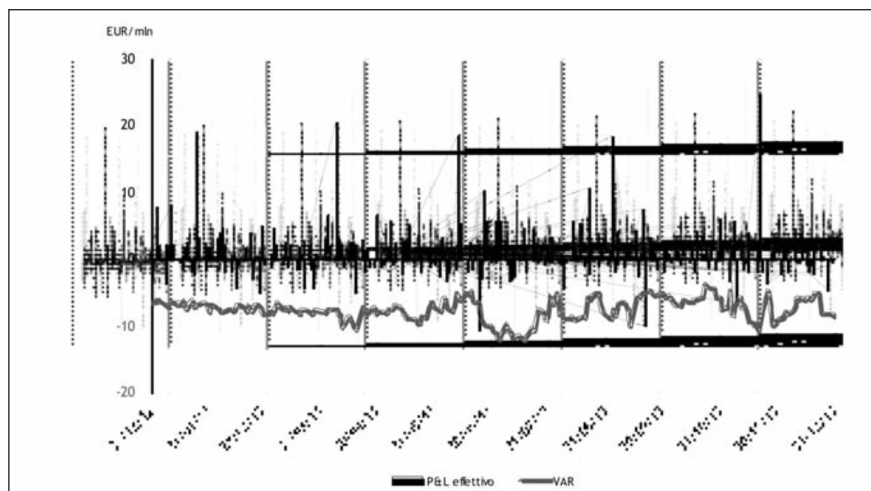
MPS CAPITAL SERVICES
VaR PNV 99% 1 day in €/mln

	VaR	Date
Period End	9.12	31/12/2012
Minimum	3.80	21/12//2012
Maximum	12.26	17/05/2012
Average	7.64	

VaR Model Backtesting

The MPS Group has implemented a structure of retrospective tests in compliance with the current regulations for market risks within its risk management system. Backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the portfolio value, in order to evaluate the predictive ability of the model in terms of the accuracy of the risk measurements produced. If the model is qualitatively appropriate, then the periodic comparison of the daily estimate of the VaR with the daily losses from trading activities relative to the following day should show that the effective losses are higher than the VaR with a frequency in line with that defined by the confidence level.
For the sake of completeness, we note that from a regulatory point of view, for banks that adopt internal models for notification purposes, the results of backtesting impact capital requirements, given that the minimum capital that a regulated intermediary must hold in the face of market risk is proportional to a multiplicative factor which increases as the performance of the internal model worsens in terms of the mismatches seen.
In the light of the regulatory provisions (Bank of Italy circular 263/06, as updated), the Risk Management Area has found it appropriate to carry out the test using theoretical and effective backtesting, and to integrate it within the Group's management reporting systems. The first type of test (theoretical backtesting) has greater statistical significance in reference to the evaluation of the accuracy of the VaR model ("non-contaminated test"). The second type of test (effective backtesting), answers the need to verify the predictive reliability of the VaR model in reference to the actual operations of the Bank (daily trading losses and gains), net of the effects of interest maturing between day t-1 and t for securities and the effect of fees. These "net" P&L results (see "effective P&L") are compared with the VaR of the previous day (VaRt-1). In the case that losses are greater than those predicted by the model, an exception is recorded.
The graph below shows the results of the Effective Backtesting of the internal Market Risk Model, relative to the MPS CS Supervisory Trading Portfolio, for the year 2013:

MPS CAPITAL SERVICES: EFFECTIVE BACKTESTING OF SUPERVISORY TRADING PORTFOLIO



The retrospective test shows two mismatches during the year for the MPSCS trading portfolio, which we indicate here:
• 24 June 2013: negative market day (Btp-Bund spread +13bp).
• 20 September 2013: retrading of certain derivative instruments aimed at decreasing the cost of financing.

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

Given that the trading activities are carried out by the Global Markets Department, the Bank manages an own portfolio which includes trading positions regarding interest rates and loans.

In general, rate positions are taken on through the purchase or sale of bonds, as well as through the construction of structured portfolios in listed derivatives (futures) and OTC instruments (interest swap, basis swap, cap & floor, swap option). 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, as well as specific issuer and concentration risk limits approved by the Board of Directors.

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.

A.2 Price Risk

The price risk exposure relates to the assets traded on both plain vanilla products such as futures, options on indexes and single stock, listed and over the counter products, and on exotic products linked, usually, 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 the section "The risk management model for market risks inherent to the trading portfolio."

QUANTITATIVE INFORMATION

1. **Supervisory trading portfolio: breakdown by residual life (repricing date) of the cash financial assets and liabilities and the financial derivatives.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading portfolio on the basis of internal models.
2. **Supervisory trading portfolio: breakdown of exposures for equity securities and stock indexes for the main stock market countries.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading portfolio on the basis of internal models.
3. **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.

3.1 Interest Rate Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The positions pertaining to the Trading 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 and inflation curves
- parallel shift of -100bp on all the interest rate curves and inflation curves
- parallel shift of +1% of all the volatility surfaces of all the interest rate curves

The overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Interest Rate	+ 100bp on all curves	(58.02)
Interest Rate	- 100bp on all curves	50.22
Interest Rate	+1% Interest Rate Volatility	0.05

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	(0.79)

3.2 Price Risk
The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "Financial assets held for trading" and "Financial liabilities held for trading"; market value changes are recorded directly in the income statement.
The simulated price scenarios are:
• +1% of each equity, commodity, index, basket price;
• -1% of each equity, commodity, index, basket price;
• +1% of all the volatility surfaces of all the equity and commodity risk factors.

The overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes, basket)	0.71
Equity	- 1% Equity Prices (prices, indexes, basket)	(0.18)
Equity	+ 1% Equity Volatility	(0.19)

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

QUALITATIVE INFORMATION

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

A.1 Interest Rate Risk

In accordance with the best international practices, the banking book 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 regulatory bank portfolio) and the process of centralising management of the ALM is governed by the Parent Company's Board of Directors and then taken up in the same way at MPSCS, in line with the instructions provided in the supervisory regulations (Circular n° 263 issued by the Bank of Italy). The framework foresees the centralisation of Asset & Liability Management in the Parent Company's Finance, Cash and Capital Management Department and the definition and monitoring of the operating limits in view of the interest rate risk of the MPS Group's banking book. In the context of the banking book, bond assets held for investment purposes can be found there, which are classified for accounting purposes in the categories "Financial assets available for sale" (AFS) and loans (L&R).
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 mainly consists of equity investments and shares classified among "Financial assets available for sale."

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, designated 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 Parent Company Risk Management Area develops and maintains the internal measurement system also with reference to the alternative funds component and, for the purposes of determining the Economic Capital, it uses a measurement derived from the Supervisory approach.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the banking book on the basis of internal models.

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

2.1 Interest Rate Risk

The sensitivity of MPSCS at the end of 2013 presents a risk exposure profile due to a rise in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to about € -14.41 million (€ 16.14 million for a shift of -100bp).

2.2 Price Risk

The equity investment portfolio of the Bank comprises about twenty equity investments in companies outside the Group, or rather in companies not consolidated at the Group level either line-by-line or proportionally, and about 87% of its value is concentrated on five investments.
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.
A scenario analysis is provided below; it contemplates all equity investments and hedge funds.

MPS CAPITAL SERVICES Banking Book
in €/mln

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes, basket)	0.43
Equity	- 1% Equity Prices (prices, indexes, basket)	- 0.43
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	*USA Dollar*	*Yuan Renminbi*	*Yen*	*English Pound*	*New Turkish Lira*	*Other currencies*
A. Financial assets	**462,371**	**0**	**14,922**	**12,281**	**6,508**	**41,034**
A.1 Debt securities	18,462			11,877		1,330
A.2 Equity securities	13,823		3,706			586
A.3 Loans to banks	43,448		28	404	6,508	20,861
A.4 Loans to customers	386,638		11,188			18,257
A.5 Other financial assets						
B. Other assets	**16**					**250**
C. Financial liabilities	**(536,125)**	**0**	**(14,804)**	**(46,794)**	**0**	**(47,396)**
C.1 Due to banks	(487,786)		(14,202)	(46,675)		(47,396)
C.2 Due to customers	(48,339)		(602)	(119)		
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities			**(1,148)**			**(466)**
E. Financial derivatives						
- Options						
+ long positions	417,757		213,815	65,119	413	105,603
+ short positions	714,145	359,550	369,073	425,665		329,884
- Other derivatives						
+ long positions	1,006,755	362,769	80,469	54,379	139,190	119,483
+ short positions	641,888	2,000	24,105	74,354	111,505	110,439
Total assets	**462,386**		**14,922**	**12,281**	**6,508**	**41,284**
Total liabilities	**(536,125)**		**(15,952)**	**(46,794)**		**(47,862)**
Differences (+/-)	**(73,739)**	**0**	**(1,030)**	**(34,513)**	**6,508**	**(6,578)**

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 20 February 2014 (final date for the drafting of the explanatory notes).

Currency	*Code*	*31/12/2013*	*28/02/2014*	*Change*
UNITED STATES Dollar	USD	1.3791	1.3706	(0.62%)
CHINA Yuan renminbi	CNY	8.3491	8.3394	(0.12%)
JAPANESE Yen	JPY	144.72	139.91	(3.32%)
UNITED KINGDOM Pound	GBP	0.8337	0.8220	(1.40%)
TURKEY New Lira	TRY	2.9605	3.0292	(2.32)

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”, section “The risk management model for market risks inherent to the Trading Portfolio”).
The effect on the operating income and on the income for the year was estimated considering only the positions classified as “Financial assets held for trading” and “Financial liabilities held for trading”, for which market value changes are recorded directly in the income statement. The effect on shareholders’ equity instead is estimated with reference to all the other positions. The total effect is reflected by the algebraic sum of the two components.
The simulated scenarios on exchange rates are:
• +1% of all the exchange rates against EUR
• - 1% of all the exchange rates against EUR
• +1% of all the volatility surface areas of all the exchange rates
A summary of the scenario analysis follows.

MPS CAPITAL SERVICES
Figures in € millions

Risk Family	Scenario	Effect on Operating Income and Economic Result	Effect on Shareholders’ Equity	Total Effect
Forex	+1% exchange rates against EUR	1.30	0.00	1.30
Forex	-1% exchange rates against EUR	(1.36)	0.00	(1.36)
Forex	+1 Forex volatility	0.10	0.00	0.10

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	31/12/2013		31/12/2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**169,962,266**	**103,860,540**	**207,647,394**	**95,639,704**
a) options	59,861,036	26,935,082	74,644,990	19,003,752
b) swap	110,101,230	76,022,525	131,836,389	75,781,477
c) forward			1,166,015	
d) futures		902,933		854,475
e) other				
2. Equity securities and stock market indices	**12,376,016**	**8,735,455**	**14,954,445**	**8,896,813**
a) options	11,621,317	6,708,083	14,074,413	6,399,267
b) swap	754,699		880,032	
c) forward				
d) futures		2,027,372		2,497,546
e) other				
3. Currencies and gold	**4,431,247**	**11,752**	**4,544,776**	
a) options	2,188,163		2,309,225	
b) swap	1,213,543		1,222,680	
c) forward	1,029,541		1,012,871	
d) futures		11,752		
e) other				
4. Goods	**240,343**	**329,528**	**354,873**	**547,770**
5. Other underlying assets				
Total	**187,009,872**	**112,937,275**	**227,501,488**	**105,084,287**
Average values	**192,327,587**	**129,673,446**	**241,912,652**	**188,778,612**

Note:
ffor completeness, we note that 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	*31/12/2013*		*31/12/2012*	
	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 2013 and 31 December 2012.

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

Underlying assets / Type of derivatives	*31/12/2013*		*31/12/2012*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**7,614,884**	**679,838**	**9,430,055**	**1,527,691**
a) options	1,276,531	233,045	1,189,409	184,195
b) interest rate swaps	6,218,572	446,230	8,136,965	1,343,328
c) cross currency swaps	34,104		31,956	
d) equity swaps	24,133		35,776	
e) forward	11,088		6,598	
f) futures		563		168
g) other	50,456		29,351	
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	**7,614,884**	**679,838**	**9,430,055**	**1,527,691**

Note:
for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options.

A.4 Financial derivatives: negative gross fair value - breakdown by product

Underlying assets / Type of derivatives	*31/12/2013*		*31/12/2012*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading portfolio	**5,829,517**	**639,328**	**8,279,442**	**1,504,784**
a) options	1,613,644	181,796	1,504,953	126,855
b) interest rate swaps	4,101,890	457,363	6,635,348	1,377,329
c) cross currency swaps	43,854		58,600	
d) equity swaps	10,266		14,765	
e) forward	7,601		40,358	
f) futures		169		600
g) other	52,262		25,418	
2. Banking book - hedging	**1,369**		**2,071**	
a) options				
b) interest rate swaps	1,369		2,071	
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	**5,830,886**	**639,328**	**8,281,513**	**1,504,784**

Note:
for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options.

A.5 OTC financial derivatives - supervisory trading 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-finance companies*	*Others*
1. Debt securities and interest rates							
- notional value			2,422,070	214,225		2,234,172	1,286
- positive fair value			21,963	3,722		127,601	106
- negative fair value				3,487		891	
- future exposure			21,485	264		16,218	6
2. Debt securities and share indices							
- notional value	20		17,749	7,467		1	
- positive fair value	23		19,062	7,710		1	
- negative fair value							
- future exposure	2		1,775	747			
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 not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others*
1. Debt securities and interest rates							
- notional value				141,134,761	19,737,837	4,217,915	
- positive fair value				4,583,830	1,460,684	461,559	
- negative fair value				4,199,851	428,773	93,497	
2. Debt securities and share indices							
- notional value				6,703,395	3,120,803	2,526,581	
- positive fair value				618,649	148,123	18,035	
- negative fair value				260,759	357,025	341,251	
3. Currencies and gold							
- notional value				3,881,004	550,243		
- positive fair value				80,783	12,525		
- negative fair value				70,726	20,364		
4. Other values							
- notional value				205,893	34,449		
- positive fair value				49,729	780		
- negative fair value				51,975	919		

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 2013 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 not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others*
1. Debt securities and interest rates							
- notional value			37,500				
- positive fair value							
- negative fair value			1,369				
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	**41,599,651**	**86,657,166**	**58,753,055**	**187,009,872**
A1 Financial derivatives on debt securities and interest rates	35,650,652	78,872,568	55,439,046	**169,962,266**
A2 Financial derivatives on equity securities and stock indexes	2,812,067	6,349,940	3,214,009	**12,376,016**
A3 Financial derivatives on exchange rates and gold	2,963,640	1,367,607	100,000	**4,431,247**
A4 Financial derivatives on other values	173,292	67,051		**240,343**
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 31/12/2013	**41,599,651**	**86,694,666**	**58,753,055**	**187,047,372**
Total 31/12/2012	**53,437,976**	**115,718,272**	**58,382,741**	**227,538,989**

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	*Supervisory trading portfolio*		*Banking book*	
	on one item	*on several item (basket)*	*on one item*	*on several item (basket)*
1. Protection purchases				
a) credit default products	*12,133,057*	*9,621,900*		
b) credit spread products				
c) total rate of return swap				
d) others				
Total 31/12/2013	**12,133,057**	**9,621,900**		
Average values 31/12/2013	**12,131,062**	**10,574,279**		
Total 31/12/2012	**12,906,421**	**13,829,302**		
2. Protection sale				
a) credit default products	*12,604,050*	*9,724,054*		
b) credit spread products				
c) total rate of return swap	*173,423*			
d) others				
Total 31/12/2013	**12,777,473**	**9,724,054**		
Average values 31/12/2013	**12,452,726**	**10,424,557**		
Total 31/12/2012	**13,641,074**	**13,791,091**		

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

Portfolio / Type of derivative	*31/12/2013*	*31/12/2012*
A. Supervisory trading portfolio	**1,233,078**	**1,572,493**
a) credit default products	*1,053,463*	*1,305,711*
b) credit spread products		
c) total rate of return swap	*179,615*	*266,782*
d) others		
B Bank portfolio		
a) credit default products		
b) credit spread products		
c) total rate of return swap		
d) others		
Total	**1,233,078**	**1,572,493**

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

Portfolio / Type of derivative	31/12/2013	31/12/2012
A. Supervisory trading portfolio	**1,260,146**	**1,596,872**
a) credit default products	*1,260,146*	*1,596,872*
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	**1,260,146**	**1,596,872**

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 not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others*
1. Protection purchase							
- notional value			14,221,623	5,536,463	1,996,872		
- positive fair value			33,677	428,398	361,270		
- negative fair value			197,421	41,612			
- future exposure							
2. Protection sale							
- notional value			13,847,731	5,951,839	2,701,957		
- positive fair value			186,226	223,508			
- negative fair value			40,522	548,192	432,399		
- 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	**8,517,344**	**28,453,950**	**7,285,191**	**44,256,485**
A.1 Credit derivatives with "qualified" "reference obligation"	5,885,905	20,762,815	7,024,055	33,672,775
A.2 Credit derivatives with "unqualified" "reference obligation"	2,631,439	7,691,135	261,136	10,583,710
B. Bank portfolio				
B.1 Credit derivatives with "qualified" "reference obligation"				
B.2 Credit derivatives with "unqualified" "reference obligation"				
Total 31/12/2013	**8,517,344**	**28,453,950**	**7,285,191**	**44,256,485**
Total 31/12/2012	**11,144,291**	**34,028,660**	**8,994,936**	**54,167,887**

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

Agreements not included in offset agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-finance companies*	*Others*
1. Bilateral agreements financial derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
2. Bilateral agreements credit derivatives							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3. “Cross product” agreements							
- positive fair value			1,067,470	912,579			
- negative fair value			337,199	35,446	26,282		
- future exposure			1,769,320	633,983	188,678		
- net counterparty risk			2,199,238	606,957	52,598		

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

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 at avoiding pressure in respect of both present and future short term collections. The measure of reference, to which the mitigation system is applied by means of specific internal operating limits established by the 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, 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.

1.1.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	**6,649,350**	**1,832,004**	**3,182,298**	**813,245**	**551,809**	**1,399,334**	**2,436,235**	**7,663,721**	**8,599,156**	**22,752**
A.1 Sovereign securities	80	772	13,148	117,055	190,574	623,071	1,150,171	2,252,213	1,410,780	114
A.2 Other debt securities	164	7,302	21,305	27,030	98,294	122,046	251,505	1,162,675	679,967	19,172
A.3 UCITS units	12,149									
A.4 Loans	6,636,957	1,823,930	3,147,845	669,160	262,941	654,217	1,034,559	4,248,833	6,508,409	3,466
- banks	*5,556,318*	*1,090,449*	*1,609,578*	*25,959*	*47,133*	*108,976*	*170,236*	*501,505*	*1,790*	*3,466*
- customers	*1,080,639*	*733,481*	*1,538,267*	*643,201*	*215,808*	*545,241*	*864,323*	*3,747,328*	*6,506,619*	
Cash liabilities	**1,658,047**	**10,578,250**	**4,601,518**	**1,314,287**	**1,353,394**	**807,779**	**1,199,473**	**5,967,589**	**6,231,288**	**1,521**
B.1 Current accounts and deposits	305,948	1,350,000	500,000	500,000	1,050,000	506,000	37,260	911,289	1,271,573	
- banks	*302,751*	*1,350,000*	*500,000*	*500,000*	*1,050,000*	*506,000*	*37,260*	*911,289*	*1,271,573*	
- customers	*3,197*									
B.2 Debt securities					1,096	10,000	1,096	10,000	50,000	
B.3 Other liabilities	1,352,099	9,228,250	4,101,518	814,287	302,298	291,779	1,161,117	5,046,300	4,909,715	1,521
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		1,157,583	245,512	66,137	1,874,493	1,578,893	601,089	2,091,808	1,781,182	334,258
- short positions		2,262,027	195,549	93,466	922,607	690,371	724,108	2,838,747	2,169,724	334,061
C.2 Credit derivatives with exchange of capital										
- long positions				3,900	346,350	412,000	130,100	1,031,460	17,500	
- short positions			50,000		324,300	340,610	102,000	770,632	139,495	
C.3 Financial derivatives without exchange of capital										
- long positions	6,825,558					844				
- short positions	4,842,080						1,577			
C.4 Credit derivatives without exchange of capital										
- long positions	1,113,959									
- short positions	1,119,807									
C.5 Deposits and loans to be received										
- long positions			200,000							
- short positions			200,000							
C.6 Irrevocable commitments to grant finance										
- long positions	54,938	1,112,020			13,684	26,196	30,186	401,793	166,754	75,664
- short positions	1,758,941	36,000			10,630					75,664
C.7 Financial guarantees given	902						66	886	3,393	
C.8 Financial guarantees received										

1.1.B Breakdown by contractual residual maturity of financial assets and liabilities - DOLLAR USD

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	**67,277**	**4,067**	**1,411**	**8,875**	**16,100**	**23,446**	**31,928**	**234,431**	**92,214**	**6,038**
A.1 Sovereign securities			30		3	761	9	24	270	76
A.2 Other debt securities					151	1,242	592	1,428	19,348	5,962
A.3 UCITS units	8,655									
A.4 Loans	58,622	4,067	1,381	8,875	15,946	21,443	31,327	232,979	72,596	
- banks	*27,527*	*3,885*		*8,050*	*12,713*			*3,372*		
- customers	*31,095*	*182*	*1,381*	*825*	*3,233*	*21,443*	*31,327*	*229,607*	*72,596*	
Cash liabilities	**165,533**	**23,542**	**24,468**	**28,683**	**94,876**	**200,802**	**13**	**4,342**	**0**	**3,471**
B.1 Current accounts and deposits	111,823	23,534	24,468	23,498	92,490	198,676	0			
- banks	*111,823*	*23,534*	*24,468*	*23,498*	*92,490*	*198,676*				
- customers										
B.2 Debt securities										
B.3 Other liabilities	53,710	8		5,185	2,386	2,126	13	4,342		3,471
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		62,892	182,939	58,741	539,246	118,948	210,101	337,801	8,683	39,446
- short positions		63,836	187,903	43,290	245,673	200,302	119,806	171,073	7,302	39,446
C.2 Credit derivatives with exchange of capital										
- long positions					110,000	30,000	125,000	523,365	39,000	
- short positions					115,000			528,200	39,000	
C.3 Financial derivatives without exchange of capital										
- long positions	359,762									
- short positions	284,409									
C.4 Credit derivatives without exchange of capital										
- long positions	80,406									
- short positions	82,633									
C.5 Deposits and loans to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments to grant finance										
- long positions										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.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*	*Unspeci-fied duration*
Cash assets	**404**				**1**	**138**	**534**	**573**	**10,435**	**18**
A.1 Sovereign securities					1		2	28	6	
A.2 Other debt securities						138	532	545	10,429	18
A.3 UCITS units										
A.4 Loans	404									
- banks	*404*									
- customers										
Cash liabilities	**46,794**			**3,452**				**0**		**0**
B.1 Current accounts and deposits	46,675									
- banks	*46,675*									
- customers										
B.2 Debt securities										
B.3 Other liabilities	119			3,452						
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		101	363	1,779	13,083	8,079	64,078	32,770		
- short positions		148	53,976		26,928		755	15,587		
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	900									
- short positions	454									
C.4 Credit derivatives without exchange of capital										
- long positions										
- short positions										
C.5 Deposits and loans to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments to grant finance										
- long positions										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.D Breakdown by contractual residual maturity of financial assets and liabilities - YEN

Items / Maturities	*On demand*	*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	**11,216**									
A.1 Sovereign securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	11,216									
- banks	*28*									
- customers	*11,188*									
Cash liabilities	**14,804**							**1**		
B.1 Current accounts and deposits	14,202									
- banks	*14,202*									
- customers										
B.2 Debt securities										
B.3 Other liabilities	602							1		
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		34,780		30,761	85,869	347	77,125	151,130		
- short positions		17,274	464	37,031	18,084	2,158	83,335	119,309		
C.2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.3 Financial derivatives without exchange of capital										
- long positions	3,706									
- short positions	6,023									
C.4 Credit derivatives without exchange of capital										
- long positions										
- short positions										
C.5 Deposits and loans to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments to grant finance										
- long positions										
- short positions										
C.7 Financial guarantees given										
C.8 Financial guarantees received										

1.1.E Breakdown by contractual residual maturity of financial assets and liabilities - OTHER CURRENCIES

Items / Maturities	*On demand*	*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	**35,632**	**13**		**1,321**		**119**	**144**	**9,045**	**913**	
A,1 Sovereign securities										
A,2 Other debt securities				1,321			12			
A,3 UCITS units										
A,4 Loans	35,632	13				119	132	9,045	913	
- banks	*27,369*									
- customers	*8,263*	*13*				*119*	*132*	*9,045*	*913*	
Cash liabilities	**36,493**	**25**		**8,784**		**2,094**				
B,1 Current accounts and deposits	36,493	25		8,784		2,094				
- banks	*36,493*	*25*		*8,784*		*2,094*				
- customers										
B,2 Debt securities										
B,3 Other liabilities										
Off-balance sheet transactions										
C,1 Financial derivatives with exchange of capital										
- long positions		31,141	3,093	77,827	142,490	33,635	218,064	424,820	2,202	
- short positions		22,227	3,093	32,644	207,758	13,742	50,121	49,617	2,202	
C,2 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C,3 Financial derivatives without exchange of capital										
- long positions	44,574									
- short positions	53,885									
C,4 Credit derivatives without exchange of capital										
- long positions										
- short positions										
C,5 Deposits and loans to be received										
- long positions										
- short positions										
C,6 Irrevocable commitments to grant finance										
- long positions										
- short positions										
C,7 Financial guarantees given										
C,8 Financial guarantees received										

1.2. Self-securitisation transactions

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);
- representation in the financial statements under "receivables from customers" of the exposure with the vehicle company (mainly represented by the "cash reserve" portion disbursed to support the successful conclusion of the operation;
- 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 € 2,564 million remains as at 31 December 2013. 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%.

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 2013 the notes issued net of the amounts reimbursed amount to € 2,569.4 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 € 58.3 million.
With regard to the dynamics of the securitised credit, please 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.

2. Disclosure regarding committed assets recognised in the financial statements

Technical forms	*Committed*		*Not Committed*			
	Carrying Amount	*Fair value*	*Carrying Amount*	*Fair value*	*Total 31/12/2013*	*Total 31/12/2012*
1. Cash and cash equivalents		**X**		**X**		**1**
2. Debt securities	6,050,162	6,050,162	2,162,657	2,162,657	**8,212,819**	**8,741,342**
3. Equity securities	76,584	76,584	47,369	47,369	**123,953**	**170,686**
4. Loans	2,607,917	**X**	22,546,975	**X**	**25,154,892**	**25,619,515**
5. Other financial assets		**X**	9,593,590	**X**	**9,593,590**	**12,564,565**
6. Non-financial assets		**X**	234,525	**X**	**234,525**	**168,509**
Total 31.12.2013	**8,734,663**	**6,126,746**	**34,585,116**	**2,210,026**	**43,319,779**	**X**
Total 31.12.2012	**9,013,049**	**6,261,121**	**38,251,570**	**2,650,907**	**X**	**47,264,618**

3. Disclosure regarding committed assets not recognised in the financial statements

Forme tecniche	*Committed*	*Not Committed*	*Total 31/12/2013*	*Total 31/12/2012*
1. Financial assets				
- securities	12,871,111	901,789	**13,772,900**	**12,394,148**
- others				
2. Non-financial assets				
Total 31/12/2013	**12,871,111**	**901,789**	**13,772,900**	**X**
Total 31/12/2012	**11,586,734**	**807,414**	**X**	**12,394,148**

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) requires banks to:

- 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. The reports are regularly submitted to the Risk Committee and the decision making bodies.

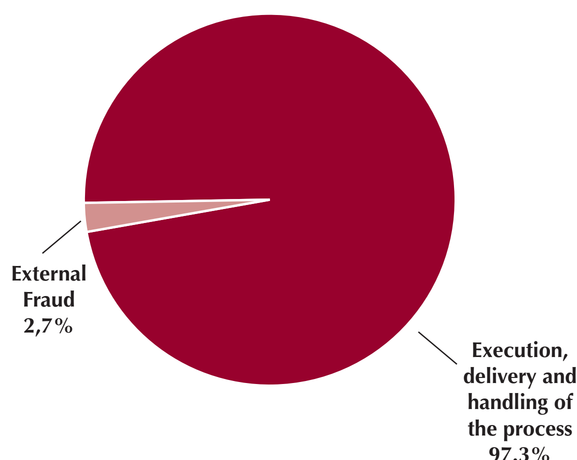
With regard to MPSCS, adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in fact a progressive reduction in the Bank's operational risk.

QUANTITATIVE INFORMATION

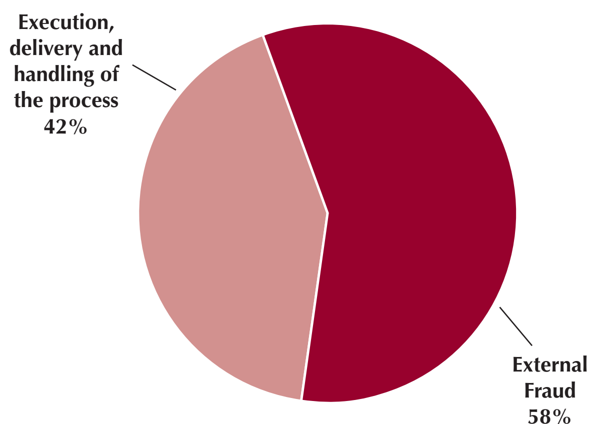
The percentage distribution of the number of events and of the operating losses recorded in 2013 is given below, divided into risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium-long term credit 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;
- Process execution, delivery and handling: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

% DISTRIBUTION OF NUMBER OF EVENTS
MPS CAPITAL SERVICES - 31 December 2013



% DISTRIBUTION OF LOSSES
MPS CAPITAL SERVICES - 31 December 2013



With regard to the number of the events registered, almost all (97%) 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 (58% 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[6]): 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.

[6] The Bank applies a 25% reduction to the overall capital requirement as determined at 31.12.2013, 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. As of 1 January 2014, as the new regulatory system known as Basel 3 takes effect (EU Directive 2013/36 and EU Regulation 575/2013), the 25% reduction in the requirement will no longer be applicable.

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	31/12/2013	31/12/2012
1. Capital	276,435	276,435
2. Share premiums	228,089	228,089
3. Reserves	640,420	638,479
of profit	394,090	392,149
a) legal	*38,586*	*38,522*
b) statutory	*31,906*	*31,842*
c) treasury shares (of the Parent Company)		
d) other	*323,598*	*321,785*
- others	246,330	246,330
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	(25,442)	(16,931)
- financial assets available for sale	*(23,753)*	*(16,931)*
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- non-current assets held for sale		
- actuarial income (losses) on definite benefit plans	*(1,689)*	
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (loss) for the year	48,648	1,276
Total	**1,168,150**	**1,127,348**

Note:
figures referring to 31 December 2012 do not included the adjustments introduced by the new version of IAS 19 and therefore continue to correspond with that indicated in the Base Y notification as at 31 December 2012, sent to the Bank of Italy on 15 March of this year.

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

Assets / Balances	*31/12/2013*		*31/12/2012*	
	Positive Reserve	*Negative Reserve*	*Positive Reserve*	*Negative Reserve*
1. Debt securities	255	36,782		26,832
2. Equity securities	717		1,020	
3. Units in collective investment undertakings	41		118	
4. Loans				
Total	**1,013**	**36,782**	**1,138**	**26,832**

Note:
the values indicated are gross of tax effects.

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**	**(26,832)**	**1,020**	**118**	
2. **Positive changes**	**9,023**	**36,939**	**0**	
2.1 Increases in fair value	2,429	33		
2.2 Transfer to income statement of negative reserves		36,906		
- for impairment		*36,906*		
- for disposal				
2.3 Other changes	6,594			
3. **Negative changes**	**18,718**	**37,242**	**77**	
3.1 Decreases in fair value	18,718	36,906	77	
3.2 Transfer to income statement of positive reserves				
for disposal				
3.3 Other changes		336		
4. Closing balances	**(36,527)**	**717**	**41**	

B.4 Valuation reserves for defined benefit plans: yearly changes

	Severance indemnities	*Defined benefit pension funds*	*Tax effect*	*Totale*
Opening balances	**(862)**	**(596)**	**230**	**(1,228)**
Revaluation of net liabilities/assets for defined benefits				
Return on plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions		(103)	28	**(75)**
Actuarial gains/losses deriving from changes in financial assumptions	(36)	(497)	147	**(386)**
Changes in the effect of limitations on the available of a net asset for defined benefit plans				
Gains/losses from termination of the fund envisaged in the terms of the plan				
Closing balances	**(898)**	**(1,196)**	**405**	**(1,689)**

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	*31/12/2013*	*31/12/2012*
Positive elements		
Share capital	276,435	276,435
Share premium reserve	228,089	228,089
Reserves	640,420	638,479
Profit for the period	48,648	1,276
Tier I capital prudential filters	**565**	**0**
Total positive elements of Tier I capital	**1,194,157**	**1,144,279**
Negative elements		
Other negative elements	(666)	
Prudential filters: deductions from Tier I capital		
Negative reserves on securities available for sale		
- equity securities and units in collective investment undertakings		
- other debt securities	(24,447)	(17,959)
Total negative elements of Tier I capital	**(25,113)**	**(17,959)**
Positive value gross of elements to be deducted	**1,169,044**	**1,126,320**
Total elements to be deducted from Tier I capital	**(36,542)**	**(33,016)**
Net positive value	**1,132,502**	**1,093,304**

Note:

figures referring to 31 December 2012 do not included the adjustments introduced by the new version of IAS 19 and therefore continue to correspond with that indicated in the Base Y notification as at 31 December 2012, sent to the Bank of Italy on 15 March of this year.

The amount for "Tier I capital prudential filters: increase in Tier I capital" is relative to the change determined on net liabilities for defined benefits calculated by comparing the rules of the previous IAS 19 with that currently in effect. For more details, please refer to Section 11 Liabilities of the Notes - "Employee severance indemnities."

2. Tier II capital

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

Items / Balances	*31/12/2013*	*31/12/2012*
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	695	1,028
- equity securities and units in collective investment undertakings	*695*	*1,028*
- other debt securities		
Subordinated liabilities	70,000	106,000
Excess of total write-downs with respect to estimated losses*(*)*	13,161	19,542
Prudential filters: increases in Tier II		
Total positive elements of Tier II capital	**83,856**	**126,570**
Negative elements		
Prudential filters: deductions from Tier II capital	**(347)**	**(514)**
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	(347)	(514)
- equity securities and units in collective investment undertakings	*(347)*	*(514)*
- other debt securities		
Total negative elements of Tier II capital	**(347)**	**(514)**
Total		
Positive value	**83,509**	**126,056**
Excess with respect to Tier I capital		
Positive value permitted gross of elements to be deducted	**83,509**	**126,056**
Total elements to be deducted from Tier II capital	**(36,542)**	**(33,016)**
Net positive value	**46,967**	**93,040**

(*) 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	*31/12/2013*	*31/12/2012*
Positive elements		
Subordinated loans issued	70,000	106,000
Total positive elements	**70,000**	**106,000**

For the main characteristics of the subordinated liabilities, please see the explanatory notes - part B - Liabilities, section 3 "Outstanding securities".

B. QUANTITATIVE INFORMATION

		31/12/2013	*31/12/2012*
A.	**Tier 1 capital before application of prudential filters**	**1,192,926**	**1,144,279**
B.	Tier I capital prudential filters:	(23,882)	(17,959)
B.1	positive IAS/IFRS prudential filters (+)	565	
B.2	negative IAS/IFRS prudential filters (-)	(24,447)	(17,959)
C.	**Tier 1 capital inclusive of elements to be deducted (A+B)**	**1,169,044**	**1,126,320**
D.	Elements to be deducted from tier 1 capital	(36,542)	(33,016)
E.	**Total Tier I capital (C-D)**	**1,132,502**	**1,093,304**
F.	**Tier 2 capital before application of prudential filters**	**83,856**	**126,570**
G.	Tier II capital prudential filters:	(347)	(514)
G.1	positive IAS/IFRS prudential filters		
G.2	negative IAS/IFRS prudential filters	*(347)*	*(514)*
H.	**Tier 2 capital inclusive of elements to be deducted (F+G)**	**83,509**	**126,056**
I.	Elements to be deducted from Tier II capital	(36,542)	(33,016)
L.	**Total Tier 2 capital (H-I)**	**46,967**	**93,040**
M.	Elements to be deducted from Tier I and Tier II capital		
N.	**Supervisory capital (E+L-M)**	**1,179,469**	**1,186,344**
O.	Tier III capital		
P.	**Regulatory capital including Tier 3 (N+O)**	**1,179,469**	**1,186,344**

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 2013 the Bank had:

- a ratio between Tier I capital and risk weighted assets of 9.24%, 6.93% before the 25% prescribed reduction (as of 31 December 2012, they were respectively 8.82% and 6.61%);
- a ratio between Supervisory Capital and risk weighted assets of 9.62%, 7.22% before the 25% prescribed reduction (as of 31 December 2012, they were respectively 9.57% and 7.17%).

In particular, the Tier 1 capital amounts to € 1,132 million, compared to € 1,093 million at 31 December 2012 (largely unchanged). The dynamics of the main positive and negative components are shown below:

- total capitalisation of the profit for 2013 (equal to € 48.6 million);
- increase in the negative evaluation reserve by about € 6.4 million (linked to the securities held in the AFS portfolio);
- increase in the elements to be deducted by about € 3.5 million (from € 33 million at 31 December 2012 to € 36.5 million at 31 December 2013), 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 2013, Tier II capital totalled € 47 million compared to € 93 million recorded as of 31 December 2012. The € 46 million decrease is due to the following:

- repayment of a nominal € 36 million relative to subordinated bonds issued in previous financial years (in accordance with the maturity dates indicated in their respective regulations);
- increase in the elements to be deducted by about € 3.5 million (from € 33 million at 31 December 2012 to € 36.5 million at 31 December 2013), 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 note indicated for Tier 1 capital)

and
lower positive excess of write-downs with respect to expected losses by around € 6.5 million[7].

As of 31 December 2013, Risk Weighted Assets or RWA amount to € 12,255 million, versus € 12,402 million as of 31 December 2012, essentially unchanged with respect to the previous year. Note that the increase in the RWA due to market risks was offset by the decrease in the same in the context of credit/counterparty risk.

[7] *Recall that the positive excess of write-downs with respect to expected losses can be used, as a positive element, solely for Tier II capital within the limit of 0.6% of total RWAAIRB*

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.
Note that the Bank uses methods to process and analyse capital adequacy, as indicated in the directives and indications issued by the Parent Company for the entire Group. 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, as well as Circular 285 of 17 December 2013 which implements CRD IV and the national discretion attributed by the EU regulations). The supervisory regulations envisage that prudential regulation be mainly of a consolidated nature. On the basis of said regulations, the ratio between supervisory capital and weighted risk assets must, at 31 December 2013, be at least equal to 8% at the consolidated level. As of 1 January 2014, when the new regulatory system known as Basel 3 (CRD IV and CRR) takes effect, an increase in the minimum levels of capitalisation is envisaged, at both the consolidated and individual levels, as well as the introduction of a further level of regulatory capital, known as Common Equity Tier 1. 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 and Management Control Area. In the course of 2013, 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.

The 2 July 2013 update to Circular 263 envisages that, as of 30 June 2014, the risk appetite and ICAAP processes fall within the structure of a single operating framework, the Risk Appetite Framework (RAF), which must be implemented at both a consolidated and individual level. At the Group level, projects are under way aimed at adjusting the internal systems and procedures so as to guarantee full compliance with the provisions envisaged in the update to Circular 263 and the risk appetite and ICAAP processes carried out by the Group. Therefore, in 2014 the Group's new RAF will also envisage that for MPSCS as well a specific process is activated at the individual level, structured in accordance with the methods that will be defined in the context of the projects currently under way.

B. QUANTITATIVE INFORMATION

Categories/Balances	*Unweighted amounts*		*Weighted amounts/ requirements*	
	31/12/2013	*31/12/2012*	*31/12/2013*	*31/12/2012*
A. RISK ASSETS				
A.1 Credit and counterparty risk	**43,500,314**	**42,660,901**	**8,157,516**	**9,415,293**
1. Standardised method	32,466,279	31,267,619	5,962,861	6,147,301
2. Methods based on internal ratings	11,032,831	11,391,362	2,193,451	3,257,045
2.1 Basic				
2.2 Advanced	11,032,831	11,391,362	2,193,451	3,257,045
3. Securitisations	1,204	1,920	1,204	10,947
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**652,601**	**753,223**
B.2 Market risks			**529,004**	**446,493**
1. Standard method			529,004	446,493
2. Internal models				
3. Concentration risk				
B.3 Operating risk			**66,631**	**48,676**
1. Basic method				
2. Standardised method				
3. Advanced method			66,631	48,676
B.4 Other prudent requirements				
B.5 Other calculation elements			**(267,833)**	**(256,250)**
B.6 Total prudential requirements			**980,403**	**992,142**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			**12,255,038**	**12,401,775**
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			**9.24**	**8.82**
C.3 Supervisory capital including TIER3/ Risk-weighted assets (Total capital ratio)			**9.62**	**9.57**

Item B.5 “Other calculation elements” includes the 25% reduction in the requirements because MPSCS belongs to the BMPS Banking Group, i.e. € 326,802 thousand (€ 330,714 thousand for 2012) as well as the amount of € 58,969 thousand as an addition to the floor (against € 74,464 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 2013 is 7.22% (at 31 December 2012, it was 7.17%).

Part G
Business Combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During 2013, 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

	31/12/2013	*31/12/2012*
Short-term benefits	1,814	2,035
Benefits after the termination of the employment relationship		
Other long-term benefits		
Indemnity for the termination of the employment relationship		
Share-based payments		
Other remuneration		
Total	**1,814**	**2,035**

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 2013 (as also at the end of December 2012).

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

Items/Balances	*Parent Company*	*Companies of the MPS Group*	*Incidence % of the aggregate*
Total financial assets	**10,677,457**	**552,055**	**26,1%**
- Receivables due from banks/customers	5,621,345	41,643	29,4%
- HFT and AFS assets	5,051,278	507,704	23,4%
- Other assets	4,834	2,708	17,2%
Total financial liabilities	**15,683,612**	**8,414,148**	**57,2%**
- Receivables due from banks/customers	6,871,224	8,384,879	91,8%
- HFT liabilities	8,752,947	1,303	34,6%
- Outstanding securities	50,552	20,000	100,0%
- Other liabilities	8,889	7,966	12,9%
Income statement			
Interest income	114,740	10,474	24,2%
Interest expense	(146,897)	(116,852)	91,8%
Fee income	5	150	0,1%
Fee expense	(56,823)		54,8%
Administrative expenses	1,977	(12,741)	14,6%
Other income	273	2	3,9%
Guarantees given	**515,073**		**1,9%**
Guarantees received		**18,939**	**0,0%**

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	**395**	**189,990**	**0,4%**
- Receivables due from banks/customers	395	167,824	0,9%
- HFT and AFS assets		22,148	0,1%
- Other assets		18	0,0%
Total financial liabilities		**23**	**0,0%**
- Other liabilities		23	0,0%
Guarantees given		**4,907**	**0,0%**
Guarantees received	**600**	**317,352**	**0,8%**

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.		258
Certification services	KPMG S.p.A.		3
Periodic assessments	KPMG S.p.A.		10
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 (2012) 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 31.12.2012

Balance sheet

Assets	197,081,769	Liabilities	191,939,110
		Shareholders' equity	5,142,659
Total Assets	**197,081,769**	**Total liabilities**	**197,081,769**

Income Statement

Profit /loss on current operations	(3,679,229)
Income taxes for the period	556,922
Profit (Loss) on discontinued operations	-
Profit for the period	**(3,122,307)**

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 year in course, as the reference parameters established by the Bodies of the Bank have not been reached, no allocation has been made.

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 2013.

ATTACHMENTS TO THE EXPLANATORY NOTES

Retrospective application of the new version of IAS 19 - Summary of items and amounts recalculated (2011-2012)

Attachment n. 1

FINANCIAL STATEMENTS AT 31 DECEMBER 2011

Items	*Balance in financial statements*	*Adjustments*	*Adjusted balance*
ITEMS IN THE LIABILITIES AND SHAREHOLDERS' EQUITY			
80. Tax liabilities	16,678,824	(255,819)	16,423,005
current	*16,678,824*	*(255,819)*	*16,423,005*
110. Employee severance indemnities	2,168,161	930,252	3,098,413
130. Valuation reserves	(3,176,469)	(1,296,263)	(4,472,732)
160. Reserves	620,285,134	621,830	620,906,964
Total Liabilities and Shareholders' Equity	**54,613,739,464**	**0**	**54,613,739,464**

FINANCIAL STATEMENTS AT 31 DECEMBER 2012

Items	*Balance in financial statements*	*Adjustments*	*Adjusted balance*
ITEMS IN THE LIABILITIES AND SHAREHOLDERS' EQUITY			
80. Tax liabilities	26,907,825	(213,467)	26,694,358
current	*26,907,825*	*(213,467)*	*26,694,358*
110. Employee severance indemnities	2,187,997	776,244	2,964,241
130. Valuation reserves	(16,930,743)	(1,228,197)	(18,158,940)
160. Reserves	638,478,531	621,830	639,100,361
200. Profit (loss) for the period	1,276,404	43,590	1,319,994
Total Liabilities and Shareholders' Equity	**47,264,618,764**	**0**	**47,264,618,764**
ITEMS IN INCOME STATEMENT			
150. Administrative expenses	(76,457,904)	60,124	(76,397,780)
a) personnel costs	*(36,419,340)*	*60,124*	*(36,359,216)*
200. Operating costs	**(109,594,928)**	**60,124**	**(109,534,804)**
250. Profit (loss) on current operations net of taxes	**38,895,198**	**60,124**	**38,955,324**
260. Income taxes for the period from current operations	(37,618,794)	**(16,534)**	(37,635,328)
290. Profit (loss) for the period	**1,276,404**	**43,590**	**1,319,994**

RECLASSIFICATIONS MADE FOR BETTER COMPARABILITY TO THE STATEMENTS AS OF 31/12/2012

Items	*Balance in financial statements*	*Adjustments*	*Adjusted balance*	*Notes*
ITEMS FROM THE ASSETS				
20. Financial assets held for trading	25,684,425,865	(8,455,918)	25,675,969,947	*(a)*
130. Tax assets	153,671,565	(13,000,000)	140,671,565	*(b)*
current	*13,000,000*	*(13,000,000)*	-	*(b)*
150. Other assets	29,333,285	8,455,918	37,789,203	*(a)*
Total Assets	**47,264,618,764**	**(13,000,000)**	**47,251,618,764**	***(b)***
ITEMS IN THE LIABILITIES AND SHAREHOLDERS' EQUITY				
40. Financial liabilities held for trading	27,393,448,866	(5,776,547)	27,387,672,319	*(a)*
80. Tax liabilities	26,694,358	(13,000,000)	13,694,358	*(b)*
current	*26,694,358*	*(13,000,000)*	*26,694,358*	*(b)*
100. Other liabilities	111,811,369	5,776,547	117,587,916	*(a)*
Total Liabilities and Shareholders' Equity	**47,264,618,764**	**(13,000,000)**	**47,251,618,764**	***(b)***
ITEMS IN INCOME STATEMENT				

Note:

(a) the update to Bank of Italy circular 262 "The bank's financial statements: framework and rules for drafting," published on 14 January 2014, envisages exclusion from the category of financial derivatives of spot trading contracts to be settled within the times envisaged by market practice (" "regular way"). The fair value of these contracts at the date of the financial statements is recognised among other assets if positive and among other liabilities if negative;

(b) reclassification is due to the offsetting of the Irap advance paid in 2012 with the Irap debt recognised among tax liabilities, for an amount equal to € 13 million.

Attachment No. 2

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

STATEMENT OF ACCOUNT as of 31 December 2013

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

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2013
(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 31.12.2013 was € 5,795,539= and it is recorded under liability item 120a in the Bank’s balance sheet.
It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 42 members, all retired, of which 18 men and 13 women receiving a direct pension, along with 11 women receiving an indirect and survivor’s pension.
The periodic benefits disbursed in 2013 amounted to € 557,680=.
During the year, it was necessary to increase the fund by € 821,368= to adjust it to the value of the mathematical reserve as calculated by the actuary.
No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) “DEFINED CONTRIBUTION” SEGMENT
The total of the net assets as of 31 December 2013 amounted to € 38,518,949=.
During 2013, the Bank paid over the contributions payable by the Company to the “Fund”, along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by said employees in accordance with the Regulations and in compliance with the law.
The segment disbursed capital to retired employees who made requests, as per Articles 12, 16, 17 of the Fund Regulations, for a total amount of € 1,597,281=. The disbursements by way of advances on the total position accrued, concerned 18 requests for a total of € 610,033= in 2013.

A total of 547 persons are enrolled in the segment of the “Fund” as of 31 December 2013, of which 535 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*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
	GPM 386133	*GPM 386134*	*GPM 386135*	*GPM 386164*	*GPM 386072*	*GPM 386163*	
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 2013 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. This positioning made it possible to achieve positive performance, both absolute and relative.

The “Eurozone” bond component in the portfolios featured dynamic management relative to the positioning of the yield curve and in terms of geographic allocation. In 2013, the portfolio featured overexposure of duration for peripheral countries and underexposure of duration for the core countries.

Management maintained constant diversification in terms of exposure to Core and Peripheral Countries, and the selection was limited to only German and Italian government bonds. 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. An active position was continued in favour of the stock-based asset class, favouring US stocks over European ones. This made it possible to obtain excellent performance, even relative to the benchmark.

2013 annual return and average returns during the period from asset management

	Line C001	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guarantee Line*
	GPM 386133	*GPM 386134*	*GPM 386135*	*GPM 386164*	*GPM 386072*	*GPM 386163*	
2013 Return	**8.08%**	**11.65%**	**14.76%**	**3.48%**	**4.98%**	**1.53%**	**2.96%**
Average five-year return **2009/2013**	**7.79%**	**9.94%**	**11.88%**	**3.65%**	**5.08%**	**1.48%**	**2.83%**
Average three-year return **2011/2013**	**7.27%**	**8.07%**	**8.70%**	**3.90%**	**5.06%**	**1.94%**	**2.64%**

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*
31/12/2012	**1.306**	**1.398**	**1.482**	**1.132**	**1.189**	**1.051**	*(1)*
31/03/2013	**1.329**	**1.440**	**1.544**	**1.139**	**1.201**	**1.054**	*(1)*
30/06/2013	**1.329**	**1.436**	**1.537**	**1.141**	**1.202**	**1.056**	*(1)*
30/09/2013	**1.360**	**1.486**	**1.604**	**1.150**	**1.218**	**1.060**	*(1)*
31/12/2013	**1.395**	**1.536**	**1.668**	**1.162**	**1.237**	**1.064**	*(1)*

(1) the insurance policy provides for the management of individual positions

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in Euro.

B.2.1 Measurement of the investments and description of the portfolio

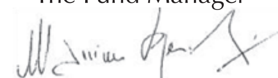
The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2013, there were no derivative contract transactions present in the portfolio.

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.

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 2013

BALANCE SHEET

(amounts in Euro)

Assets	*31/12/2013*	*31/12/2012*
Deposits		505,745
Assets entrusted under management	38,804,779	35,590,314
Collective policy (guaranteed line)	143,777	143,881
Tax credits		62,791
Total assets	**38,948,556**	**36,302,731**

Liabilities	*31/12/2013*	*31/12/2012*
Tax liabilities	400,243	479,368
Sundry payables	29,364	52,522
Total liabilities	**429,607**	**531,890**

Assets destined for benefits	*31/12/2013*	*31/12/2012*
Fund endowment	35,280,618	31,824,378
Result of financial operations	3,238,331	3,946,463
Total assets destined for benefits	**38,518,949**	**35,770,841**

The item "Deposits," as shown for 2012, can be attributed to contributions that had not yet been assigned for management.
The item "Tax liabilities" represents the substitute tax applied to the results of financial operations.
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 in question.

INCOME STATEMENT

Welfare operations	*31/12/2013*	*31/12/2012*
Endowments at start of year	35,770,841	30,494,797
Contributions paid by employees	202,192	350,273
Contributions paid by the company	432,869	541,176
Portions of employee severance indemnity conferred	1,081,429	1,394,091
Transfer from other pension funds		46,506
Transfer to other pension funds and redemptions	(1,596,680)	(444,433)
Disbursement of advances	(610,033)	(558,032)
Result of welfare operations	**35,280,618**	**31,824,378**

Financial operations	*31/12/2013*	*31/12/2012*
Income/ losses on assets entrusted under asset management	2,732,820	3,736,386
Interest income	909,817	636,293
Other income	3,789	43,445
Interest expense		
Fee expense for asset management	(7,536)	(29,565)
Substitute tax	(400,244)	(411,425)
Other expenses	(315)	(28,671)
Result of financial operations	**3,238,331**	**3,946,463**

STATEMENT OF ACCOUNT AS OF 31 December 2013
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							
Assets entrusted under management	7,545,091	13,146,630	12,996,938	2,283,004	1,596,128	1,236,988	
Collective policy							143,777
Tax credits							
Total assets	**7,545,091**	**13,146,630**	**12,996,938**	**2,283,004**	**1,596,128**	**1,236,988**	**143,777**
Liabilities							
Tax liabilities	59,458	144,021	179,826	6,982	7,548	1,991	417
Sundry payables		20,816			8,548		
Total liabilities	**59,458**	**164,837**	**179,826**	**6,982**	**16,096**	**1,991**	**417**
Assets destined for benefits							
Fund endowment	7,004,561	11,816,527	11,362,157	2,219,532	1,518,963	1,218,890	139,988
Result of financial operations	481,072	1,165,266	1,454,955	56,490	61,069	16,107	3,372
Total assets destined for benefits	**7,485,633**	**12,981,793**	**12,817,112**	**2,276,022**	**1,580,032**	**1,234,997**	**143,360**

INCOME STATEMENT

Welfare operations

Description	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
Endowments at start of year	7,127,679	11,672,169	11,941,536	1,543,578	1,599,716	1,742,691	143,472
Contributions paid by employee	36,744	57,131	62,397	19,789	11,175	14,956	0
Contributions paid by the company	83,677	139,282	128,800	29,755	23,087	28,268	0
Portions of employee severance indemnity conferred	190,716	347,856	324,564	71,372	58,883	61,655	26,383
Transfer from other pension funds	0	0	0	0	0	0	0
Transfers and redemptions	-370,240	-177,754	-405,920	-277,343	-59,301	-276,255	-29,867
Disbursement of advances	-267,012	-151,150	-116,985	-36,465	-8,548	-29,873	0
Switches between lines	202,997	-71,007	-572,235	868,846	-106,049	-322,552	0
Result of the management of welfare contributions	7,004,561	11,816,527	11,362,157	2,219,532	1,518,963	1,218,890	139,988

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	313,298	979,743	1,355,732	31,939	38,928	13,180	
Interest income	229,607	332,111	279,673	32,497	30,354	5,575	
Other income							3,789
Interest expense							
Fee expense for asset management	(2,322)	(2,513)	(572)	(911)	(613)	(605)	
Substitute tax	(59,458)	(144,022)	(179,826)	(6,982)	(7,548)	(1,991)	(417)
Other expenses	(53)	(53)	(52)	(53)	(52)	(52)	
Result of financial operations	**481,072**	**1,165,266**	**1,454,955**	**56,490**	**61,069**	**16,107**	**3,372**

CERTIFICATION REPORT

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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 nota integrativa, della MPS Capital Services Banca per le Imprese S.p.A. chiuso al 31 dicembre 2013. 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.

Il bilancio d'esercizio presenta ai fini comparativi i dati dell'esercizio precedente. Come illustrato nelle note esplicative, gli amministratori hanno riesposto alcuni dati comparativi relativi all'esercizio precedente, rispetto ai dati precedentemente presentati e da noi assoggettati a revisione contabile, sui quali avevamo emesso la relazione di revisione in data 4 aprile 2013. Le modalità di rideterminazione dei dati comparativi e la relativa informativa presentata nelle note esplicative, sono state da noi esaminate ai fini dell'espressione del giudizio sul bilancio d'esercizio chiuso al 31 dicembre 2013.

3 A nostro giudizio, il bilancio d'esercizio della MPS Capital Services Banca per le Imprese S.p.A. al 31 dicembre 2013 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
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Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Udine Varese Verona

Società per azioni
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20124 Milano MI ITALIA

MPS Capital Services Banca per le Imprese S.p.A.
Relazione della società di revisione
31 dicembre 2013

4 Nel seguito esponiamo i seguenti richiami dell'informativa fornita dagli amministratori nella nota integrativa e nella relazione sulla gestione:

4.1 L'entrata in vigore del nuovo impianto regolamentare noto come Basilea 3 determinerà a partire dalle segnalazioni del 2014 un fabbisogno di capitale aggiuntivo rispetto alle grandezze in essere al 31 dicembre 2013. Gli amministratori hanno valutato gli impatti di tale evoluzione normativa, alla anche alla luce della evoluzione degli aggregati economico-patrimoniali attesa per il 2014, rideterminando i *ratios* patrimoniali al 31 dicembre 2013. Sulla base di tale stima i *ratios* patrimoniali rideterminati scenderebbero sotto i limiti prudenziali di vigilanza ed in particolare:

- il rapporto tra patrimonio di base ed attività di rischio ponderate, pari al 9,24% con la precedente normativa, sarebbe pari al 6,93% (limite prudenziale 6,12%);
- il rapporto tra il patrimonio di vigilanza e le attività a rischio ponderate, pari al 9,62% con la precedente normativa, sarebbe il 7,22% (limite prudenziale 8,62%).

Conseguentemente, al fine di mantenere l'equilibrio patrimoniale ed il rispetto dei requisiti prudenziali di vigilanza, la Banca, sulla base delle stime effettuate di concerto con la Capogruppo, ha attivato un processo di adeguamento patrimoniale, deliberando l'emissione di un prestito obbligazionario TIER II per €250 milioni entro il primo trimestre 2014 e la realizzazione di un aumento di capitale di €200 milioni entro i termini previsti dalle norme di riferimento. La Capogruppo, che ha espresso parere favorevole all'avvio di tale processo di rafforzamento patrimoniale con delibera del Consiglio di Amministrazione del 20 febbraio 2014, ha sottoscritto integralmente il prestito obbligazionario subordinato emesso in data 14 marzo 2014 ed ha manifestato la volontà di sottoscrivere l'aumento di capitale non appena definiti i termini e le modalità.

Gli amministratori hanno redatto il bilancio d'esercizio nel presupposto della continuità aziendale sulla base delle avvenuta sottoscrizione del prestito obbligazionario e confidando nel positivo esito dell'aumento di capitale entro i termini previsti dalle norme di riferimento.

4.2 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 2013.

Firenze, 9 aprile 2014

KPMG S.p.A.

Andrea Rossi
Socio

REPORT OF THE BOARD OF AUDITORS

Report of the Board of Auditors to the Shareholders' meeting called for the approval of the Financial Statements for the year ending 31/12/2013

(pursuant to art. 153 of Legislative Decree 58/98 and article 2429 of the Civil Code)

During the course of the financial year ending at 31 December 2013, supervisory activities were carried out on the part of the undersigned Board of Auditors in respect of the provisions of the Civil Code, Legislative Decrees 385/1993 (TUB), 58/1998 (TUF) and 39/2010 (Comprehensive Audit Law), the articles of association, those issued by the Independent Administrative Authorities that carry out supervisory and auditing activities, as well as the principles of conduct for Boards of Auditors recommended by the Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili (National Auditors Council).

The Board of Auditors has received the draft financial statements approved by the Board of Auditors under the terms of the law. On the basis of the indications provided by Consob with its communication of 6 April 2001, no. DEM/1025564, the Board refers the following.

The Board of Auditors supervised observance of the laws and the Articles of Association.

The Board of Auditors met 41 times during the course of 2013, participated in 2 Shareholders' Meetings and in 17 meetings of the Board of Directors. Note that during the course of the Board of Directors meetings, the legal information on the part of the decision making bodies was presented. In fact, at said meetings exhaustive information was provided regarding the activities carried out and the most important economic, financial and equity operations of the Bank. On the basis of the activities and checks carried out by the Board of Auditors, the actions approved and implemented by the Company comply with the law and the Articles of Association and do not appear to be manifestly imprudent or hazardous, to create potential conflicts of interests, or be contrary to the decisions made by the Shareholders' Meeting or such as to compromise the integrity of the company's equity.

Reference Bank Group

As you know, the Bank is subject to management and coordination activities by the Parent Company, Banca Monte dei Paschi di Siena Spa. Relations with the Parent Company, aimed at optimising synergy and the productivity of the Company within the Group context, include operations carried out for the Parent Company on the financial markets, a link relative to the option to adhere to National Tax Consolidation for financial years 2013, 2014 and 2015 and the externalisation of a series of activities and services which are noted later in this report.

Transactions with related parties/connected subjects and with Bank directors or management

Note that transactions with related parties have always been subject to specific analysis on the part of the Board of Directors and, for the aspects assigned to it, by this Board of Auditors. To that end, the Company has adopted the Regulations which govern transactions established by Listed Companies, including through Subsidiaries, following the implementation of the relative Parent Company Directive; this is in implementation of Consob resolution 17221 of 12/3/2010, as amended by resolution 17389 of 23/6/2010, effective as of 01/01/2011. Noting that during the course of the year the Bank carried out infragroup transactions and/or transactions with related parties, the Board of Auditors verified that the same did not fall within the categories of atypical and/or unusual and that market conditions were applied to the associated contracts. A brief summary of the size of these transactions is found in the Notes. Again regarding the execution of atypical and/or unusual transactions, this Board did not find the existence of the same nor did it receive any notifications of the same from the Auditing Firm or the Internal Controls Manager.

In reference to transactions with connected subjects, appropriate periodic reports are provided to the Board of Auditors by the relevant bank structures. In fact, to that end the regulations in effect envisage that the decision making bodies/structures of MPSCS provide, through the Compliance Department, appropriate reports to the Board of Directors, the Committee of Independent Directors, General Management, and the Board of Auditors regarding significant and minor transactions executed.

The Board of Auditors carried out appropriate checks to ensure that the transactions completed with subjects that carry out administrative, management and control functions with the Bank (or Group companies), are established in respect of article 136 of the TUB and the Supervisory Instructions and are, in any case, the subject of a resolution approved unanimously by the administrative bodies and the Auditors, without prejudice to the obligations envisaged in article 2391 of the Civil Code regarding the interests of the directors, which also were found to be regularly applied and respected.

Supervisory activities regarding the Bank's organisational structure and the adequacy of its internal control and risk management system

The Board of Auditors supervised the operation of the Bank's organisational structure and the adequacy of the overall system of internal controls, ascertaining the efficacy of all the involved structures and functions, as well as the adequacy of the risk control and management system. This was done through verification activities carried out together by the Auditors, by obtaining information from the managers of the respective departments, examining corporate documents, analysing the results of the work carried out by the Auditing Firm and, in particular, through monitoring of the activities of the second- and third-level departments.

Checks involved the entire corporate organisation, including checks on systems and procedures, various business units and company operations.

The Board of Auditors interacted constantly with the Internal Audit department, both to receive the necessary assistance to carry out the above referenced checks, and as the recipient of all the inspection reports containing the results of the assessments which said Department made during the year.
The Board noted the activities completed by the Risk Management department (externalised with the Parent Company) which include, among other things, analysis relative to the evolution of credit and financial risks, the measurement of economic capital absorbed and the consequent determination of the adequacy of the Bank's level of capitalisation.

In addition, the Board met with the managers of the operational departments in order to verify that the internal reorganisation process, currently being implemented in the context of the entire MPS Group and aimed at achieving additional improvements regarding process efficiency, did not give rise to problems worthy of note within the Company.

Monitoring of the control departments

The Board of Auditors received information and supervised, regarding its assigned tasks, the adequacy of the second and third level control departments and the efficacy of the monitoring carried out by the same in reference to the Company's internal control and risk management system.

To that end, the Board maintained constant communications with the Internal Audit department, examining the Activity Plan prepared for 2013, the reports on the work carried out during the year and the Annual Report on the Internal Controls System, outlined by the manager of the Internal Audit department to the Board of Directors at its meeting on 07 February 2014. The Board also positively assessed the qualitative and quantitative adequacy of the department and the position of independence it holds within the context of the Company's organisational structure.

Similar monitoring was carried out for the Compliance department, through meetings and direct contact, in which the Internal Audit function always took part. The Board also examined the Compliance department's activity plan for 2013 and the annual report on the same, outlined by the managers of the department to the Board of Directors at their meeting on 07 February 2014.

In addition, the Compliance department is also responsible for activities to fight against money laundering. To assess the adequacy of the performance of these activities, the Board spoke directly with the Compliance department at several meetings, which the Internal Audit department also attended. The Board also examined the results of the checks carried out on this topic by the third-level control department. The Board notes that during 2013, two suspect transactions were identified by the department responsible, as well as one reinforced check, pursuant to paragraphs 4 and 5 of article 28 of Legislative Decree 231/07.

Note that the Company, on 22 November 2013, updated the rules regulating who the Internal Audit and Compliance Departments report to in accordance with that envisaged in Bank of Italy circular 263, 15th update.

Adjustments connected to the 15th update of Circular 263 of 27 December 2006
With reference to the activities required by the 15th update (issued on 02 July 2013) to Bank of Italy circular 263, the Company created an internal working group, operating in coordination with a similar Parent Company group, which carried out the requested gap analysis and developed a program of appropriate actions.

The results of the work carried out and the associated activity plan were outlined by the Company's General Manager to the Board of Directors at its meeting on 17 January 2014 and sent to the Bank of Italy by the deadline of 31 January 2014.

The Master Plan of activities is divided into actions relative to certain operational aspects of the control departments, the risk-appetite framework, externalisation methods, evidence relative to significant transactions and performance monitoring of credit operations.

As regards its responsibilities, the Board confirms that these actions are aimed at improving the risk management and control system and aligning company policies and practices to the updated regulations.

The implementation of the above program, which is expected to be completed by 30 June 2014, will be subject to monitoring by the undersigned Board.

Organisation and control model pursuant to Legislative Decree 231/01
Some time ago, the Company adopted the Organisation, management and control model, pursuant to Legislative Decree 231/2001, prepared in accordance with the ABI guidelines and in accordance with the instructions provided by the Parent Company. The Board of Auditors participated in the meetings of the Supervisory Body and created exchanges of information with the Body regarding issues of common interest. During the course of 2013, the Model was updated to implement the most recent types of crime introduced to regulation 231. The updated version of the Model was approved by the Company's Board of Directors on 07 February 2014.

From the information acquired through communication with the Supervisory Body, no elements arose which the Board must communicate to the Shareholders' Meeting.

Externalisation of departments and activities
The Board of Auditors recalls that, in addition to the already noted externalisation of the Risk Management department

with the Parent Company, the Company also externalised to the Parent Company, or to third-parties through the Parent Company, a series of services and activities as summarised below:

- **Provision of ICT services**: architecture, logic security, HW and SW development and maintenance, telecommunication and telephone services, workstations, disaster recovery, user support.
- **Provision of services relate to dispute handling**: management of non-performing loans, management of legal disputes and bankruptcies.
- **Provision of various services** such as: advertising and public image, internal and external communications, knowledge management and training, ALM - medium/long-term funding, bank product management, monitoring of significant risks, counterparty rating, group costs and purchases, logistics and real-estate management, and supervision and production of supervisory notifications.
- **Provision of Back Office services**: collections and payments, network operations, finance, administrative and credit services, corporate and accounting services, auxiliary services, and help-desk.
- **Implementation, maintenance and disbursement of the DDT market** through proprietary List software infrastructure.

Note that the management of the Bank's costs and purchases, externalised to the Parent Company, was entrusted by the latter to Accenture Insurance Services S.p.A., as approved by the Board of Directors of your Bank at its meeting on 20 December 2013.

The logistics, real-estate management, corporate and accounting services (Back Office), already transferred to the Parent Company, were entrusted to Fruendo S.p.A. (an investee company of Bassilichi S.p.a. and Accenture Insurance Services S.p.A.), as approved by the Board of Directors of your Bank at its meeting on 20 December 2013.

The above noted externalisation contracts have the same features as the existing contracts in course with the Parent Company.

Externalisation of the above-noted activities are determined - or are being determined - through specific service contracts, which regulate the methods of execution (SLA).

The Board of Auditors has communicated with General Management on many occasions regarding the criteria by which activities subject to externalisation are defined, assessing, regarding its assigned responsibilities, the economic appropriateness of the decisions and the operational efficacy of the solutions adopted. The Board recalls that some actions aimed at improvement, in the context of the overall externalisation issue, are included in the activity plan prepared pursuant to Circular 263, cited above. The Board will hence act to verify that the implementation of these actions is carried out in accordance with the plan prepared by your Bank.

Risk evaluation measurements and monitoring of the Bank's capital adequacy level

The Board of Auditors recalls that the Company has adopted, almost entirely, internal systems to measure the economic capital absorbed, based on a Value at Risk approach, which is exhaustively described in the report on operations and the attachments to the financial statements.

These systems are prepared in the context of the Parent Company's Risk Management department, which carries out periodic measurements of the quantity of capital absorptions and periodic checks on the adequacy of the models used. Analysis of various asset sectors take multiple parameters into account and make it possible to obtain detailed information and indications, for appropriate evaluations and decisions on the part of the Risk Committee, General Management and the operational departments of your Bank.

As described in the report on operations, the Company's economic capital at 31 December 2013 was 70% absorbed by credit risk, 15% by financial management risk , 12% by operating risk and for the remaining portion of 3%, by equity investments and real estate.

The Board of Auditors monitored the quarterly preparation of reports regarding the Company's capital, verifying adequacy levels and their compliance with the requirements established under the Basel regulations. To that end, the Board recalls the fact that the equity situation at the end of financial year 2013 is in line with the regulatory requirements. Please refer to the Notes for the description of changes which occurred during the year.

As noted by the Board of Directors in its Report on Operations, the Board recalls that, following the Bank of Italy Provision of 19 December 2013, an important amendment becomes effective as of 1 January 2014 regarding the regulations on capital requirements for banks and investment companies. In essence and as relevant for MPS CS, these regulations involve levels of required capital that are significantly higher than those previously in effect.

In compliance with the above, at its meeting on 14 March 2014, the Company's Board of Directors was informed of the issuing of the subordinated loan known as "*MPS Capital Service TV 14 March 2014 - 14 March 2024 Subordinated Tier II liability*" for the total amount of € 250 million, entirely subscribed on the same date by the Parent Company MPS. The loan, already authorised by the Board of Directors on 28 February 2014, has the features envisaged in the Bank of Italy regulations for the purposes of its ability to be included in the calculation of Tier II capital.

At its meeting on 28 February 2014, the Board also decided to activate the procedure for a share capital increase by payment in the amount of € 200 million, in accordance with the terms envisaged in the reference regulations, as soon as indications are received from the Parent Company.

In addition, regarding all the above there is a request for further information on the part of the auditing firm.

Supervision of the administrative accounting system and the process of preparing the financial statements

Regarding the supervision of the Company's administrative accounting system, actions were taken to determine its adequacy based on interventions of the Internal Audit department, certifications carried out directly by this Board and through periodic exchanges of information with the auditing firm KPMG. No notifications were received from the same regarding facts considered worthy of objection identified during the execution of the legal auditing activities.
With the auditing firm KPMG, this Board was able to share the procedures adopted in the preparation of the 2013 financial statements and, therefore, can acknowledge their general compliance, regarding their preparation and structure, to both the law and the supervisory regulations. Regarding our responsibilities, the presence of a level of efficiency appropriate to ensure an accurate representation of the Bank's economic, equity and financial situation has been found, which resulted in the Financial Statements for the year ending 31 December 2013.

The Board of Auditors also held meetings with the Manager responsible for the preparation of the company accounting documents. On these occasions, said manager did not notify us of any particular problems with the operating and control processes which due to their significance could undermine the effective application of the administrative/accounting procedures, accurate economic, equity and financial representation, compliance with the international IAS/IFRS standards and the reliability of the contents of the Report on Operations.

The Bank, in the preparation of the financial statements at 31 December 2013, applied the international IAS/IFRS accounting principles issued by the International Accounting Standards Board (IASB) and the associated interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Union

and subject to obligatory application in financial year 2013.

The financial statements at 31 December 2013, and the associated attachments, were prepared on the basis of Bank of Italy circular 262 of 22 December 2005, amended by the second update of 21 January 2014. Regarding joint document 2 of 6 February 2009 (and subsequent updates), issued by the Bank of Italy, Consob and IVASS (formerly ISVAP) regarding application of the IAS/IFRS, this Board notes that the Report on Operations and the Notes were prepared with the assumption of business continuity, given the assessment carried out regarding its capacity to continue to operate as a going concern.

The Board of Auditors also recalls that, as an attachment to the Notes, the Annual Report as at 31 December 2013 relative to the MPS Capital Services Banca per le Imprese SPA Pension Fund is provided.

In reference to loan evaluation, the Board of Directors highlights that net value adjustments recognised in the income statement for the current financial year totalled € 294 million. This provision, while lower than that recognised in the 2012 income statement by approximately € 71 million, confirms the prudential policy adopted by the directors, applied through continuous and careful supervision of risks deriving from problem loans. This aspect is of particular importance during the present complex phase for the company and the current economic context. The Board refers the readers to the exhaustive discussion on this point in the Report on Operations.

In reference to financial management, the Bank achieved significant positive results, also taking into account the reduced amount of capital allocated to these activities, for which the level of absorption is constantly monitored and kept below the pre-established usage threshold.

The main factors that characterised financial year 2013 and the significant events that occurred subsequent to the end of the year are detailed thoroughly and clearly in the Report on Operations. The Report on Operations corresponds with the provisions of article 2428 of the Civil Code, as reformulated with the introduction of Legislative Decree 32 of 02 February 2007.

Certification of the financial statements on the part of the assigned auditing firm
With reference to the above-cited legislative decree, the Board notes that the auditing firm KPMG S.p.A., assigned to certify and audit the accounts, included in its certification its judgement of coherence between the report on operations and the financial statements and carried out the procedures as indicated in audit principle no. 001 as issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Auditors Council), recommended by Consob.

The same auditing firm KPMG sent its report certifying the Bank's financial statements as at 31 December 2013, dated 09 April 2014, without any findings and judged the same to be prepared with clarity, and able to truly and correctly represent the equity, financial and economic situation.

In addition, the auditing company made two requests for information: (i) one relative to the additional capital requirements when the new regulatory system known as Basel 3 takes effect (following the Bank of Italy provision of 19 December 2013 - see also the section regarding monitoring of the Bank's capital adequacy in this report) and (ii) the other, as usual, relative to the fact that the opinion of the auditing firm does not extend to the essential figures of the last financial statements of the company that exercises management and coordination activities, inserted in the Notes, pursuant to article 2497-bis, paragraph 4, Civil Code.

The Auditing Firm sent the Company's management a request for additional fees, for a total amount of € 38,450.00 (with respect to the agreed fees of € 243,832.00) due for the execution of the following additional activities, of a specialised nature:

1) Adjustment of the accounting principles used following IFRS 13;
2) Checks on the pricing of complex financial instruments, 3) more detailed procedures connected to the first time application of EMIR, 4) analysis of credits and relative provisions through risk analysis methods.

The Board of Auditors has expressed its favourable opinion of these additional fees.

Regarding the independence of said auditing firm, the Board of Auditors notes that it has not found any critical aspects and that it has received confirmation of the same from said auditors pursuant to article 17, paragraph 9, letter a) of Legislative Decree 39/10.

During the course of 2013, no cases arose which required the issuing of obligatory opinions pursuant to the law by said Auditing Firm.

Amendment of the auditing firm assigned to carry out the legal audit

Your Bank, in compliance with the policy defined by the Parent Company with the goal of having the same Auditor for each Company within the Group, at the meeting of the Board of Directors on 14 March 2014 decided to propose to the shareholders' meeting, convened for the approval of the 2013 financial statements, the revocation, effective for financial year 2014 and hence after a three-year period, of the assignment granted to KPMG spa in 2011 for the duration of nine years. The shareholders' meeting will also receive a proposal from the undersigned Board of Auditors to grant the assignment for legal audits to the same auditing firm that works for the Parent Company.

Changes in the composition of the BoD

During the first few months of 2014, Director Antonio Marino, Managing Director of the Company and Director Pierandrea Semeraro resigned for personal reasons. They were not replaced.

Other verification activities and certifications provided by the Board of Auditors

This Board acted to carry out an independent verification regarding the proper application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members.

The Board verified that the Board of Directors provided a report to the shareholders, at the Shareholders' Meeting held on 22 November 2013, regarding the remuneration policies adopted and their application for financial year 2012.

The Board periodically verified the opinions indicating congruence and compliance with the regulatory requirements for netting transactions of the exposure due to OTC derivatives operations. In addition, the collateral management agreements for derivatives operations are presented to the Board on a monthly basis, through the combination of assets and liabilities guarantees regarding the operators.

No complaints pursuant to article 2408 of the Civil Code were made to the Board.

During the course of the supervisory activities performed and on the basis of the information obtained from the Board of Auditors, no omissions and/or irregularities or in any case significant facts, such as to require notification of the decision-making bodies or mention in this report, were found.

Conclusions

In conclusion, regarding the above, the Board of Auditors expresses its favourable opinion regarding:

- the approval of the financial statements at 31/12/2013, consisting of 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 statement of cash flows and the Notes, as well as the associated attachments and the Report on Operations;
- the proposed allocation of the profits for the year as formulated by the Directors.

Florence, 11 April 2014 THE BOARD OF AUDITORS

Dott. Francesco Bonelli - Presidente

Dott. Federico Caputi - Sindaco Effettivo

Dott.ssa Daniela Moroni - Sindaco Effettivo

SHAREHOLDERS' MEETING RESOLUTIONS

The ordinary shareholders' meeting, summoned and held on first convocation on 28 April 2014, has passed the following resolutions:

POINT 1 OF THE AGENDA

To approve the 2013 Financial Statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors.

POINT 2 OF THE AGENDA

To allocate the profit of 2013 as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2013		
- to the legal reserve (5% of the total)	**Euro**	**2,432,399.97**
- to the reserve required by art. 26 of the Articles of Association (5% of the total)	**Euro**	**2,432,399.97**
- to the extraordinary reserve	**Euro**	**43,783,199.49**
PROFIT FOR 2013	**Euro**	**48,647,999.43**

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, authorisation to purchase, exclusively on the market managed by Borsa Italiana S.p.A., up to a maximum number of 30,000,000 (thirty million) ordinary shares of Banca Monte dei Paschi di Siena S.p.A., in respect of the current brokerage procedures of the stock market.

POINT 4 OF THE AGENDA

To revoke for just cause the assignment of carrying out the legal auditing of the accounts granted through a resolution on 22 April 2011 to the auditing firm KPMG S.p.A., with its registered offices in Milan, in Via Vittorio Pisani 25, tax ID code 00709600159.

POINT 5 OF THE AGENDA

To grant the assignment of carrying out the legal auditing of the accounts for financial years 2014-2022, pursuant to articles 13 and subsequent of Legislative Decree 39/2010, article 2409-bis of the Civil Code and article 24 of the Articles of Association, to the auditing firm Reconta Ernst and Young S.p.A. with registered offices in Rome, Via Po 32, tax ID code 00434000584.

POINT 6 OF THE AGENDA
The appointment of the Board of Directors, due to termination of the mandate of the former members, composed of:

- MARIO SALVESTRONI, Chairman
- ANGELO BARBARULO, Vice Chairman
- SERGIO VICINANZA, Director
- VALENTINO FANTI, Director
- GIUSEPPE MENZI, Director
- RITA PELAGOTTI, Director
- LUCIA SAVARESE, Director
- ANGELO MARTINELLI, Director
- GABRIELE BENI, Director

We also note that the Board of Directors, having met of 23 May 2014, assigned the role of Managing Director to Sergio Vicinanza.

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